famous brands
you're in good company

Integrated Annual Report

for the year ended 28 February

2019

FEEDBACK

We continue to strive to improve the quality of our reporting, and feedback on this Integrated Annual Report can be emailed to us at investorrelations@famousbrands.co.za.

NAVIGATION

Icons are used in this report to assist with navigating the information:

cross-reference to supporting information in the report.

information which can be found online on our website: www.famousbrands.co.za.

BUSINESS PROCESSES AND ACTIVITIES

Brands

Logistics

Manufacturing

OUR CAPITALS

Financial

Intellectual

Social and relationship

Manufactured

Human

Natural

Environmental, social and governance (ESG) matters

KEY STRATEGIC MATERIAL MATTERS

Improve our operational efficiencies

Lead in the categories we compete in

Optimise capital management

Prioritise our franchise partners

Enhance our financial performance

Develop and transform our people

Ensure regulatory compliance

Scan this QR code with your mobile device for quick access to the report.

Contents

About our Integrated Annual Report

INTRODUCTION

We are pleased to present our 2019 Integrated Annual Report (IAR). This is our primary report to our shareholders and other stakeholders.

Scope and boundary of this report

The report covers the period from 1 March 2018 to 28 February 2019. It addresses the performance of Famous Brands Limited (Famous Brands or the Company) and its subsidiaries (together referred to as the Group), as well as its associates in all territories where the Company operates, being South Africa, the rest of Africa, the Middle East and the United Kingdom.

We continue to strive to report more transparently across a wider range of performance indicators than in prior years. While every effort has been made to disclose information as extensively as possible, we are cognisant that further improvements are possible and the intention is to enhance this reporting over time.

For the most part, statistics in this document relate to the South African business (excluding our associates); where information refers to a specific geographic territory, we have denoted it as such.

We report on our three core operations: Brands, Logistics and Manufacturing (the latter two comprising our integrated supply chain).

The scope of this report covers our financial performance as well as non-financial performance. We report on strategy, the six capitals on which we rely, and the opportunities, risks and outcomes attributable to or associated with our key stakeholders, who significantly influence our ability to create value.

There has been no material change in the scope and boundary of the IAR compared to the prior year or to historical financial data.

Materiality

The legitimate interests of all our key stakeholders were taken into account in determining information that is considered to be material for inclusion in this report. Our key stakeholder information is contained in the report.

Key stakeholders – page 26

We define strategic material matters as those which are most material to our formulation and execution of strategy and those that have the potential to significantly affect our ability to create stakeholder value and contribute to the future sustainability of the Group.

Strategy and key strategic material matters – page 44

Combined assurance

We have adopted the principles of the King Report on Corporate Governance for South Africa 2016, (King IV™), thereby recognising the Board of Directors (Board), Board Committees, management, internal assurance providers and external assurance providers as key assurance role players in ensuring that the business continues to have an effective control environment and a strong ethical climate. The Board, with the support of the Audit and Risk Committee, is ultimately responsible for combined assurance by setting the direction concerning the arrangements for assurance services and functions. The assurance role players ensure that ethics and effective risk management are embedded in our internal growth agenda.

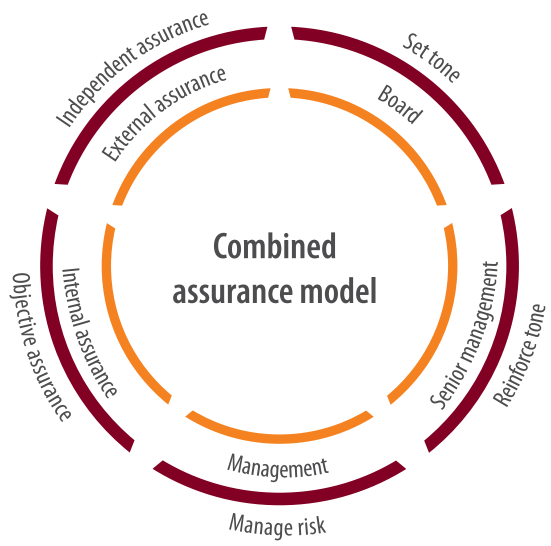
Internal and external audit plans are approved by the Audit and Risk Committee to ensure risk areas in the Group are covered in a co-ordinated manner. Key risks facing the Group are identified and the necessary internal controls are implemented.

Key risks and opportunities – page 36

While our assurance providers cover key controls and accounting matters in the course of their audits, other levels of external assurance are obtained as and when required.

These processes inform the content of this report which contains both financial and non-financial indicators.

As part of the combined assurance model, internal audit has embarked on a process of collaborating with other assurance providers on providing assurance on food safety risks and health, safety and environmental risks to ensure that the Board continues to have line of sight of current and emerging risks.



Financial information

A full set of the Group's audited 2019 annual financial statements (AFS) is available online.

An independent audit was performed by Deloitte & Touche. Their audit opinion on the Group's consolidated financial statements is available online.

Forward-looking statements disclaimer

This report contains forward-looking statements which are based on assumptions and best estimates made by management with respect to the Company's performance in the future. Such statements are, by their nature, subject to risks and uncertainties which may result in the Company's actual performance in future being different from that expressed or implied in any forward-looking statements. These statements have not been audited by the Company's external auditors.

The Company neither accepts any responsibility for any loss arising from the use of information contained in this report, nor undertakes to publicly update or revise any of its forward-looking statements.

Reporting suite and principles

We are committed to reporting transparently to our stakeholders. Our suite of reports comprises:

- **Integrated annual report**

  This primary report to stakeholders demonstrates the relationship between the interdependent elements which comprise our value creation process, in compliance with:

  - the Companies Act, No 71 of 2008, as amended (The Companies Act);
  - the Listings Requirements of the JSE Limited (JSE Listings Requirements);
  - King IV*;
  - International Financial Reporting Standards (IFRS), in particular IAS 34 Interim Financial Reporting; and
  - International Integrated Reporting Council's (IIRC) Integrated Reporting Framework.

- **Group annual financial statements**

  A comprehensive report of the Group's financial performance for the year in compliance with: The Companies Act; the JSE Listings Requirements; King IV and IFRS.

- **Notice of annual general meeting (AGM)**

  Information for shareholders to participate in the AGM in compliance with: The Companies Act; the JSE Listings Requirements; and King IV.

** In 2018 we commenced aligning our disclosure against King IV. The intention is to enhance and improve on this alignment over time.*

Board responsibility statement

The Board, assisted by the Audit and Risk Committee and Social and Ethics Committee, acknowledges its responsibility for ensuring the integrity of the IAR, and has applied its collective mind in the preparation thereof. The Board believes that the report has, in all material respects, been presented in accordance with the IIRC's Integrated Reporting Framework.

The Board authorised this report for release on 27 June 2019.

Santie Botha
Chairman

Darren Hele
Chief Executive Officer

Performance overview

FINANCIAL PERFORMANCE

Revenue
R7.2 billion

Headline earnings per share
319 cents

Operating profit
R850 million

Operating profit margin
11.8%

Dividend per share
100 cents

Gearing
108%

VALUE FOR STAKEHOLDERS

Procured materials and services
R4.7 billion

Corporate social investment
R21 million

Number of empowered owner-drivers
38

Skills development
R6.8 million

Direct employment
R1.4 billion

Preferential procurement
R4.1 billion

SUSTAINABILITY INDICATORS

Launched our **Better for You** consumer awareness programme

BBBEE score
Level 7

Health and safety **accreditations**

NOSA* rated our systems
'good or great'

Formalised our
ESG sustainability journey

* *National Occupational Safety Association of South Africa.*

About Famous Brands

Who we are

Famous Brands is Africa's largest branded food services franchisor. We are a holding company listed on the JSE Limited in the Travel and Leisure sector. The Group listed in 1994, with a market capitalisation of R25 million and comprised one brand and a limited supply chain. Today our enterprise consists of an extensive vertically integrated business model, with trading operations on three continents.

Our global footprint – pages 6 and 7

What we do

Famous Brands is a branded food services business operating franchised, master license and Company-owned restaurants. Our vertically integrated business model comprises three core pillars: Brands, Manufacturing and Logistics.

The Brands portfolio consists of 25 restaurant brands, represented by a network of 2 871 restaurants across South Africa, the rest of Africa, the Middle East and the United Kingdom. The portfolio is segmented into Leading (mainstream) brands and Signature (niche) brands. The Leading brands are further categorised as Quick Service, Fast Casual and Casual Dining.

Our integrated supply chain consists of Manufacturing and Logistics operations which support the Brand business in South Africa and selected markets in the rest of Africa.

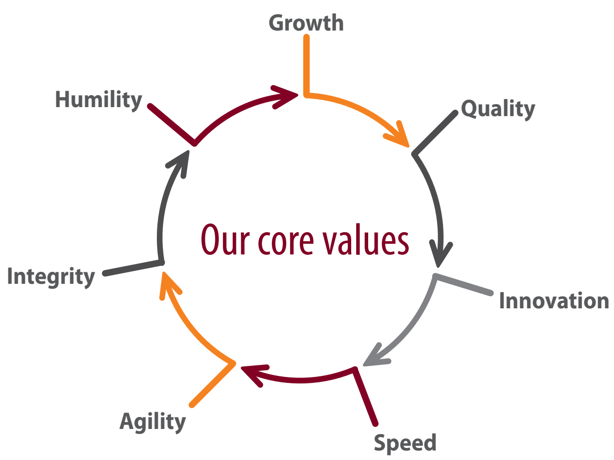
Our Brands, Manufacturing and Logistics divisions are supported by a range of central services, including shared facilities, human resources (HR) and information technology (IT). The costs of these central services are shared proportionately relative to activity. In addition, a core of Corporate services supports the entire organisation.

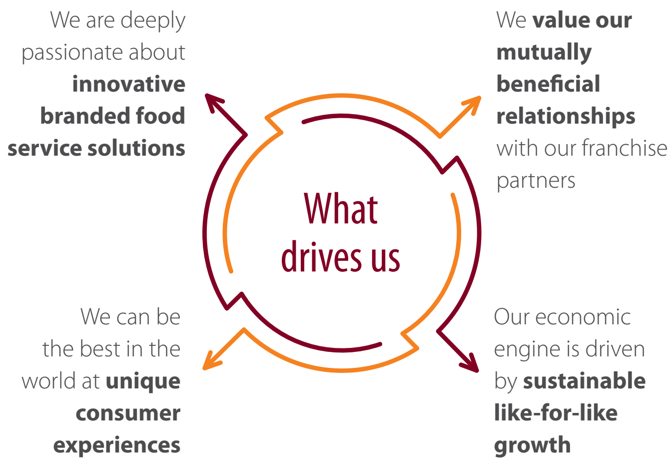
Group annual financial statements/segmental review

Our business activities and processes – page 10

Vision

To be the leading innovative branded franchised and food services business in South Africa and selected international markets by 2020.

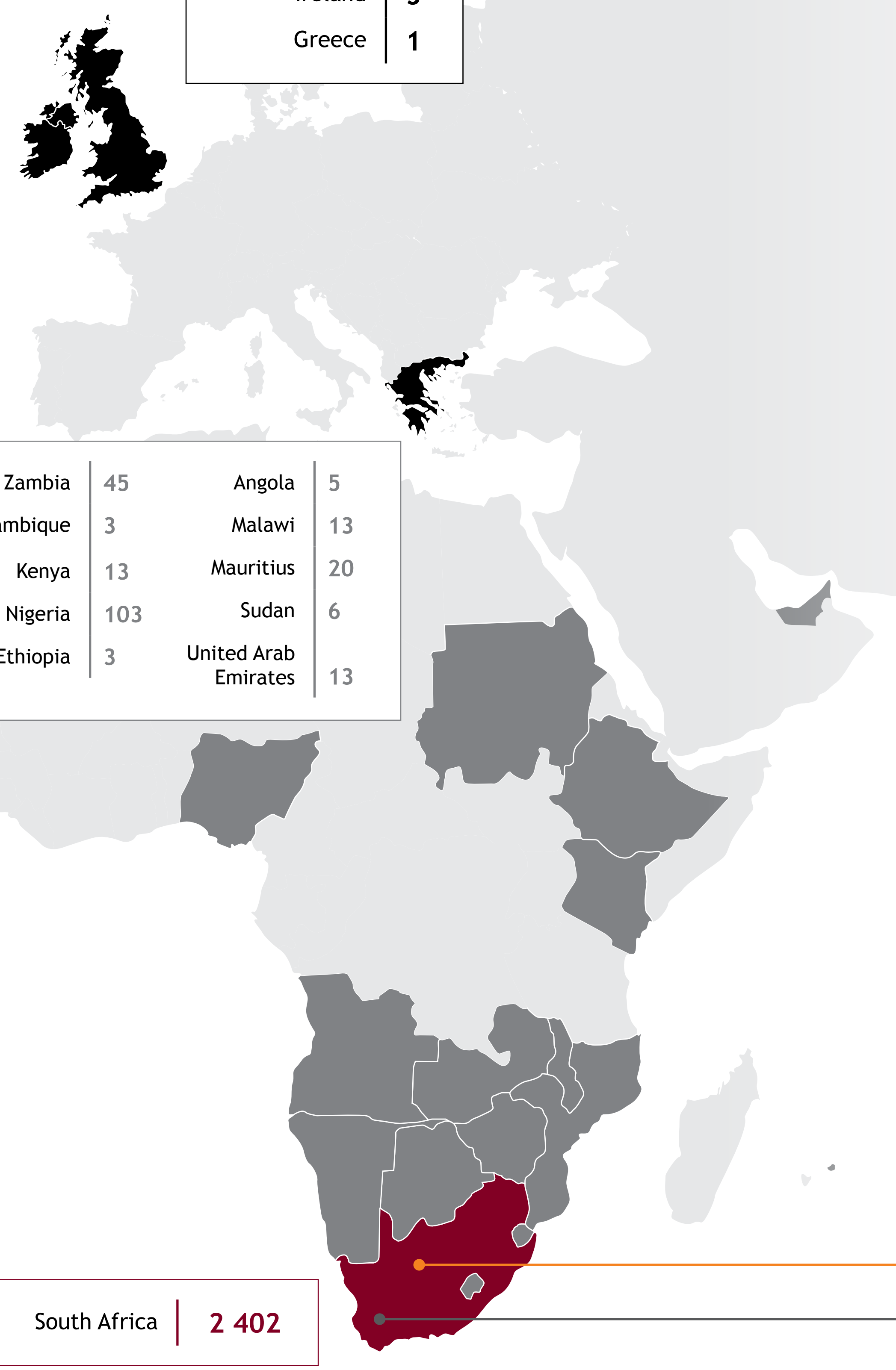




Our global footprint

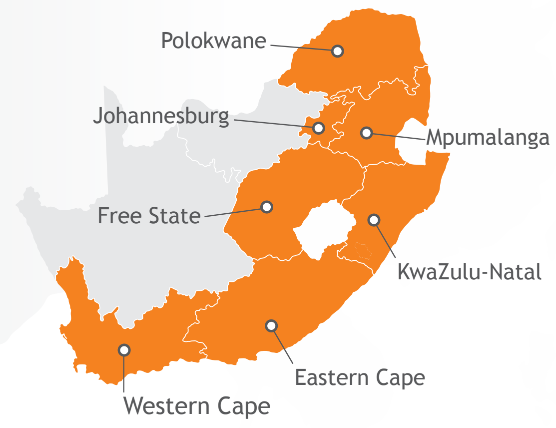
United Kingdom	137
Ireland	5
Greece	1

Swaziland	6	Zambia	45	Angola	5
Lesotho	4	Mozambique	3	Malawi	13
Zimbabwe	7	Kenya	13	Mauritius	20
Namibia	50	Nigeria	103	Sudan	6
Botswana	35	Ethiopia	3	United Arab Emirates	13



South Africa	2 402

Logistics capabilities



Manufacturing capabilities

KwaZulu-Natal
Juice plant, ice cream plant

Western Cape
Meat plant, potato products plant

Gauteng
Bakery, meat plants, serviette plant, sauce and spice plant, coffee plant, ice cream plant

Eastern Cape
Cheese plant, tomato paste plant

SOUTH AFRICA (SA)

Revenue

2019: R5 366 million
2018: R5 190 million

Restaurants
2 402

Logistics sites
10

Manufacturing plants
14

Employees
2 411

UK AND OTHER (UK)

Revenue

2019: R1 544 million
2018: R1 581 million

Restaurants
143

Employees
1 654

REST OF AFRICA AND MIDDLE EAST (AME)

Revenue

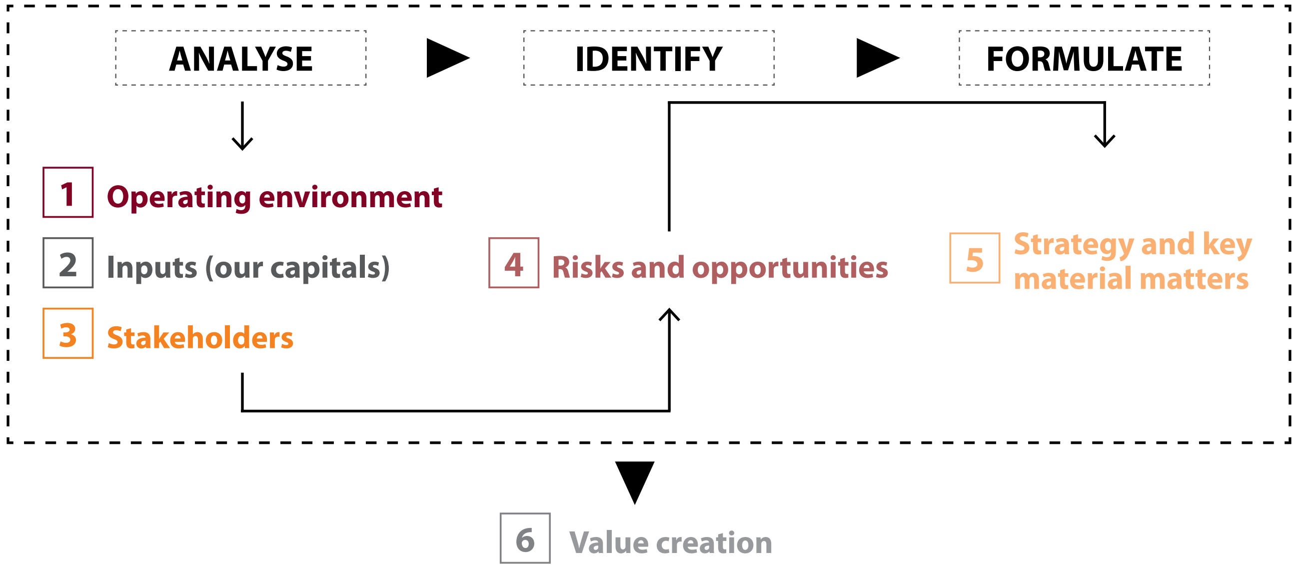
2019: R270 million
2018: R253 million

Restaurants
326

Employees
740

Value creation process

Our value creation narrative illustrates the process we undertake to achieve our strategic goal of growing our business in a sustainable manner and creating value for all stakeholders.



1 Operating environment

Operating context – page 22

We analyse our operating environment to assess which factors have the greatest impact on our ability to create value in the short, medium and long term.

2 Inputs (our capitals)

Our inputs are the six capitals which help us to deliver on our strategy to grow our business sustainably and generate value for all stakeholders. They are:

Financial capital – *page 12*
Equity and debt funding available for deployment.

Manufactured capital – *page 13*
The land and buildings we operate out of; our manufacturing equipment; logistics fleet; and IT infrastructure.

Intellectual capital – *page 14*
Our collective experience and know-how, with emphasis on franchise, operational, marketing, brand building, design, development and procurement skills; and our proprietary systems and licensed trademarks.

Natural capital – *page 16*
Environmental resources we depend on to create economic value, including food products for preparation and sale; clean air and water; electricity; gas and fuel.

Social and relationship capital – *page 18*
Mutual relationships with our stakeholders including communities in which we trade and the customers we serve.

Human capital – *page 20*
The expertise, wellbeing, attitude and innovation of our employees, franchise partners, suppliers and business partners.

3 Stakeholders

Key stakeholders – page 26

We believe that good relationships with our stakeholders underpin our ability to create value for them in the short, medium and long term. Their interests, concerns and expectations inform the prioritisation of our key risks and opportunities, strategic material matters and how we address them.

4 Risks and opportunities

Key risks and opportunities – page 36

Our strategic approach is determined by assessing our capability to respond to risks and opportunities identified in our operating context, capitals and our stakeholder relationships.

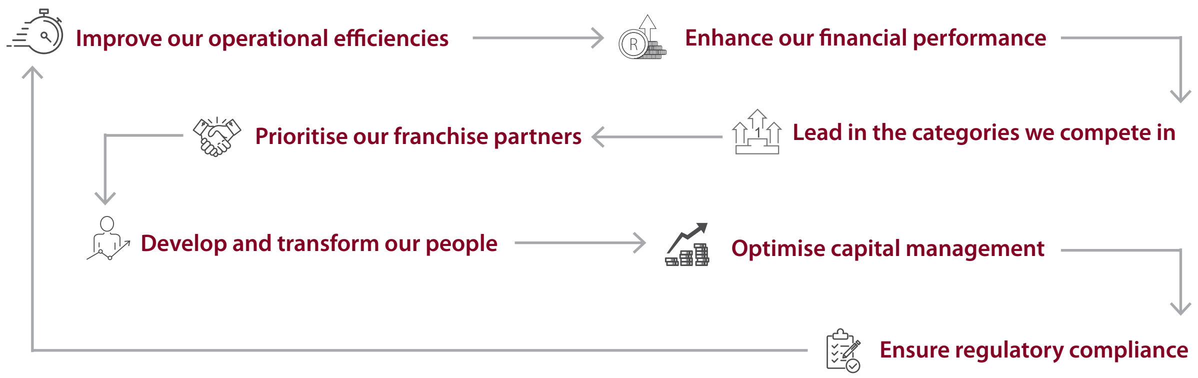
5 Strategy and key material matters

Strategy and key strategic material matters – page 44

Our strategic objectives are executed in an integrated manner, by focusing on what matters most to our business.

Through identifying our key risks and opportunities, we have prioritised the economic, social, environmental and governance matters that have the potential to significantly affect our strategy to create sustainable value for the Group's stakeholders in the short, medium and long term. By ensuring an integrated approach to managing these matters we enhance our ability to deliver on this strategy.

Our primary strategy is to grow our business in a sustainable manner and create value for all stakeholders.



We measure our performance against our strategic material matters by using key performance indicators.

Remuneration Report – pages 99 to 111

6 Value creation

Our key stakeholders	Their primary interest and our goal
» Shareholders, market analysts and prospective investors	» Solid investment proposition and sustainable growth
» Funding institutions	» Responsible capital management
» Franchise partners	» Supportive, preferred business partner
» Customers and prospective customers	» First-choice brand offering
» Civil society and communities	» Responsible community participant
» Suppliers and business partners	» Preferred business partner
» Employees	» Employer of choice
» Trade unions	» Responsive employer
» Government and regulators	» Responsible corporate citizen

Key stakeholders – page 26

OUR BUSINESS ACTIVITIES AND PROCESSES

Our Brands and Manufacturing and Logistics' supply chain divisions are supported by central services including, HR, legal and governance and IT.

Brands

(SA, AME and UK)

- **Operate branded restaurants:**
  - franchised
  - Company-owned
  - master license agreement
- **Retail branded food products**
- **Marketing**
- **Training**

SALIENT FEATURES

Our **best-in-class brands** offer a compelling business proposition to our franchise partners and a quality solution to our **wide range of customers**.

The portfolio comprises **eight Leading (mainstream) brands** and **12 Signature (niche) brands** represented by **2 871 restaurants**.

We operate Centres of Excellence at **six of our 10 distribution centres (DCs)**, which provide a comprehensive **franchise support service** to our **franchise partners**.

Manufacturing

(SA)

- **Procure raw materials for processing**
- **Develop new food services products**
- **Manufacture branded products for:**
  - our franchise network
  - third party retail and wholesale customers

SALIENT FEATURES

We manufacture a range of **licensed branded products** for our franchise network and selected food service and retail customers. The operation comprises both wholly owned and joint venture businesses. **We operate 14 manufacturing facilities.**

Logistics

(SA and AME)

Distribute branded products to our franchise network and limited third-party customers

- **Company-owned fleet**
- **Owner-driver fleet**
- **Export to Africa and Middle East markets**

SALIENT FEATURES

This division provides our **route-to-market**, delivering a comprehensive basket of products required for **brand-specific menus**. Our South African operation is supported by **10 DCs nationwide**.


100% PURE BEEF
BURGERS
SAVOUR THAT REAL FLAVOUR

Creating value using our capitals

(excludes our associate companies)

Value creation process – page 8

Financial capital

Our Financial capital is the funding available for deployment, which comprises debt and equity funding. The capital is employed to fund operations and grow the business and to pay distributions to shareholders, when appropriate.

CREATING VALUE

Optimal capital management and allocation is critical to our ability to generate long-term value for our stakeholders, and we invest in our other capitals in a measured way to grow and sustain our business. Maintaining sound financial metrics is a key management priority.

Group Financial Director's report – page 82

INPUTS	2019	2018
Total equity (Rbn)	**1.5**	1.6
Gross interest-bearing debt (Rbn)	**2.1**	2.8

OUTPUTS	2019	2018
Revenue (Rbn)	**7.2**	7.0
Operating profit (Rm)	**850**	890
Net finance costs (Rm)	**226**	251
Cash generated from operations (Rbn)	**1.0**	1.1
Headline earnings per share (cents)	**319**	393
Invested capital (Rbn) (total assets less cash and current liabilities)	**3.6**	3.9
Return on equity (ROE) (%)	**20**	25
Return on capital employed (ROCE) (%)	**(1.6)**	11.4
Gearing (%) (net debt divided by total equity)	**108**	126
Wealth created (Rbn)	**2.6**	2.5
Procured materials and services (Rbn)	**4.7**	4.6
Employment costs (Rbn)	**1.4**	1.3
Company tax (Rm)	**134**	207

HOW WE ACHIEVED THESE OUTPUTS

- Proactively renegotiated debt financing and gearing levels and actively managed debt maturity profile.
- Reduction of interest-bearing debt.
- Tightly controlled the capital investment programme.
- Focused on working capital management.
- Completed a Company Voluntary Arrangement (CVA) for the GBK business aimed at improving the financial viability of the business.
- Intensified the operational excellence programme across the Group.

TRADE-OFFS

The CVA process completed during the period was implemented to ensure the financial viability of the GBK business. In the immediate term, this process had an impact on our Financial, Human and Social and relationship capitals due to impairments and retrenchments incurred at the GBK entity level. The benefits of the CVA programme should, however, yield positive results over time.

While the suspension of dividends since July 2016 was necessary for prudent capital allocation, this had a negative impact on our Social and relationship capital.

Manufactured capital

Our Manufactured capital is the land and buildings we operate out of (our head office, Company-owned restaurants, warehouses and manufacturing plants); our manufacturing equipment; logistics fleet and our IT infrastructure. We rely on public infrastructure to transport our raw materials and processed products.

CREATING VALUE

Continued investment in our Company-owned restaurants, facilities, equipment, fleet and IT infrastructure enables us to remain appealing to our customers, more efficient to our franchise partners, and reduce our impact on the environment, thereby creating social, economic and environmental value.

INPUTS	2019	2018
Restaurants* (units)	**2 871**	2 853
– Opened*	**162**	182
– Revamped*	**260**	255
Logistics centres (units)	**10**	9
– Capex incurred (Rm)	**7**	10
Manufacturing plants (units)	**14**	15
– Capex incurred (Rm)	**40**	31
Logistics fleet (trucks)	**108**	107
IT infrastructure		
– Capex incurred (Rm)	**12**	23

** This information pertains to the Group's total restaurant network.*

OUTPUTS	2019	2018
Customers served/transactions concluded**	**139 523 052**	139 836 677
Product lines warehoused (units)	**1 697**	1 621
Product procured (tons)	**41 154 739**	43 506 962
Product processed (tons)	**56 775 510**	58 892 412
FSSC 22000- or FSA-certified (%)	**69**	62
Distribution of product		
– Distance travelled (km)	**6 702 734**	6 930 823
– Cases delivered (units)***	**13 379 011**	17 516 037

New ERP enhanced analytics and reporting capability.

Improved cyber security systems.

Developed consumer-facing digital initiatives.

*** This information pertains to our South African and GBK businesses only.*

**** The FY2019 figure excludes the Bakery business which has been outsourced. The comparable FY2018 figure was 12 650 582.*

OUTCOMES

- New and revamped restaurants that are contemporary, fresh and appealing to customers.
- Efficient manufacturing, logistics and distribution operations that provide a good, competitive service to our franchise partners.
- Reduced impact on the environment by using new generation technology and equipment.
- IT efficiency in all our departments and restaurants.

HOW WE ACHIEVED THESE OUTPUTS AND OUTCOMES

- Our manufacturing operations are managed by specialists and supported by highly qualified food technologists. Our manufacturing processes are regularly audited to ensure compliance with relevant regulations and prevention of potential food contamination. Most of our plants are FSA-certified, at a minimum, while others are certified at the higher standard, FSSC 22000.
- Our fleet is well maintained and continually upgraded to ensure optimum reliability and safety.
- Regular reviews of IT requirements and risk assessments inform our systems updates.

TRADE-OFFS

Our investment in property, plant and equipment reduces our Financial capital but is vital to improving our efficiency and competitiveness and increasing our capacity to generate stronger longer-term returns.

Intellectual capital

Intellectual capital refers to our collective experience and know-how, with emphasis on operational, franchise, marketing, brand building, design, development and procurement skills combined with our proprietary systems and licensed trademarks.

CREATING VALUE

Our business model relies on having the right people with the right skills in the right jobs to create value. It also depends on our franchise partners re-investing responsibly in their businesses and managing their operations efficiently to create value.

It is vital that our best-in-class brands instil confidence among our stakeholders, and that we protect those brands with the appropriate legal framework.

INPUTS	OUTPUTS			
	Delegates trained			
	Franchisees and franchise employees			
	Franchise workshops	**Brand product training**	**Fundamental Restaurant Management training**	**Other *ad hoc* training**
Skills development facilitator and qualified training instructors	2018: 8 424 **2019: 23 248**	2018: 8 057 **2019: 8 415**	2018: 1 336 **2019: 1 156**	2018: 7 073 **2019: 7 265**
	Group employees			
Bespoke training courses for Group and franchised employees	**Total training**	2018: 284 **2019: 543**	Black employees 2018: 214 **2019: 462**	Black women 2018: 83 **2019: 101**
	Managers' Challenge#	Candidates 2018: 20 **2019: 20**	Graduates 2018: 20 **2019: 18**	
	Executive Development Programme (EDP)#	Candidates 2018: 4 **2019: 2**	Graduates 2018: 4 **2019: 2**	
	International Executive Development Programme (IEDP)#	Candidates 2018: 2 **2019: 0**	Graduates 2018: 2 **2019: 0**	
Internship programme for new graduates	**Interns** 2018: 45 **2019: 57**	**Completed the programme** 2018: 27 **2019: 49**	**Employed by the Group** 2018: 14 **2019: 32**	
	Brand-specific marketing and advertising campaigns			
Effective, transparent management of franchise marketing fund inflows	• Optimal allocation of Franchise marketing funds ensures top of mind brand awareness in a competitive market. • Leading brands' total media investment increased by 16% year-on-year.* • Digital media spend increased 55% reflecting our response to evolving media consumption by consumers. • Digital media investment now accounts for 12% of our total Leading brands' media spend, supporting our Group strategy to upweight our digital offering.			

The information in this table pertains to our South African operation.

Formal leadership development initiatives are implemented on an ongoing basis annually. The EDP and IEDP are conducted in conjunction with the Wits Business School and contribute to the business's overall succession planning measures.

* *In contrast to our Leading brands, media spend is not a key driver of Signature brands' marketing activity.*

OUTCOMES

- Our training and development initiatives deliver a workforce that is fit-for-purpose, while the trained candidates benefit from improved skills and better career development opportunities.
- Our franchise partners contribute to a marketing fund which enables us to contract industry-leading experts to develop award-winning brand-specific marketing and advertising campaigns which build brand profiles and drive sales growth.

Operational review (Leading brands) – page 62

HOW WE ACHIEVED THESE OUTPUTS AND OUTCOMES IN SOUTH AFRICA

- We are committed to creating a culture of learning. The Group has a forum in place to implement the Employment Equity and Skills Development Acts.
- Our nominated skills representative is responsible for monitoring targets and progress against our committed plans, and reports to the Social and Ethics working group.
- In the SA operation, our registered Skills Development Facilitator submits plans and reports (including a workplace skills plan and training report) to the Departments of Labour and Culture, Arts, Tourism, Hospitality, Sport and Education Training Authority on an annual basis.
- In addition to developing the skills of our employees, we conduct extensive training for our franchisees and their employees through our Centres of Excellence.
- Proprietary systems and licensed trademarks are managed on an ongoing basis by our legal department and appropriate action is taken to defend infringement as well as secure new trademarks as brands evolve.
- We operate a separate marketing fund for each brand on behalf of our franchises, into which they make a compulsory contribution. The marketing fund is governed by the franchise agreement and is regulated by the Consumer Protection Act, No 68 of 2008, with which we comply. Contributions to the marketing fund may only be used for purposes of building and strengthening the brand, and may not be used to provide any benefit to the Group which is not also available to our franchise partners.
- In the FY2019 programme, 57 new graduate interns were placed in various departments across our regional centres to gain structured workplace experience and specialised training over a 12-month period.

TRADE-OFFS

We recognise that reducing investment in staff training to increase short-term profits would have potential long-term negative consequences on our employees' productivity and engagement, as well as our brand reputation. To manage this, we ensure our training and skills development are targeted and delivers the maximum return on investment.

In a challenging economic environment, investing in marketing, brand building and maintaining a best-in-class brand portfolio impacts on our Financial capital, but failure to do so will damage our leading role in the industry and our investment proposition. We are mindful that remaining top of mind among our consumers is vital to creating economic and social value for all stakeholders.

"Famous Brands is a good family business which helps grow franchisees and inspires them to do better."

Steers Emperors Palace

Long-standing Steers' franchisee, Sybil Matlou, with her award for 30 years of service to the brand.

Natural capital

Our Natural capital refers to the environmental resources we depend on to create economic value, including food products for preparation and sale; clean air and water; electricity; gas and fuel.

CREATING VALUE

Our environmental and climate change policy sets out our commitment to responsible environmental practices and identifies key areas of focus and objectives with respect to air pollution reduction and eco-efficiency aimed at reducing our environmental footprint and contributing to a more sustainable operating environment for the benefit of all.

These initiatives include:

- optimisation of transport efficiencies in our logistics fleet;
- ongoing review and implementation of energy saving initiatives;
- conversion of paraffin-fuelled boilers to compressed natural gas;
- conversion of restaurant equipment in Company-owned and franchised restaurants to operate on liquefied petroleum gas (LPG) where practicable and possible;
- investigating alternative cleaner fuel and energy options (with lower greenhouse gas emission factors);
- efficient water usage and effluent management;
- maximising recycling opportunities for our general waste;
- reduction in food wastage through portion control and made-to-order practices in our restaurants; and
- responsible re-use or redistribution of food through donation of excess food by-products.

Operational review – page 62

INPUTS	UOM	2019	2018
Raw materials used include			
Proteins	Tons	**13 810**	13 823
Dairy	Tons	**54 912**	50 400
Grains	Tons	**2 838**	2 768
Vegetables	Tons	**23 292**	37 097
Fruit concentrates	Kilolitres	**420**	804
Coffee beans	Tons	**1 098**	1 119
Water	Kilolitres	**446 694**	514 859
Energy consumed			
Electricity	MWh	**30 651**	36 024
Diesel	Kilolitres	**1 956**	2 916
Petrol	Kilolitres	**702**	729
Paraffin	Kilolitres	**618**	568
LPG	Tons	**51**	56
Natural gas	M^3	**478 442**	488 842
Coal	Tons	**7 764**	*
Packaging used in manufacturing plants			
Cardboard	Boxes (m)	**4.9**	4.4
Plastic	Bottles (m)	**12.1**	12.2
Paper (serviette plant)	Tons	**556**	600

OUTPUTS	UOM	2019	2018
Processed product			
Proteins	Tons	**16 782**	14 668
Cheese	Tons	**8 965**	7 787
Bread products	Tons	**3 608**	3 749
Vegetable products	Tons	**15 048**	17 798
Juice	Tons	**2 466**	1 928
Coffee	Tons	**954**	918
Sauces and spices	Tons	**19 750**	15 652
Ice cream	Tons	**8 329**	8 774
Distance travelled	Km	**6 702 734**	6 930 823
Product delivered	Cases	**13 379 011**	17 516 037
CO_2 emissions (metric tonnes CO_2e)			
– Direct		**28 658**	27 731
– Indirect		**29 661**	42 043
Packaging waste recycled			
Cardboard and paper	Tons	**604**	769
Plastic	Tons	**149**	210
Metal	Tons	**67**	*
General waste to landfill	Tons	**1 427**	1 604

The information in this table pertains to our South African operation.

* *No comparative 2018 data available.*

	UOM	2019	2018
South Africa: Signature brands excluding Group associates			
Electricity	MWh		
– All Company-owned restaurants		**1 356**	6 64
Water	kilolitres		
– All Company-owned restaurants		**9 293**	5 110
Consumption in our operations outside of South Africa			
Botswana operations (Retail Group)			
Electricity	MWh		
– All Company-owned restaurants		**3 324**	3 125
– Headquarters		**29**	29
Water	kilolitres		
– All Company-owned restaurants		**25 889**	24 970
– Headquarters		**73**	76
GBK UK operations			
Electricity	MWh	**12 639**	13 385
CO_2 emissions	metric tons	**6 787**	7 160
Natural gas	M^3	**1 779 958**	1 476 810
CO_2 emissions	metric tons	**3 667**	2 871
Water	kilolitres	**62 401**	65 957
GBK Ireland operations			
Electricity	MWh	**460**	387
CO_2 emissions	metric tons	**247**	208
Natural gas	M^3	**94 546**	99 773
CO_2 emissions	metric tons	**195**	206
Water	kilolitres	**2 271**	1 907

OUTCOMES

- We sourced good quality raw materials from which we manufactured consistently safe, high quality branded food products for menu- and brand-specific baskets.
- We delivered these products timeously and responsibly to our franchise partners and Company-owned restaurants for the enjoyment of our customers.

HOW WE ACHIEVED THESE OUTPUTS AND OUTCOMES

- Our 14 manufacturing plants nationwide processed a wide range of products.
- Our 10 distribution centres managed the distribution of those products to our franchise network.
- Our Company drivers delivered the products to our restaurants nationwide.
- Our owner-drivers complemented the Company fleet distribution function.
- The milk used in our cheese plant is sourced from a joint venture partnership in the Eastern Cape. The beneficiaries of the partnership include five black-owned community farms.

TRADE-OFFS

Our use of non-renewable resources and our emissions and waste have a negative impact on Natural capitals, however, by converting Natural capitals into services and products, we add value to our other capitals.

We will continue to prioritise awareness around behaviours and usage of all utilities in all regions with the goal of reducing our carbon footprint through more efficient use of Natural capitals and management of negative outputs.

ESG initiatives in Brands, Logistics and Manufacturing reviews – pages 16, 70 and 75–77

Social and relationship capital

Our Social and relationship capital refers to the relationships with our stakeholders, including the communities in which we trade and our customers.

CREATING VALUE

We believe that the communities we serve should be better off as a result of our presence, and helping to uplift them will support the sustainability of our business.

INPUTS

- Support by our Leading brands for Varsity Sports and FNB Varsity Cup
- Fundraising activities conducted by our franchised restaurants
- Outreach activities by our employees with community charities/organisations

OUTPUTS

OUTPUTS	2019 R000	2018 R000
Sports sponsorships	**18 796**	20 496
Funds raised for charities and donation of products	**2 701**	2 747
Total	**21 497**	23 243

OUTCOMES

- Our promotional activities raise the profiles of recipient charities and funding campaigns.
- The funds we raise enable charities to expand their activities.
- Local communities benefit from our outreach activities, funding and donated product.
- Eligible student athletes benefit from funding support after leaving school and before turning professional.
- Our sponsorships promote the development of future sporting stars in South Africa.

HOW WE ACHIEVED THESE OUTPUTS AND OUTCOMES

Our CSI initiatives are conducted primarily by our Leading brands.

Debonairs Pizza

- Our franchise partners play a significant role in Doughnation, our CSI initiative, through which franchised restaurants are encouraged to use the extra dough from pizzas to make flat breads, which are donated regularly to charities in the communities in which they trade across SA.
- We continued to support development of football through our sponsorship of Varsity Sports football.

Steers

We support Let's Play Physical Education and the Shout Foundation, organisations which improve children's lives through building sports facilities and libraries in disadvantaged communities in this country.

- Our headline sponsorship of the Let's Play Physical Education Challenge, in conjunction with SuperSport Let's Play, reached 435 schools across the country, encouraging kids to become more active and live healthy lifestyles. The winning school, Kroondal Primary School in Graaff-Reinet, Eastern Cape, received a multi-purpose sport facility, valued at R1.3 million.
- We raised R663 000 for Rounda, a public-private initiative driven by civil society, to collect change for charity. This contribution was made possible by those customers who chose to donate R1.00 for each meal bought in our restaurants. The money was distributed to the Shout and Let's Play Physical Education organisations.
- We handed over a new Steers library, in Motherwell, Eastern Cape, to the Shout Foundation. To date we have built a total of four libraries, including in Tembisa and Soshanguve in Gauteng and Bushbuckridge in Mpumalanga.
- Our continued sponsorship of Varsity Cup and Varsity Sports rugby is aligned with youth development and helps to build a talent pool for the future, while raising our profile among young South Africans.

Wimpy

- In the fifth consecutive year of our partnership with the Reach for a Dream Foundation, Wimpy raised R1.48 million through the sale of Reach for a Dream wristbands in Wimpy restaurants, assisting to make 300 children's dreams come true.
- Our Varsity Sports sponsorship continued to contribute to the development of athletics and netball in this country.

Mugg & Bean

- Our Cupcakes for Kids with Cancer campaign raised over R1 million (2018: R368 000) for the Cupcakes for Hope Foundation. As the main sponsor of this initiative, our goal is to expand awareness of the campaign from campaign months only, to throughout the year, to drive more donations.
- We continued to support the development of hockey in SA through our sponsorship of Varsity Sports hockey.

TRADE-OFFS

Reducing our financial investment in CSI would improve our Financial capital in the short term but have a negative impact on the communities we serve (our target market), which in turn would damage our brand. Over the long term, our investment creates goodwill in our trading markets and has a positive impact on our Financial capital.

Case study

THE CHALLENGE

To use our transformation agenda to do good

WHAT WE DID

The Eastern Cape Beef Fund embarked on a project to raise R100 million to stock 100 Eastern Cape beef (back-grounding) farms with 16 000 calves, with the goal of increasing production of A-grade beef for feedlots in the province. The farms will be operated by black and/or land-reform farmers under the mentorship and supervision of the Fund. The project will create:

- 100 black commercially viable and economically sustainable AgriBEE enterprises in the Eastern Cape;
- 747 direct permanent jobs; and
- improve the quality of livestock in the province.

Commencing March 2018, Famous Brands will contribute a total of R20 million, comprising R5 million per year over four years.

RESULT

Our **Financial capital** will be reduced due to our investment of R20 million over a four-year period.

However, our **Natural capital** will be enhanced. Beef is our second highest raw material input cost and our investment will afford the Group continuous and reliable supply of competitively priced A-grade beef. The goal is to increase our procurement of beef from this venture to up to 90% of our demand by 2020.

Our **Social and relationship capital** will be positively impacted as our partnership will assist local black communities to participate in the commercial agricultural industry. Our BBBEE rating will also be improved through meeting enterprise and supplier development and preferential procurement criteria.

Human capital

Our Human capital refers to the wellbeing, attitude and innovation of our employees, franchise partners, suppliers and business partners.

CREATING VALUE

We require this input to generate value and we strive to nurture the commitment and support of this resource through strong personal relationships and incentives which recognise and reward the dedicated individuals who make a positive difference to our business.

INPUTS

- Experienced executive leadership team.
- Ambitious, entrepreneurial franchisees.
- Diverse, skilled and motivated workforce.
- Supportive contracted business partners and service providers with aligned goals.
- Good engagement with unionised and non-unionised workforce.
- Safe working environment and fair labour practices.

OUTPUTS

		2019		2018
Full-time permanent employees*		**3 213**		4 708
Non-permanent employees**		**1 592**		105
Region of origin of employees	**SA**	**2 411**	SA	2 156
	AME	**740**	AME	704
	UK#	**1 654**	UK	1 953
	Ireland	**86**	Ireland	97
Unionised employees	**SA**	**664**	SA	895
Non-unionised employees		**254**	SA	259
Gender of employees				
– Male		**2 750**		2 753
– Female		**2 055**		2 060
Employee turnover (%)		**6.5**		5.7
Engagement score (%)		**73**		74
Wages and salaries paid (Rm)		**1 374**		1 319
Accident frequency rate (%)		**0.077**		0.086
Fatalities		**0**		0

Two-year wage agreement and cordial relations with workforce.

** Excludes: associates, non-permanent and outsourced staff.*

*** February 2018 figure was for SA only. From July the UK and AME headcount information was split between full-time permanent and non-permanent employees.*

 # The lower headcount is a reflection of the CVA process at GBK UK which resulted in retrenchments.

OUTCOMES

- We improved the capacity and calibre of our HR function and enhanced our senior level capability in several key departments, which has had important benefits for the business.
- Our BBBEE rating improved to level 7 in the year under review.
- Our most recent surveys, which were conducted in 2018 for Bargaining Unit employees and for Administration employees, indicated a high level of employee engagement and motivation.

HOW WE ACHIEVED THESE OUTPUTS AND OUTCOMES

We have policies and practices in place which focus on the following priority areas affecting Human capital: empowerment, talent management, transformation, employment equity, succession, health and safety and sustainability.

- Human capital is considered a core corporate asset at Famous Brands, with the calibre of our people being a key ingredient to our success. This means hiring the best and helping them fulfil their potential, thus building management capability.
- Internal recruitment and promotion are a natural part of our growth culture whereby employees are positioned to align their capabilities with our business plan. Where additional skills are needed, they are recruited externally.
- Talent management (performance and potential) is measured through our bi-annual Human capital reviews.
- Annual employee engagement surveys serve as an indicator of overall organisational health. Our climate survey scores translate into business unit action plans and our effectiveness is monitored by utilising this tool as the 'people barometer' of the business.

- We continued to engage openly with our union partners and encourage an open-door policy. The Group's workforce includes 973 (2018: 1 154) employees belonging to the Bargaining Unit, of whom 68.2% (2018: 77.56%) are unionised.
- Our Growing Champions programme centres on motivating the entire workforce and recognises specific individuals who contribute to the Company's standing and who demonstrate dedication and commitment to their work beyond the norm.
- In our South African operations, we support the principles of broad-based black economic empowerment (BBBEE) and measure our transformation progress against the Generic Tourism Sector Code and targets aligned to the Department of Trade and Industry's BBBEE Codes of Practice. Our executive leadership is responsible for implementing the strategy in their respective functional areas.
- Key to the sustainability and future of our business is managing the succession pipeline, in particular, of senior and executive employees. Our target is to ensure a 2:1 succession cover ratio of the leadership level, meaning that each leader has at least two potential successors: one who can fill the position within a short time span and the second, over the long term. Key performance indicators are included in executive and management scorecards in support of this sustainability imperative.
- Across our operations, we are committed to sustainable business practices and providing a healthy and safe working environment for our employees, adhering to high food safety standards and conducting business in an environmentally responsible manner.
- We have policies and controls in place to measure and monitor the Group's sustainability performance. Where necessary, material issues and risks related to employee health and safety, food safety and the environment are escalated to the Social and Ethics Committee via the Chairman of the Social and Ethics working group and to the Audit and Risk Committee where appropriate.
- The Group complies with the requirements prescribed by the Occupational Health and Safety Act and health and safety risk assessments are conducted by an approved inspection authority every two years. The latest inspection was conducted in 2019.

Social and Ethics Committee report – page 116

TRADE-OFFS

We implemented a CVA process in our GBK UK operation, designed to promote the long-term viability of the business. Regretfully, this process resulted in retrenchments, which in the immediate term impacted on our Social and relationship and Financial capitals, but will have benefits for our Financial capital over the longer term.

Across the Group, remuneration paid to employees increased by 4%. Given the inclusion of GBK, this figure is affected by exchange rate differences. In the core SA business, remuneration paid to employees increased by 7% (2018: 9%).

While higher remuneration costs impacted on our Financial capital, we believe the investment in our workforce is fair and appropriate recognition and reward for their contribution. Costs incurred in recruiting additional expertise have strengthened our operating capability and succession planning, which will create long-term value and offset the short-term impact.

Debonairs Pizza Bram Fischer

Duarte Perreira and his team, winners of the 2019 Debonairs Pizza Operations Campaign. Duarte joined the Group as a franchisee in 2001 and has owned his Debonairs Pizza restaurant for the past three years.

Operating context

Our ability to deliver on our strategy to grow our business sustainably and create value for all stakeholders is affected by the context in which we operate.

The period under review was characterised by:

- economic and political uncertainty across our trading markets which subdued consumer sentiment;
- constrained consumer discretionary spend;
- keen competitor activity and low food inflation, which intensified margin pressure on operators; and
- load shedding, service delivery protests, and drought and fires in SA which impacted negatively on tourism spend.

These conditions influenced our key strategic material matters, namely to:

- **Improve our operational efficiencies**
- **Lead in the categories we compete in**
- **Optimise capital management**
- **Prioritise our franchise partners**
- **Enhance our financial performance**
- **Develop and transform our people**
- **Ensure regulatory compliance**

Steers Chilli Lane

Veteran franchisee, Mike Shaw, with his crew members. Mike joined the Steers family 24 years ago in 1995. He owns six Steers restaurants.

"Steers has a proven track record and is capable of taking on competitors, including multinational giants. I love Steers' customer loyalty, great support and the best product on the market. I am inspired by the founding family, their passion for Steers and the close-knit relationship between franchisee and franchisor."

Specific to our industry, certain key trends persisted and others emerged and/or grew. In order to achieve our growth strategy, we developed tactical responses to manage these trends, as detailed below.

Continued market trends

Trend	Impact	Our response
Consumer behaviour		
Constrained disposable income led to a decline in average frequency of customer visits over the past two years, from 5.0 in 2017 to 4.7.	Margin pressure experienced by franchisees in aggressive price and promotions environment.	Continued to ensure accessible offerings across the value/price spectrum.
Sustained focus on mindful dining – including a demand for farm-to-fork provenance, healthier eating and sustainable food security.	Consumers are driving campaigns to support the planet and advance key social issues.	We implemented an ongoing menu review and continued to introduce a variety of healthier meal options on our standard and children's menu; subsequent to year end, we also launched a low-sugar fruit juice. *Operational review – Better for you awareness – page 70 and Our sustainability journey – page 75*
Premiumisation and authentic cuisine.	Small independent outlets offering personalised experience growing.	Our niche Signature brands are deliberately positioned to capitalise on this trend.
Growing urban commuter numbers.	Out of home consumption has increased.	Our sites are located at consumer hubs including transit sites and we continue to develop and roll out convenient formats.
Traditional meal times blurring.	Meal times have blurred (e.g. all-day breakfasts), whilst snacking both in-store and take away is growing.	Menu innovation on smaller value portions and convenient take away offerings remained a key focus.
Move to informality in dining.	Reframes store design and furnishings. Encourages buffet/informal eating.	Our niche Signature brands are by nature more flexible in their ability to cater for this trend.
In-store experience is key – social media contributing to this trend.	Increased customer focus on store design, furnishings, add-ons (Wi-Fi), in-store displays, etc.	Our store designs and revamp programmes are continually mindful of remaining relevant and contemporary and increasingly appealing to the Millennial market.
Return to simple 'honest' food.	Demand for fresher/healthier and more elegant simplified food and ingredients.	Our premium-end brands specifically remain constantly aware of emerging trends, new flavours and ingredients.
Time-poor.	Demand for convenience and ease of access has resulted in a reduction in footfall in medium and major malls and a significant expansion of online ordering and delivery offerings.	• We rolled out smaller format convenience-centred outlets. • Expanded into new outlying markets. • Upweighted our online and home delivery offering and expertise.

Continued market trends

Trend	Impact	Our response
Competitive landscape		
The initial novelty and growth of certain international brands has not been sustained in aggressive overtraded market.	Imported brands reframed consumers' expectations to seek out new offerings and exciting deals but this has settled down.	We continued to focus on our core competencies and refrained from being distracted by short-term trends. Rewarded our loyal customers and succeeded in gaining market share.
Technological advancements.	Credit card usage and access to smartphones and the internet continues to increase, impacting on online retail. Technology in store is increasing, with digital menu boards, digital payment options and self-ordering terminals in new stores.	We upweighted our technological capability in the digital and social media arenas. Our online offering will remain a key focus. We introduced new innovations including order-and-pay-at-table, self-service terminals and delivery driver tracking, all aimed at improving the customer experience.
E-commerce.	Demand for seamless integration of brick-and-mortar stores with e-commerce.	We continued to develop our offering with faster delivery times and convenient online payments.
General economic		
Constrained consumer discretionary spend and aggressive competitor pricing.	Intensified value scrutiny and heightened expectation of value.	We continued to review our menu price bands and portion sizes to ensure optimal value. We continued to provide Loyalty offerings, rewards and value bundles.
Black Friday in November is now one of the biggest trading weekends on the annual calendar.	Consumers save specifically for this day/ weekend, which impacts on spending patterns for the weeks prior to and following.	Our restaurants in malls benefit from the collective shopping centre hype. Elsewhere in the network we ensure our offering is geared to capitalise on the occasion. We are mindful to assist our franchise partners where possible to ensure predictable revenue flow over the period.

Emerging and/or growing market trends

Trend	Impact	Our response
Consumer behaviour		
Eating-out is being re-defined, as at-home dining becomes an occasion due to increased accessibility of online ordering/delivery across the category, growth of pre-prepared meal delivery services, and delivery of alcohol.	In-restaurant dining may decline, therefore brands must ensure they are accessible on all platforms.	Upweighted our online and home delivery offering to include Signature brands and launched Frozen for You home meal replacement offering.
Consumer activism.	Demand for ethical behaviour. Increased focus on ESG issues (responsible sourcing and impact of behaviour on sustainability of the environment).	We are a responsible corporate citizen and are mindful of operational practices which may have a negative impact on our stakeholders and the environment in general. We have developed policies and committed to timeframes in regard to single-use plastic and cage-free eggs. Across our business we strive to practise responsible use of utilities, to reduce wastage of food and recycle where possible. *Operational review – Our sustainability journey – page 75*
The reputation of brands is increasingly in the hands of the consumer.	The growth of social media platforms has provided a mouthpiece for consumers to publicly censure brands which fail to live up to expectations and promises.	Our franchise partners and management team are sensitised to reputational risk, and our control processes are designed to ensure we respond swiftly and effectively to pre-empt issues becoming crises.
Competitive landscape		
Rise of Artificial Intelligence and immersive technology such as Augmented Reality aided by smartphone penetration.	Technology is moving from customisation to personalisation. Data will drive customised marketing to hyper-personalised menu suggestions.	The restaurant of the future will use technology throughout the customer journey. We are mindful of the need to continually upgrade our delivery and pre-ordering services, and evolve towards connecting better to customers in-store to offer customisable menus and dynamic pricing.
Consumer data has become powerful brand currency.	Communication and offers can be tailored on consumers' past behaviour – increasing their desire for personalised interaction rather than mass communication.	Our CRM programmes are constantly evolved using proprietary data to provide insight into our customers to enable us to communicate with them in a personalised manner. We have in place a privacy policy and are extremely mindful of protecting the privacy of our customers' data. We have robust systems to ensure their data remains secure and our systems are assessed regularly to test for appropriateness.

Key stakeholders

Our stakeholders are those individuals or organisations that have an impact on, or are affected by our operations.

We believe that good relationships with our stakeholders underpin our ability to create value for them in the short, medium and long term. In line with the inclusive approach recommended by King IV, we strive to engage constructively with our stakeholders to understand their interests and concerns, and address these where possible.

IDENTIFYING OUR PRIORITY STAKEHOLDERS

We have used the following criteria to prioritise the relative importance of the wide range of individuals and organisations that have a stake in our Company:

- our dependence on the stakeholder's support to achieve our strategic goals;
- the stakeholder's influence on our organisational performance;
- the significance of the issues linking the stakeholder to the Group; and
- the risks we face should we not engage constructively with the stakeholder.

EVALUATING THE QUALITY OF RELATIONSHIPS WITH OUR STAKEHOLDERS

This evaluation is based on our internal assessment of our relationships.

■□□□□ **No existing relationship.**

■■□□□ **Relationship exists but requires substantial effort to improve.**

■■■□□ **Relationship established, generates value, but can be improved.**

■■■■□ **Mutually beneficial, good relationship, some opportunity for improvement.**

■■■■■ **Strong, mutually beneficial relationship.**

MEASURING THE IMPACT OF RELATIONSHIPS

Our engagement strategies are based on the degree to which our stakeholders impact on us, our impact on them, and the degree to which we interact with them:

□ **work closely**

○ **engage**

CREATING VALUE FOR OUR STAKEHOLDERS

Shareholders, market analysts and prospective investors

engage

Their primary interest and our goal: solid investment proposition and sustainable growth

How we engage	Interests and issues raised	Our strategic response and future focus
• JSE SENS announcements. • Media releases. • Integrated Annual Report. • Annual General Meeting. • Company's website. • Results presentation. • One-on-one interactions with investors and potential investors.	• Return on invested capital. • Resumption of dividends. • Sustainable earnings growth. • Judicious capital allocation. • Corporate governance, ethical and competent leadership.	• Management has extensive experience in our industry. • The Long-Term Incentive Plan and other remuneration and reward structures serve to align management's interests with those of shareholders. • Management has a conservative approach to gearing as part of ensuring an appropriate capital structure. • Management endeavours to lead by example, and through behaviour and policies that instil good corporate governance practices throughout the business.

Key risks	Opportunities	Capital	Key strategic material matter
3 5 8 10 page 38 Deterioration of investor confidence.	By clearly and regularly communicating our investment case and delivering on our strategy, we build confidence in management and the business's investment potential.	pages 12 and 18	

Fishaways Mall of Africa

Zoran Pecelj on the occasion of his 10th anniversary as a Fishaways franchisee. Zoran joined the Famous Brands' franchise family in 1992 and is a multiple franchise operator. He is also a member of the Fishaways National Franchise Forum.

Zoran loves working with people and believes that success lies in providing customers with an unforgettable experience, through delivering good service and high quality food.

CREATING VALUE FOR OUR STAKEHOLDERS CONTINUED

Funding institutions

engage

Their primary interest and our goal: responsible capital management

How we engage	Interests and issues raised	Our strategic response and future focus
• One-on-one interactions.	• Timely payment of interest and capital. • Compliance with debt covenants.	• Ensure debt service requirements are met in line with our debt repayment obligations, and that debt covenants are complied with. • Proactive management of the debt maturity profile.

Key risks	Opportunities	Capital	Key strategic material matter
1 page 38 Breach of debt covenants and undertakings to lenders.	By demonstrating our commitment to meeting our funding obligations we will foster supportive long-term relationships.	pages 12 and 18	

Debonairs Pizza Sasol Katlehong Hlahatsi

Lijane Maqelepo and his crew celebrate their newly revamped restaurant. Lijane became a Debonairs Pizza franchisee in 2005 and owns six of the brand's restaurants. Lijane has been the recipient of many accolades over the past 14 years.

Franchise partners

work closely

Their primary interest and our goal: supportive, preferred business partner

How we engage	Interests and issues raised	Our strategic response and future focus
• National franchise forums. • Personal contact. • Operational audits and reviews. • Operations campaigns. • Web and call-in support. • Annual brand conferences.	• Return on investment. • Strong brands. • Efficient and competitive supply chain. • Marketing spend. • Location of restaurants. • Ongoing business management support. • Product quality.	Our franchisees are our valued partners. We have dedicated operations teams which ensure franchisees receive support in all aspects of managing a successful restaurant, namely finance, marketing, design and development, training and procurement. Our vertically integrated Manufacturing and Logistics operations strive to consistently supply high quality product timeously. We are committed to the franchise business model and are confident it remains the preferred source of growth for the Group. We welcome the contribution and input of our franchise partners and will continue to evolve and improve our engagement with them to enable us to harness the unique and valuable insights they can provide. We view our partnerships as a long-term relationship which requires consistent attention and mindfulness to benefit all parties.

Key risks	Opportunities	Capital	Key strategic material matter
2 3 4 6 7 8 9 10 *page 38* • Health of the franchise network deteriorates in the weak economy. • Group's relationship with franchisees deteriorates due to our failure to meet their expectations.	Constant interaction with our franchisees and responsiveness to their needs will improve our good relationships.	*pages 12, 14, 18 and 20*	

CREATING VALUE FOR OUR STAKEHOLDERS CONTINUED

Customers and prospective customers

engage

Their primary interest and our goal: first-choice brand offering

How we engage	Interests and issues raised	Our strategic response and future focus
• Web and call-in support. • Digital and social media. • Integrated Annual Reports. • Loyalty programmes. • Customer satisfaction surveys. • Industry competitions.	• Strong brands and value offering. • Location accessibility and convenience. • Positive total customer experience.	Management is cognisant that for our brands to maintain and gain market share they must remain relevant, contemporary, accessible and offer value. Our mantra is "We are passionate about unique consumer experiences through innovation, flawless execution and continuous improvement". • We conduct regular restaurant reviews and audits to ensure our high standards are maintained. • We prioritise food quality and safety in all components of the supply chain. • We conduct an ongoing restaurant revamp programme to continue to meet our customers' expectations. • We strive to innovate across all areas of our business to meet evolving trends in the industry. • We value the feedback of our consumers and operate a call centre to manage queries and complaints.

Key risks	Opportunities	Capital	Key strategic material matter
4 7 8 9 10 page 38 Loss of market share due to failure to meet our customers' expectations.	Grow market share in new and existing markets by leading in the categories we compete in.	page 18	

Civil society and communities

engage

Their primary interest and our goal: responsible community participant

How we engage	Interests and issues raised	Our strategic response and future focus
• CSI initiatives and other sponsorships.	• Sustained support. • Associate with a reputable brand. • Responsible use of natural resources.	Our Leading brands conduct extensive CSI fundraising programmes to support worthy charities. We also invest in a sponsorship alliance with Varsity Sports to promote the development of future sporting stars in South Africa. Our environmental policy sets out our commitment to responsible environmental practices and identifies key areas of focus and objectives with regard to reducing our environmental footprint and contributing to a more sustainable operating environment.

Key risks	Opportunities	Capital	Key strategic material matter
10 *page 38* • Declining revenue dictates smaller CSI budgets. • Reputation taint leads to a deterioration of relationships with beneficiaries and other stakeholders.	Continue to grow market share and improve the Group's favourable reputation by making a meaningful contribution to the communities in which we trade. Ensure our compliance culture is communicated through improved disclosure on ESG reporting.	*pages 12 and 18*	

Steers Dobsonville

George Sentso and his crew in their recently relocated Dobsonville store. George joined the Steers family in 2009 and is a multiple franchise operator.

CREATING VALUE FOR OUR STAKEHOLDERS CONTINUED

Suppliers and business partners

work closely

Their primary interest and our goal: preferred business partner

How we engage	Interests and issues raised	Our strategic response and future focus
• Regular procurement interactions. • Supplier audits, assessments and reviews. • Recognition of and awards for excellence.	• Timely payment. • Continuity of supply. • Fair treatment. • BBBEE compliance.	Contractual agreements facilitate quality and food safety adherence, and transparent, healthy relationships with suppliers. Our procurement and planning teams interact on a frequent basis with suppliers to ensure mutually beneficial partnerships.

Key risks	Opportunities	Capital	Key strategic material matter
3 4 8 10 page 38 Our suppliers and business partners lose confidence in our ability to fulfil their agreements and contracts.	Continue to improve on our internal processes and fulfilment of commitments to our stakeholders.	pages 12 and 18	

Milky Lane Key West

Jaco Bezuidenhout and his crew celebrating their newly revamped store. Jaco joined the Milky Lane family in 1998 and is a regular winner of the brand's operational campaigns and Restaurant of the Year Award. He owns numerous other Group restaurants and is also a member of the National Franchise Forum.

Employees

work closely

Their primary interest and our goal: employer of choice

How we engage	Interests and issues raised	Our strategic response and future focus
• Open-door policy. • Business feedback sessions. • Employee morale surveys. • Performance reviews and development discussions. • Core values.	• Fair remuneration and recognition. • Equal opportunities and career development. • Training and skills development. • Safe working environment. • Sustainable earnings growth which could impact on job security. • Corporate governance, ethical and competent leadership.	We regard human capital as a core asset. Our HR policies ensure our employees are appropriately remunerated, incentivised and offer career development opportunities. We support the principles of BBBEE and our transformation policy and strategies are aimed at uplifting historically disadvantaged individuals. We are committed to creating a culture of learning and invest significant resources in this regard. In addition to training our own employees, we conduct extensive training for our franchise partners and their employees.

Key risks	Opportunities	Capital	Key strategic material matter
3 4 6 8 10 page 38 • Difficulty in attracting and retaining the calibre of skills which the business requires. • Slow pace of transformation.	• Improve our recruitment and training methodologies. • Strengthen our career development plans and communicate growth opportunities better. • Achieve improved BBBEE status.	pages 18 and 20	

CREATING VALUE FOR OUR STAKEHOLDERS CONTINUED

Trade unions

engage

Their primary interest and our goal: responsive employer

How we engage	Interests and issues raised	Our strategic response and future focus
• Open-door policy. • Regular interactions. • Wage recognition agreements.	On behalf of their members: • sustainable earnings growth which could impact on job security; • fair remuneration and recognition; • equal opportunities and career development; • training and skills development; and • safe working environment.	We recognise and respect the role of unions and engage professionally and respectfully to find common ground on all matters.

Key risks	Opportunities	Capital	Key strategic material matter
3 4 6 8 10 *page 38* The constructive relationship with our respective unions deteriorates and our cordial negotiation process fails.	By demonstrating that we are an employer of choice and a good-faith partner, we can continue to enhance our existing mutually respectful relationship.	*pages 18 and 20*	

Mugg & Bean Centurion Mall

Pierre Kania joined the Group as a franchisee in 2010 and is in partnership with his brother, PJ, in three Mugg & Bean stores. Collectively, they have over 20 years of experience.

The Kania brothers' philosophy is "It's our passion for food that drives us."

Government and regulators

engage

Their primary interest and our goal: responsible corporate citizen

How we engage	Interests and issues raised	Our strategic response and future focus
• Interactions with the relevant authorities. • On site inspections.	• Tax revenues. • Compliance with legislation and regulations. • Transformation. • Supporting communities. • Responsible use of natural resources.	We recognise that business sustainability is advanced by complying with relevant regulatory and legislative frameworks. We have systems and structures in place to monitor changes to legislation, assess the implication of any changes on our operations and communicate this to relevant stakeholders. Achieving a level 6 BBBEE status is a key management priority and the following areas have been prioritised for improvement: procurement; equity and skills development. Our environmental policy sets out our commitment to responsible environmental practices and identifies key areas of focus and objectives with regard to reducing our environmental footprint and contributing to a more sustainable operating environment.

Key risks	Opportunities	Capital	Key strategic material matter
2 10 *page 38* • Health and safety and/or food quality risk control mechanisms fail. • Failure to ready the business to comply with new legislation.	Continue to improve our internal processes and risk preparedness programmes. Ensure our compliance culture is communicated through improved disclosure on ESG reporting.	*page 12, 18 and 20*	

Key risks and opportunities

In line with our concerted endeavour to enhance the transparency of our reporting, we have for the first time in the IAR, disclosed our key risks and opportunities in a dedicated review. We are committed to continuing the journey to improving disclosure, and accordingly, our IAR will build on the foundation laid in this report.

RISK MANAGEMENT POLICY AND PROCESS

Famous Brands' philosophy is that risk-taking, in an appropriate manner, is an integral part of our business. Our success relies on optimising the trade-off between risk and reward. In the course of conducting business, the Group is exposed to a variety of risks, including but not limited to strategic, financial, operational, compliance and reputational risk. The long-term sustainable growth, continued success and reputation of the business are critically dependent on the effectiveness of risk management. Risk management is one of our core focus areas and management is committed to applying international best practice and standards. The Group's risk management framework aligns to the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework. Our risk philosophy is underpinned by our strategy to create value for shareholders through sustainable growth, in a manner that is consistent with shareholder expectations of the business's risk-bearing capacity and its risk appetite.

Our risk management process and frameworks enabled the business to remain flexible and resilient in the difficult trading conditions and assisted us in achieving our strategic objectives. They also provided a forum to identify and realise opportunities to deliver sustainable value for stakeholders.

The Audit and Risk Committee (the Committee) oversees risk management on behalf of the Board, and the Committee and management team promote a culture of risk governance and awareness throughout the organisation.

Governance report – page 90

Enterprise risk management

Source: Enterprise Risk Management Framework: Integrating with strategy and performance© 2017 COSO. All rights reserved. Used with permission.

RISK ACTIVITY AND ACCOUNTABILITY

As illustrated below, risk is proactively managed across the Group.

	Governance	Assessment	Monitoring and reporting	Quantification	Assurance	Orientation and awareness	Response
Board	⚠	⚠	⚠				
Board Committee Chair	⚠		⚠				
Audit and Risk Committee	⚠	⚠	⚠	⚠	⚠		
Executive management	⚠	⚠	⚠	⚠	⚠	⚠	⚠
Senior operational management		⚠	⚠	⚠	⚠	⚠	⚠
External audit					⚠		
Internal audit					⚠		

Identification of risk

Key risks are identified based on:

- **risk-bearing capacity** (the capacity to absorb losses arising from risks without an immediate threat to the Group's continued existence based on its current business model);
- **risk appetite** (the amount and type of risk the Group is willing to accept in pursuit of its strategic objectives); and
- **risk tolerance** (the acceptable levels of variation relative to the achievement of the Group's strategic objectives).

Steers Mall at Reds

Darius and Willie Oosthuizen at their newly revamped Steers Drive Thru store. This father and son team who joined the Group in 2012, won the 2019 Steers Operations Campaign for their Celtis Ridge restaurant. They operate several other Group restaurants. Darius is also a member of the Steers National Franchise Forum.

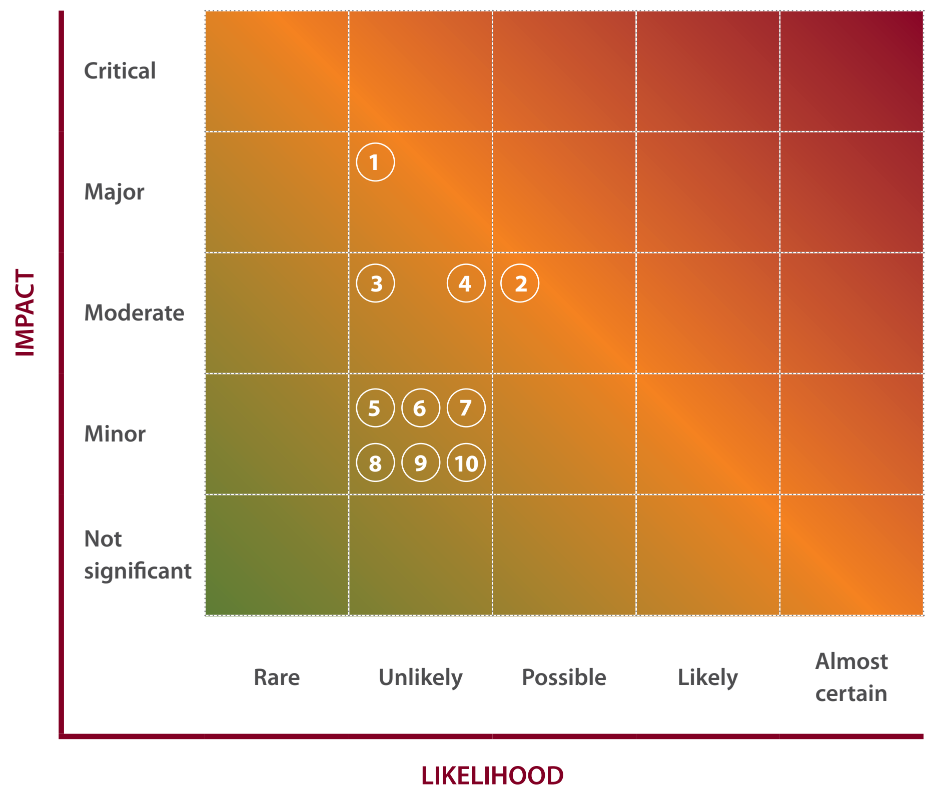
Our FY2019 risks which were identified earlier in the financial year are listed below in the left-hand column and ranked according to their materiality to the Group's sustainability during the review period. The current rating, in the right-hand column indicates the status of risks post year-end.

FY2019	Top 10 risks	Current rating (post review period)
1	Breach of debt covenants and undertakings to lenders	✓
2	Vulnerability of IT infrastructure and network to cyber attacks	↻
3	Decline in like-for-like revenue growth at franchised or Company-owned restaurants	↻
4	Slow response to logistics capacity constraints	✓
5	Decrease in shareholder returns (ROE/ROCE/RONA)	⇩
6	Lack of smooth reporting processes	⇩
7	Digital and convenience strategy implementation decelerates	⇩
8	Leading brand ideas fail to meet long-term sustainable growth projections	↻
9	Failure to identify and execute on sites for new formats	⇩
10	Adverse publicity impacts negatively on corporate reputation	↻

✓ **Risk mitigated** ⇩ **Risk reduced and no longer top 10 risk** ↻ **Risk remains a top 10 risk**

Post-control residual risk heat map

The heat map below illustrates the residual risk rating for our key risks for FY2019. Residual risk is the remaining risk exposure after all identified mitigation measures have been implemented.



Our key risks during the past year are outlined below, together with their potential impact, our mitigating actions, the opportunities presented, outlook and focus on related key strategic matters. Both internal and external risks have been identified and are addressed through focusing on the key material matters which affect our business.

We are pleased to report good progress against these as indicated in the table below.

Strategy and key strategic material matters – page 44

Breach of debt covenants and undertakings to lenders

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
• EBITDA underperformance relative to required levels. • Inability to meet debt service requirements.	• Lenders can exercise their right for immediate loan repayment. • Going concern assumptions raised.	• Ongoing monitoring of performance versus budget and forecast covenant compliance requirements. • Proactive monitoring of working capital investments. • Proactively initiated engagements with lenders regarding debt refinancing. As a result, debt was refinanced on more favourable terms in December 2018.		Intensified focus on monthly management of capital allocation, working capital and covenants.

Vulnerability of IT infrastructure and network to cyber attacks

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
• Lack of vulnerability assessments. • Lack of a comprehensive security policy.	• Loss of Intellectual Property. • System downtime leading to financial loss.	• Diverse set of threat-intelligence security measures commissioned. • Implemented a hosted firewall, antivirus and anti-malware measures.		Ensure systems availability and reliability: • penetration testing to be conducted regularly; and • comprehensive security policy to be addressed.

Decline in like-for-like revenue growth at franchised or Company-owned restaurants

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
• Inability to turn around non-performing assets. • Consumer disposable income under pressure. • Increased competition. • Drop in consumer footfall in major malls. • Over-dependence on strategic partners for growth. • Underperforming Master Licensees.	• Decrease in share price. • Loss of confidence in management. • Asset impairment.	• Ensure our offering is competitive and attractive to consumers. • Review store footprint to lessen dependence on major mall locations. • Broaden strategic partner base. • Regular evaluations of Licensee performance conducted. • GBK CVA completed; and portfolio review consistently on the agenda of all key Committees and Boards. • Famous Brands' Group Chairman was appointed to the Board of GBK UK.		Continue to apply a brutal filter for uncluttering and growing the business. Implementation of menu and value levers per brand to address consumer spend constraints.

Slow response to logistics capacity constraints

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
• Failure to develop viable business case to address capacity needs. • Failure to implement approved business case. • Failure to address short-term capacity requirements.	• Failure by our DCs to deliver stock to franchise restaurant network resulting in lost sales, potential store closures and loss of franchise revenue.	• Viable logistics business case developed per site. • Bespoke logistics programme per site implemented. • Peak trading plans are approved and published.		Continued roll out of logistics programme to address short, medium, and long-term capacity requirements.

Decrease in shareholder returns (ROE/ROCE/RONA)

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
Allocation of capital to initiatives and projects which do not enhance the Group's returns.	Loss of confidence in management.	• Filter capital allocation decisions through appropriate metrices. • Material capital allocation initiatives/ projects are reviewed by the Investment Committee of the Board.		Intensified focus on capital allocation.

Lack of smooth reporting processes

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
• Slow resolution of post-implementation system issues. • Decentralised finance structure not fully implemented. • Balance sheet reporting inadequately implemented.	• Delayed business decisions due to financials produced too late. • Loss of confidence in management team. • Delays in finalising interim and year-end results.	• Bespoke project implemented to improve collaboration between IT and Finance departments. • Decentralisation implementation to be driven by the central finance function.		Financial reporting processes will be improved through leveraging new reporting system.

Digital and convenience strategy implementation decelerates

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
• Misalignment of the Group's strategy with Brands' strategies. • Rapid pace of competitive landscape changes. • Insufficient investment. • Sub-optimal selection/ relationships with marketing partners.	• Loss of turnover growth and market share. • Loss of confidence in management.	• Robust strategy planning and review processes conducted. • Project plans in place and regular meetings held at Exco level. • Competitor technology activities and advancements actively monitored. • Formalised business case process and marketing fund allocation in place. • Formalised briefing process with service providers in place.		Intensify our evolution in marketing to align with a digital and convenience-driven world.

Leading brand ideas fail to meet long-term sustainable growth projections

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
• Inadequate budget and structure to support big ideas. • No clear KPIs in place and lack of performance evaluation. • Lack of franchisee buy-in.	• Turnover growth not sustained. • Loss of market share.	• Financial support allocated and project teams in place. • KPIs implemented and measured monthly. • Viable commercial business models presented to franchisees.		Our Leading brands must ensure BIG BOLD ideas are a way of life. We will continue to provide support and resources to ensure this.

Failure to identify and execute on sites for new formats

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
Management fails to identify and secure sites.	• Growth opportunities diminished. • Loss of market share.	Constant tracking of the development pipeline.		Management will proactively review the franchise lease portfolio to address consumer shifts from major malls to greater demand for convenient trading formats.

Adverse publicity impacts negatively on corporate reputation

Root causes	Impact on value	Controls and mitigating actions	Capital	Opportunities, outlook and focus on strategic matter
• Poor stakeholder management. • Non-compliance with key legislation and JSE requirements.	• Loss of turnover growth, market share and share price. • Loss of confidence in management. • Irreparable damage to Group/brand.	• Business performance updates and stakeholder relations are managed by the CEO and Board. • Compliance with key legislation is managed by Exco members in the respective portfolios.		Our franchise partners and management team are sensitised to reputational risk, and our strategies are designed to ensure we respond swiftly and effectively to pre-empt issues from becoming crises.

Wimpy Midstream

Dhiren Maharaj and team members at the opening of their store. Dhiren, and his wife Shamine, joined the Wimpy franchise family in 2016 and own two restaurants. Strong promotional activity in their local communities has furthered the success of these new restaurants.

Strategy and key strategic material matters

Our overriding goal is to continue to grow our business in a sustainable manner, creating value for all our stakeholders. This means ensuring that our strategic decisions contribute to the enhancement and preservation of all our capitals: Financial, Human, Manufactured, Intellectual, Social and relationship and Natural.

ADVANCING OUR STRATEGY BY FOCUSING ON WHAT MATTERS MOST TO THE BUSINESS

This report seeks to explain how execution of our strategy created value over the past year. It illustrates how our key strategic objectives address our primary risks and how we measure our performance against achieving our strategies.

Our approach to our key strategic material matters is outlined below.

IDENTIFY

Relevant information is identified from Board and Exco meetings; engagement with key management and stakeholders; industry developments and regulations; economic research and pertinent media reports.

PRIORITISE

Strategic material matters are prioritised based on our risk appetite and tolerance framework.

RESPOND

We evaluate the potential impact and implement strategies to either mitigate against negative outcomes or pursue opportunities.

REPORT

We provide updates at our regular Board and sub-committee meetings; in shareholder reports; in formal communication with employees and through interactions with regulatory/industry authorities.

MONITOR

We continuously monitor and evaluate against KPIs, competitor activities and in consultation with stakeholders.

SCORECARD BY STRATEGIC MATTER

We measure management's delivery on our strategic material matters using key performance indicators. The goal for our FY2020 IAR is to align management's performance delivery with the executive remuneration structure.

Remuneration Report – page 99

Improve our operational efficiencies

Why it matters

To ensure long-term sustainability of the business and achieve our goal of being the leading innovative branded food services business in our markets by 2020, we need to ensure optimal use of the capitals available to us.

Related risks

2 3 4 5 6 7 8 9 10

Key risks and opportunities – page 36

Impact on capitals

pages 12 and 18

Impact on stakeholders

Franchise partners; customers and prospective customers; suppliers and business partners; employees; shareholders; market analysts and prospective investors.

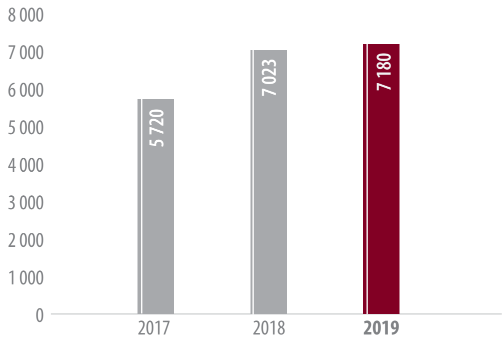
Key stakeholders – page 26

KPI

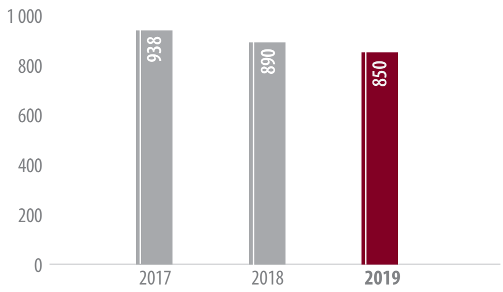
- Revenue growth.
- Operating profit growth.

Three-year trend

Revenue (Rm)



Operating profit (Rm)



Target

Growth in line with current year.

Enhance our financial performance

Why it matters

- We are intent on growing capability, capacity and scale across manufacturing, branded franchised and food services spaces.
- Trading conditions in all of the Group's markets are extremely challenging. We need to make strategic choices to ensure our business is optimally structured to be efficient, competitive, achieve our benchmarks and meet the expectations of our stakeholders.

Related risks

1 5 6

Key risks and opportunities – page 36

Impact on capitals

pages 12, 18 and 20

Impact on stakeholders

Franchise partners; suppliers and business partners; employees; shareholders; market analysts and prospective investors.

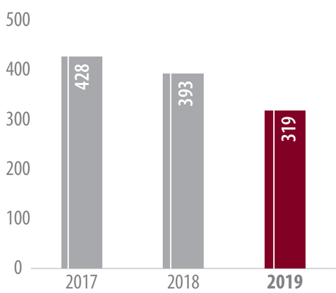
Key stakeholders – page 26

KPI

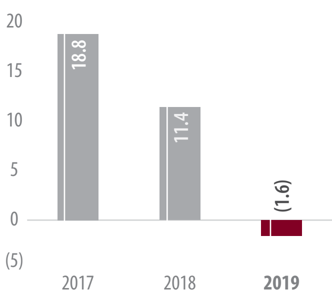
- Headline earnings per share (HEPS).
- Return on capital employed (ROCE).
- Total shareholder return.

Three-year trend

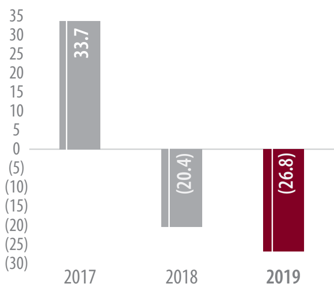
HEPS (cents)



ROCE (%)



Total shareholder return (%)



Target

Growth in line with current year.

Mugg & Bean Total Boksburg OTM

Faizal Salajee and his team at the opening of their new Mugg & Bean OTM store. Faizal joined the Group as franchisee in 2012.

Lead in the categories we compete in

Why it matters	• We are passionate about unique consumer experiences, through innovation, flawless execution and continuous improvement. • The food services industry is an exceptionally competitive one. In the current subdued consumer spend environment, local and international operators compete aggressively for a share of the limited wallet, and in some cases, for survival. To promote the Group's continued success, we need to ensure our brands are differentiated through their unwavering appeal to customers.
Related risks	3 7 8 9 10 *Key risks and opportunities – page 36*
Impact on capitals	*pages 12, 18 and 20*
Impact on stakeholders	Franchise partners; customers and prospective customers; shareholders; market analysts and prospective investors. *Key stakeholders – page 26*
KPI	Internal research metrics and like-for-like sales growth.

Prioritise our franchise partners

Why it matters	We are obsessed with being close to our trading partners because they are vital to the success of our business.
Related risks	2 3 4 6 7 8 9 10 *Key risks and opportunities – page 36*
Impact on capitals	*pages 12, 18 and 20*
Impact on stakeholders	Franchise partners; customers and prospective customers; suppliers and business partners; employees; shareholders; market analysts and prospective investors. *Key stakeholders – page 26*
KPI	Regular interactions are conducted with the national franchise forums for each brand and associated metrics are evaluated. These metrics are strategic and hence not disclosed.

Develop and transform our people

Why it matters

- We are a team of results-oriented people, characterised by a unique high performance culture.
- Human capital is considered a core corporate asset at Famous Brands, with the calibre of our people being a key ingredient of our success. Mutually beneficial relationships result from ensuring our people are developed, recognised and rewarded appropriately.

Related risks

3 4 6 8 10

Key risks and opportunities – page 36

Impact on capitals

pages 12, 18 and 20

Impact on stakeholders

Employees; trade unions; government and regulatory bodies.

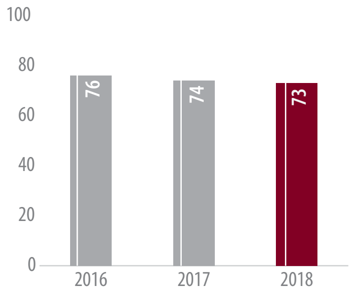
Key stakeholders – page 26

KPI

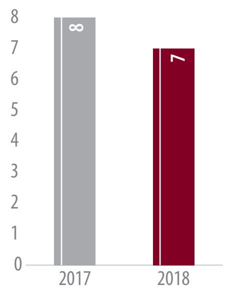
- Annual employee engagement survey.
- Training conducted and completed.
- BBBEE rating.

Trends

Employee engagement survey (%)



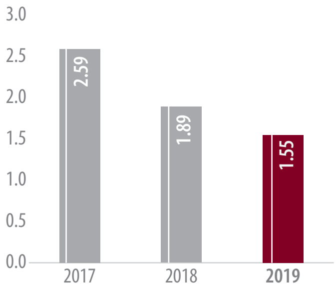
BBBEE rating



Target

- Continue to improve employee engagement survey score – target of 85% +.
- Achieve Level 6 BBBEE rating.

Optimise capital management

Why it matters	• We are focused on organic and acquisitive growth in South Africa and selected international markets. • Following a series of acquisitions, the Group's capital structure now includes debt as a permanent feature. We need to ensure that capital is deployed optimally to meet operational requirements, service debt, fund future growth, and pay distributions to shareholders when appropriate.
Related risks	1 5 *Key risks and opportunities – page 36*
Impact on capitals	*page 12*
Impact on stakeholders	Shareholders, market analysts and prospective investors; funding institutions. *Key stakeholders – page 26*
KPI	Net debt:EBITDA.
Three-year trend	***Net debt:EBITDA*** 
Target	Between 1.0 and 1.5 times.

Ensure regulatory compliance

Why it matters	• We are mindful that compliance with all relevant regulations and good relationships with industry authorities improves our reputation among our stakeholders as a responsible corporate citizen and enhances our capitals.
Related risks	2 10 *Key risks and opportunities – page 36*
Impact on capitals	*pages 12, 18 and 20*
Impact on stakeholders	Government and regulators; customers and prospective customers; shareholders; market analysts and prospective investors. *Key stakeholders – page 26*

Chairman's statement

Santie Botha

"Our overriding focus has been to develop and implement strategies that facilitate sustainable profitability for our franchise partners and improved returns for our stakeholders."

Economic and political uncertainty defined our major trading markets, both locally, and in the United Kingdom. In South Africa, we had the lead up to the national government elections, and in the UK, the Brexit process continues to unfold. Across these markets, the year was characterised by constrained consumer discretionary spend and keen competitor activity, which intensified margin pressure.

SOUTH AFRICA

Local consumers faced sustained financial challenges as rising utility costs and sharp fuel price increases prevailed. Average real take-home pay increased by a mere 0.4%, failing to impact on high personal indebtedness levels, while the unemployment rate reached historic levels.

Weak economic conditions were exacerbated by country-specific risks. Inconsistent power supply and extensive service delivery protests and industrial action disrupted operations, with severe cost implications for businesses. In addition, natural disasters including prolonged drought in parts of the Eastern and Western Cape and Free State, and widespread wildfires in the Southern Cape had a damaging effect on local and foreign tourism spend.

UNITED KINGDOM

In our UK market, the approach to consumer spending remained on a 'needs not wants' basis, in light of constrained disposable income and negative consumer sentiment. The shift to online retail and the sustained pressure on traditional bricks-and-mortar retailers continued to grow, illustrated by the sector reporting its 15th consecutive month of retail footfall decline in February 2019 – the weakest performance since 2009. In the restaurant sector, insolvencies rose 24% in 2018, affecting 1 200 restaurants.

INDUSTRY TRENDS

The increased use of **technology** is a key strategic shift in our industry, challenging existing market practices and displacing established products and services. This is evidenced by the rapid growth of online ordering and door-to-door delivery services in the sector. Significantly, while evolving technology has facilitated consumers' purchasing convenience, it has simultaneously provided an increasingly useful research tool for retailers.

While industry evidence suggests that online sales may be eroding eat-in sales, our view is that a blended model of 'clicks-and-bricks' will continue to be appropriate for the Group, ensuring we are represented across the range of consumers' purchasing preferences. Our strategy with regard to technology in the business will be to continue to develop new skills sets and improve our offering in terms of efficiency, costs and total customer experience.

In our engagements with stakeholders, there is increasing demand for improved disclosure on **environmental, social and governance** policies and accountability. Aligned to this trend is growing consumer activism regarding a range of issues such as the demand for cage-free eggs, eliminating single-use plastic, and greater health consciousness, including the reduction of sugar and salt in food, and the availability of healthier menu options.

We are mindful of these developments and have endeavoured to report more fully in this document on our environmental and sustainability initiatives, and social and governance practices. Across our business we strive to ensure responsible sustainability practices and have formulated policies and committed to implementation timeframes in this regard.

Operating context – page 22 *CEO's report – page 54* *Operational review – page 62*

BOARD FOCUS: BUILDING THE SUSTAINABILITY OF OUR BUSINESS

• Profitability

Our franchise partners play a material role in the success of Famous Brands. Their passion for our brands and commitment to driving growth is commendable, particularly in the current difficult trading environment of unrelenting competition, fierce margin pressure and hard-pressed consumers who have a greater access to brands than ever before.

In this regard, our overriding focus has been to develop and implement strategies that facilitate sustainable profitability for our franchisees across the network. We have identified the critical success factors as being to:

- align our supply chain and cost drivers to provide better support for our Leading brands and ensure the brands are positioned to deliver like-for-like growth ahead of food inflation;
- position our Signature brands to penetrate untapped dining occasions; profitably incubate future Leading brands; enhance franchise margins; and, following our sustained period of investment over recent years, significantly improve our own operating margins in this portfolio; and
- focus on breakthrough innovation in our consumer-facing technology to ensure long-term growth, aligned with market dynamics.

The second component of our profitability strategy is to deliver sustainable returns to our shareholders by refining and implementing our long-term strategy in the UK. Key to the success of this strategy is to ensure GBK outperforms the UK Casual Dining market segment and delivers ahead of our targeted performance levels.

On 11 December 2018 we notified shareholders that GBK UK had completed a Company Voluntary Arrangement (CVA) aimed at improving the financial viability of the business. The once-off costs of this exercise were R17.2 million. Twenty four stores were closed in the UK, including closures which took place prior to the CVA.

Management is optimistic that remedial actions under way to ensure the long-term sustainability of the business are gaining momentum, reflected by the stronger trading results reported for the second half of the year compared to the first half, and the positive like-for-like sales recorded in the period since year-end. The operational performance of GBK is discussed in more detail in the Chief Executive Officer's report on page 54, the Financial Director's report on page 82, and the Operational Review on page 74.

• Capital allocation

In light of our stated intent to optimise capital allocation, a key Board priority was to upweight the role and capacity of our Investment Committee to ensure the pipeline of prospective investment and expansion opportunities is optimally reviewed, prioritised and managed. I am confident that this intervention will enhance future decision making.

During the year, good progress was made in allocating capital to the appropriate business units in our Brands, Manufacturing and Logistics operations. This exercise has been significant in determining our future strategies to ensure the best return on invested capital employed across this diverse business.

• Risk reporting

We have for the first time disclosed in the integrated annual report our key risks and opportunities in a dedicated review.

Key risks and opportunities – page 36

I noted in my 2018 statement that the Board had identified gaps in our risk management process and commissioned an extensive risk management review. Emanating from this exercise, we are now better positioned to assess our capabilities to respond to the key risks, as well as the opportunities, which exist in our operating context, resources and our stakeholder relationships. This review will also enable us to refine our strategic approach and ascertain the interconnectivity to stakeholder issues and material matters which impact on our ability to deliver sustainable growth. We are committed to continuing the journey to improving disclosure, and accordingly, our 2020 IAR will build on the foundation laid in this report.

• Debt structure and dividend

During the year under review management proactively initiated engagements with lenders to restructure the Group's debt finance. In this regard we are pleased with the revised debt profile, which is more appropriate for the business and was achieved at lower interest rates.

In the interim results announcement published on 29 October 2018, we advised that, subject to operational requirements and potential acquisitions, future dividends would be triggered when the short to medium-term gross debt:EBITDA ratio reached 2.00 times. The ratio as at 28 February 2019 was 1.97 times (2018: 2.56 times). In light of this, and following extensive consultation and consideration of the Group's operating requirements and optimal capital allocation programme, the Board resumed a dividend payment for the year ended 28 February 2019. The dividend declared for the review period is 100 cents. The Board will continue to monitor the trading environment, the Group's future performance, its operating requirements and acquisition opportunities to determine further dividend payments.

CORPORATE GOVERNANCE (KING IV) AND REMUNERATION

In the 2018 IAR we introduced a report detailing the Group's compliance with the 16 relevant principles of King IV. In line with best practice, we have expanded our disclosure on compliance in this document on pages 90 to 97.

We have also significantly enhanced the disclosure in our Remuneration Report and have taken into account the views and recommendations of some of our key stakeholders.

Remuneration Report – page 99

CHANGES TO THE COMPOSITION OF THE BOARD OF DIRECTORS

With effect from 1 August 2018, Deon Fredericks was appointed as an independent non-executive director to the Board and a member of the Audit and Risk Committee. With effect from 1 March 2019 he was appointed as Chairman of the Audit and Risk Committee, a position he assumed from Chris Boulle who served as Interim Chairman from 2 October 2017. We would like to thank Chris for his support and wise counsel while performing this role.

Subsequent to 28 February 2019, the following Board changes occurred:

- with effect from 8 March 2019, Thembisa Skweyiya resigned as an independent non-executive director. The Board is appreciative of the contribution made by Thembisa during her tenure;
- Bheki Sibiya, a long-standing member of the Board advised that he would be retiring at the AGM on 26 July 2019. We would like to express our gratitude to Bheki for his significant contribution since his appointment to the Board in 2004; and
- with effect from 1 August 2019, Alexander (Alex) Maditse has been appointed as an independent non-executive director. The Board welcomes Alexander and looks forward to his contribution.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

We regard transformation throughout our business as a key priority and a most important social and strategic issue. I am pleased to report that we attained a level 7 rating this year and we will strive to improve that to a level 6 in the year ahead.

THE FUTURE

The strong support received by the President in the recent elections augurs well for the country. His commitment to growing the economy and enhancing governance is commendable and will likely lead to an improvement in business and consumer confidence. Over time, this will hopefully translate into increased investment in the public and private sectors.

In terms of our business, the Board and management are committed to restoring the profitability of the UK business and improving the returns for our franchise partners. We have made good progress in both our local and UK operations to ensure they are optimally structured to capitalise on opportunities when conditions improve in our trading markets.

I am satisfied that we have the right leadership in place and strategies to continue to deliver sustainable growth for all our stakeholders.

APPRECIATION

The executive team, under the astute leadership of the CEO, Darren Hele, as well as management and staff have been instrumental in delivering a creditable performance in a difficult year for the Company. Their commitment to the Group and its robust goals is commendable.

We appreciate the continued input of our wide range of stakeholders who contribute to the success of Famous Brands.

In closing, I would like to thank my colleagues on the Board for their dedication and constructive engagement.

INVITATION TO ATTEND THE ANNUAL GENERAL MEETING

Shareholders are invited to attend the twenty-fifth Annual General Meeting to be held on 26 July 2019 at 14h00, 478 James Crescent, Halfway House, Midrand as outlined in the Notice of the Annual General Meeting.

Notice of AGM

Santie Botha
Chairman
27 June 2019

Chief Executive Officer's report

Darren Hele

"We are obsessed with being close to our trading partners and customers across our markets."

YEAR IN REVIEW

This past year has been an extremely difficult one. In the context of the poorly performing economy, our industry has faced strong headwinds, as evidenced by the generally pedestrian results delivered by the sector, and the challenges experienced by a range of high profile brands.

We were not immune to these adverse conditions, having to undertake drastic remedial measures in our GBK UK business to ensure the long-term sustainability of that operation, and contain any potential fall-out in our local operations. I am satisfied however, that the CVA programme which we completed during the year has put GBK on a sound footing and positioned the business for growth.

Optimising our footprint was a major priority during the year, not only in the UK, but locally too. In the interests of ensuring our franchise partners' profitability, we continually evaluate sites in terms of trading relevance, rental viability, and changes in footfall and competitor activity. Where markets have shrunk and are no longer able to support viable businesses, or where local demographics change to the extent that the brand's core target audience is no longer present, we will close non-performing stores. This is not a new policy: we have always managed our business in the best interests of the entire business, and where that means rationalising brands and closing non-performing restaurants – in the absence of any alternative, and being mindful of our good relationships with our franchise partners – then we have done so over the years.

During the year, we also experienced difficulties following the implementation of our new ERP system. While delivered on time and within budget, we underestimated the system's subsequent bedding down phase, which hampered some of our processes during the year. I am pleased to report however that all outstanding issues have been resolved, and in the new financial year the business will benefit from improved analysis of data and more insightful, transparent reporting.

Following the recent South African Constitutional Court ruling regarding temporary employment service providers, we developed a programme in our local operations to ensure optimal manpower planning within the parameters of the legislation. The programme was implemented with effect from October 2018. While every effort has been made not to compromise efficiencies in our operations, we have experienced a loss of flexibility and increased labour costs within our supply chain business units, which have impacted negatively on margins.

OUR PERFORMANCE

Operational review – pages 62 to 80

SOUTH AFRICA

Brands

Our brands remained extremely popular, illustrated by the plethora of consumer awards we received during the year.

In line with recent performance trends, our Leading brands delivered solid results for the year. Notably however, while strong organic growth was reported in the first half of the year, trading slowed in the latter six months, and results reported for the peak holiday period, specifically, failed to meet our expectations.

Among our Leading brands, Debonairs Pizza grew market share in a robust category, while Wimpy gained back share, arresting the decline experienced in the previous year. Steers and Mugg & Bean retained their market share, and Fishaways did well to hold steady.

On balance, our Signature brands under-performed our expectations, and they remain the subject of critical review. Across this portfolio, system-wide sales grew, primarily on the strength of new restaurant openings, however like-for-like sales growth was lacklustre. The allocation of a higher proportion of central costs not previously allocated to this business unit has fundamentally changed the margin model. The new margin reported for the period, while realistic, was disappointing, and we have put strategies in place to drive higher margins to ensure this business unit adds value to the Group.

Across our SA Brands' division, we reported revenue of R895 million (2018: R851 million). Operating profit rose to R476 million (2018: R431 million), while the operating profit margin increased to 53.2% (2018: 50.7%).

Across our Leading and Signature brands, combined system-wide sales increased 6.0% and like-for-like sales grew by 2.5%. Independently, Leading brands' system-wide sales rose 5.3% and like-for-like sales improved 2.9%. Signature brands' system-wide sales increased 10.7%, while like-for-like sales decreased by 0.6%.

Supply Chain

This division, which comprises our Manufacturing and Logistics operations in SA, reported revenue of R4.4 billion (2018: R4.3 billion), while operating profit increased to R513 million (2018: R509 million). The operating profit margin decreased to 11.5% (2018: 11.8%). The decline in margin is a reflection of sustained low food inflation, which inhibited opportunities to increase pricing, and by the re-allocation of corporate costs to the appropriate business units.

REST OF AFRICA AND THE MIDDLE EAST (AME)

Notwithstanding a significant increase in competitor activity and despite the closure of under-performing stores, pleasing results were reported by our Leading brands in the region, Debonairs Pizza, Steers, Wimpy and Mugg & Bean.

Combined revenue grew 7% in Rand terms, while like-for-like sales also improved, reflecting investments made in the operation over recent years and the continued deepening and strengthening of our strategic alliance partnerships.

UNITED KINGDOM

Wimpy UK

We continued consolidating the estate to ensure optimum health of this portfolio. Notwithstanding the closure programme, positive like-for-like sales growth of 5.5% was recorded.

GBK (UK)

Despite the constrained consumer spend environment, GBK started to perform better as remedial measures implemented during the year gained momentum. GBK (UK) like-for-like sales in the first six months were -9.7%, improving to positive like-for like-sales of 1.4% in the second six months. In the 12 weeks subsequent to year-end, the brand recorded like-for-like sales growth of 8.1%, trading ahead of the market. These results are largely based on our intensified focus on product and customer experience; targeted investment in refurbishments and on growing online sales.

Progress on our 2018 key strategic imperatives

In my 2018 report, I noted that we had identified the key material matters which would impact on our ability to deliver sustainable growth for stakeholders and I outlined the strategic imperatives arising from those. They are:

- **Improve our operational efficiencies**
- **Lead in the categories we compete in**
- **Optimise capital management**
- **Prioritise our franchise partners**
- **Enhance our financial performance**
- **Develop and transform our people**
- **Ensure regulatory compliance**

I undertook to evaluate our performance and progress over the year against those imperatives, which I have done in this report and the operational review which follows.

✓ **Achieved** » **Under way** X **Not achieved**

The report on page 44 reviews the impact of our key material matters on our capitals and stakeholders; identifies the related risks; assesses our achievements against key KPIs; illustrates recent trends; and sets out our targets.

In the extremely challenging conditions experienced this year, our business mantra, "We are obsessed with being close to our trading partners (our franchisees) and customers across our markets", proved to be particularly important.

Our clear strategies and experienced management teams ensured this philosophy – to position these primary stakeholders front and centre – was embedded in our activities throughout the year.

Improve our operational efficiencies

FY2018/19 what we did		Evaluation
SA	• Through leveraging our new ERP investment, we improved reporting quality and timeliness.	✓
	• Implemented a Group-wide step-change plan for utilities consumption.	✓
	• Developed and commenced implementing a logistics upgrade programme to manage capacity growth over the next decade.	✓
	• Implemented phase one of the Manufacturing Way, a three-phase efficiencies plan, commencing with a standardised operating programme in all our manufacturing plants.	✓
	• Having failed to secure a sustainable tomato supply for our Coega Concentrate business, we elected to cease operations at the facility.	✓
	• New routes to market for Lamberts Bay Foods.	✓
	• Took on previously outsourced grated cheese volumes at our Cheese Company.	✓
	• Drove our new FoodConnect partnership.	✓
	• Leveraged our TruBev juice plant joint venture partnership.	»
UK	• Simplified menu design, entry and exit pricing, and supply chain in the GBK operation.	✓

FY2019/20 what we will do

- Continue to leverage efficiencies achieved over the year and drive profitability and margin growth across the operations.

Enhance our financial performance

FY2018/19 what we did		Evaluation
SA	• Implemented a tighter growth agenda and applied a brutal filter to unclutter and grow the business.	✓
	• Drove margin improvement in our Signature brands.	»
	• Implemented a more definitive allocation of corporate costs to the appropriate business units.	✓
UK	• Completed a CVA process at GBK UK.	✓

FY2019/20 what we will do

- Improve our measurement and evaluation models and make progress in better identifying key areas for priority and investment in the business.

Lead in the categories we compete in

Evaluation

FY2018/19 what we did

		Evaluation
SA	• Reviewed our site format portfolio to address trading relevance, rental viability, and changes in footfall and competitor activity.	✓
	• Prioritised resources to support our Leading brands.	✓
	• Reviewed our Signature brand portfolio.	»»
	• Grew capability in digital arenas.	✓
	• Intensified evolution of our marketing in a digital and convenience-driven world.	✓
	• Developed a pipeline of branded offers ready to launch.	✓
	• Supported and resourced our Leading brands to deliver BIG BOLD ideas.	✓
	• Re-inforced home delivery across all brands.	✓
	• Undertook to grow our regional presence in the premium corporate market through By Word of Mouth. This is on hold pending improvement in economic conditions in the segment.	X
	• Expand into home meal replacement space through 'bricks' and 'clicks' Frozen for You offering.	»»
AME	• Continued to drive our deep and narrow strategy in the AME.	✓
	• Undertook to open Debonairs Pizza in Saudi Arabia under licence.	X
	• Expanded tashas' footprint in the UAE.	✓
UK (GBK)	• Commenced our targeted refurb and high street facelift programme.	✓
	• Re-established the gold standard across the entire product and customer experience.	✓
	• Launched a multi-vendor delivery platform (from one to three vendors).	✓
	• Re-established and leveraged GBK's brand assets.	✓

FY2019/20 what we will do

- Our goal is to open 187 restaurants in the year ahead and 308 revamps are planned.

SA	• Focus on improving the total customer experience through optimising home delivery and consumer-facing technology.
	• Optimise our portfolio by rationalising under-performing brands and restaurants.
AME	• Expand our strategic alliance partnerships, trial new trading formats, strengthen our marketing capability and leverage delivery offerings.
UK	• Capitalise on opportunities in the operation and the market to outperform the UK Casual Dining market segment and return to profitability.

Prioritise our franchise partners

Evaluation

FY2018/19 what we did

	Evaluation
• Commenced aligning our supply chain and cost drivers to provide better support for our Leading brands and ensure they are positioned to deliver like-for-like growth ahead of food inflation.	✓

FY2019/20 what we will do

- Position our Signature brands to penetrate untapped dining occasions.
- Profitably incubate future Leading brands.
- Improve franchisee margins.
- Focus on breakthrough innovation in our consumer-facing technology to ensure long-term growth, aligned with market dynamics.
- Continue to support our franchise partners.

Develop and transform our people

Evaluation

FY2018/19 what we did

		Evaluation
SA	• Restructured the HR function to align closer with KPIs. This intervention has delivered a fundamental difference to our Human capital capability, transformation, succession planning and morale factor.	✓
	• Worked towards improving our BBBEE score, and achieved a level 7 rating.	✓

FY2019/20 what we will do

- Monthly monitoring of the BBBEE scorecard will continue. Our target is level 6.

Optimise capital management

Evaluation

FY2018/19 what we did

	Evaluation
• Prioritised intensified focus on management of capital allocation and working capital.	✓
• Reviewed all internal shared cost allocations to better account for profitability and balance sheet performance at business unit level, which was facilitated by the implementation of the new ERP system implemented in FY2018.	✓

FY2019/20 what we will do

- Continue to focus on prudent capital allocation.
- Leverage ERP investment to enhance reporting processes and data analysis.
- Embed divisional balance sheet reporting to enhance monitoring of divisional ROCE.

Ensure regulatory compliance

Evaluation

FY2018/19 what we did

		Evaluation
SA	• Key focus areas were on prevailing industry issues: reducing sugar and salt consumption, addressing obesity, and safeguarding against bacterial contamination (i.e. Listeria).	✓
	• Enhanced attention was paid to improved disclosure on ESG reporting and accountability. *Operational review – Better for you awareness – page 70; and Our sustainability journey – page 75*	✓

FY2019/20 what we will do

- Continue to improve our quality of ESG reporting and implement our sustainability policies in line with the timeframes we have committed to.

Employee relationships

Relations with our SA Bargaining Unit have been cordial over the past year, reflecting a good level of engagement and motivation. During the review period, the two-year wage agreement implemented in 2017 expired, and was successfully renegotiated and concluded in June 2019. The new agreement is valid until February 2021.

Subsequent events

Coega Concentrate

In our interim results announcement, shareholders were advised that in anticipation of ongoing losses at the Coega Concentrate tomato paste plant, management had elected to cease operations at the facility with effect from 5 June 2018. Shareholders were further advised that a prospective buyer for the business had been identified and negotiations regarding the sale were in progress. Negotiations in this regard are ongoing.

This transaction is in line with management's stated strategy to focus on core competencies in the business and leverage those initiatives which ensure optimal allocation of resources and deliver the best return on investment.

Paul

In 2015, the Group became the SA licensed partner of global bakery-café brand, Paul, for a 10-year period.

On 1 July 2019, the Group entered into a joint venture partnership with a local experienced restaurateur to manage and drive the profitability of the existing Paul restaurant and roll out the brand's footprint, as economic conditions improve. In terms of our Paul license agreement, we are contracted to open five restaurants over a five-year period. This new partnership will expedite the programme.

tashas

A new business entity was established in April 2019 to house all of the tashas business outside of South Africa. This structure is designed to drive international growth, with the Middle East as a priority. Founder of the brand, Natasha Sideris, will manage the entity and hold a 51% stake, while the Group will own the balance. An existing Executive Manager of tashas South Africa has been appointed to manage the local business, supported by co-founder, Savva Sideris. The Group will continue to own 51% of the SA operation.

Prospects

It is unlikely that local or global trading conditions will improve materially in the short term, but I am satisfied that the efforts made this year to structure our business to withstand adverse conditions will hold us in good stead.

Our strategic agenda is clear: to focus on long-term growth levers and ensure that our investments are optimally aligned with the returns. If appropriate opportunities arise, we will pursue brand acquisitions in SA and selected African markets, and upstream manufacturing acquisitions in SA.

Driving the profitability of our business will be our overriding goal. The sustainability of our franchise model is key to this and our focus will be on improving cost leadership and enhancing our own margins, particularly in our Signature brands, Logistics and Manufacturing businesses. We will also continue to leverage improvements made in the GBK business to enable the operation to deliver the returns we expect over the medium term.

SA

The work undertaken this year has positioned our Leading brands to compete more effectively and enhance their leadership status in the categories we compete in. Our Signature brands portfolio is better structured for growth; however, significant work remains to be done to realise this business unit's full potential. We have clear strategies and competent management teams and joint venture partners in place to deliver on our growth agenda.

AME

Notwithstanding uncertain political and economic trading conditions in some of our AME markets, we are confident that recent investments will continue to pay off.

We expect the continued roll out of the tashas brand in the UAE to progress well and to continue to deliver rewarding results.

The project to expand Debonairs Pizza's footprint in Saudi Arabia suffered a one-year delay due to a reprioritisation by our partner, but progress has subsequently been made to put the project back on track.

UK

The CVA programme and extensive remedial measures undertaken over the year give us confidence that the business is better structured for growth. We will continue to capitalise on opportunities in the operation and in the market, and remain hopeful that once progress is made regarding Brexit, consumer sentiment and spend will improve in a more certain environment.

The Operational review which follows, provides a comprehensive overview of the core pillars of our business: Brands, Logistics and Manufacturing.

Operational review – pages 62 to 80

Appreciation

I am indebted to my management team, our franchise partners and all the people of Famous Brands who made a stellar contribution in one of the most difficult years in our Group's history. Your commitment and enthusiastic contribution are commendable and greatly appreciated.

Thank you too to our numerous stakeholders who contribute to the success of our business: our customers, investors, strategic alliance partners, business partners and the broader communities in which we operate.

My fellow Board members have provided valuable guidance and input this year and I am grateful for their counsel.

Darren Hele
Chief Executive Officer
27 June 2019

Operational review

Brands

Our Brands portfolio comprises our Leading brands and our Signature brands.

The Leading (mainstream) brands portfolio is segmented into Quick Service, Fast Casual and Casual Dining brands.

Several of our Signature (niche) brands are joint venture partnerships with the founders of the respective brands.

Our brands are represented through a network of 2 761 franchised and 110 Company-owned restaurants in SA, AME and the UK.

South Africa

	Leading brands		Signature brands	
Salient features	**2019**	2018	**2019**	2018
Segment revenue (%)	**83.7**	84.9	**16.3**	15.1
Like-for-like sales growth (%)	**2.9**	4.1	**(0.6)**	(1.5)
Operating margin (%)*	**61.1**	57.0	**12.8**	15.1
Total number of restaurants	**2 244**	2 484	**162**	164
New restaurants opened	**125**	146	**32**	23
Number of restaurants revamped	**238**	238	**5**	2
Number of restaurants closed	**53**	76	**20**	20

* *The operating margin in Leading brands was positively impacted by the allocation of corporate costs previously housed in this segment to other appropriate businesses, primarily in the supply chain.*

LEADING BRANDS PORTFOLIO

Our **Leading Quick Service** brands are those that prioritise take-away and delivery offerings. While these restaurants offer a limited sit-down option, their focus is on quick service. The brands in this segment are: **Steers, Debonairs Pizza, Fishaways** and **Milky Lane**. Wakaberry and Giramundo are in the process of being rationalised.

In our 2018 IAR we outlined the key developments and initiatives, awards, and areas of future focus for each of our Leading brands. We have followed the same format in this review, however we have expanded our reporting by rating the performance of each brand against the 2018/19 areas of focus and targets. This rating is denoted as follows:

✓ **full achievement** ≫ **partial achievement** X **non-achievement**

Number of restaurants

2019	2018
600	581

Areas of focus in 2018/19

- Retain and gain market share through improved product price/value offerings. ✓
- Develop a sustainable loyalty programme underpinned by leading technology. ✓
- Advance the Steers Diner revamp programme with Shell Ultra City. ✓
- Continue to drive the roll out of flame-grilled chicken as the offering gains traction. ✓

Key developments and initiatives

- Grew like-for-like sales value and transaction count and heightened engagement with the young adult market across various social media platforms.
- Improved franchisee gross profitability through menu engineering and intensified cost management.
- Focused on leveraging our own and third-party delivery offering.
- Rolled out the 'Khula' format (old and new favourites at lower prices) affording the brand access to new markets.
- Trialled self-service terminals, which have been well received by franchise partners and customers, and will be rolled out in the period ahead.

Awards

- Best of Joburg for 25 Years Award, as well as all five of the 'Best Of' Awards for our chips.
- Accolade for 20 Years' of Best Burger in the Best of Joburg Awards.
- Four of five of the Best Take Away Burger Awards.
- Our #Respek campaign won Gold in the Generation Next Awards, a Gold PRISM Award for product launch and silver Award for PR Campaign of the Year.
- Golden Quill Award in Canada for effective business communication.

What we will focus on in 2019/20

- Continue to leverage the brand's delivery capability.
- Intensify focus on the core offering and continue to grow the flame-grilled chicken offering.

Case study

THE CHALLENGE

To ensure our CSI programme makes a meaningful difference to the local communities in which we trade.

WHAT WE DID

Our Steers brand contributed to improving the wellbeing of learners in disadvantaged communities by building libraries to increase opportunities for education and literacy and provide tools to empower children to learn and succeed.

Steers' goal
To raise funds to build children's libraries in disadvantaged communities

Our partners
Rounda – a public-private initiative driven by civil society to collect change for charity.

SHOUT Foundation – a non-profit organisation focused on creating a safer South Africa

What we did
Raised R2 million for the SHOUT campaign in FY2018 which launched the library initiative

Collaborated with Rounda in FY2019 to boost funds for the library initiative, raising R663 000 which was donated to SHOUT

Held a book drive to collect stock for the libraries

Our customers' contribution
R1.00 voluntary contribution for every meal purchased in our franchised Steers' restaurants between April 2018 and February 2019

RESULT

Built four libraries in 12 months, in Motherwell, Eastern Cape Tembisa and Soshanguve, Gauteng and Bushbuckridge, Mpumalanga

Total value: R2 million

DEBONAIRS PIZZA

MENU

Number of restaurants

2019	2018
569	546

Areas of focus in 2018/19

- Ensure value is a central theme. ✓
- Drive and maintain customer loyalty through tactical CRM strategies. ✓
- Prioritise owning the remote convenience category through our mobile app and new driver tracking technology. ✓

Key developments and initiatives

- Grew system-wide sales and transaction counts. Growth continued to be underpinned by the delivery offering, with the brand now servicing 5 100 suburbs nationwide.
- Valuable exposure was gained from the brand's QSR broadcast sponsorship of the Soccer World Cup matches, further entrenching our association with soccer in SA.
- Campaigns aimed at value conscious customers proved successful, including On the Double and Triple-Decker, while the brand's reputation for innovation was furthered with promotions such as ke Dezemba Box and Beef Almighty.

Awards

- Recognised as a Top three QSR brand in the Sunday Times Top Brands Survey 2018.

What we will focus on in 2019/20

- Prioritise franchisee profitability through intensified cost management, menu engineering and refining the delivery model.
- Drive sharing value through familiar favourites and innovative products and promotions.
- Ensure leadership of the remote delivery space through entrenching the brand's delivery USP.
- Focus on delivering unique customer experiences at every touchpoint.

fishaways

Number of restaurants

2019	2018
254	240

Areas of focus in 2018/19

- Continue to develop menu innovations to cater for the growing trends of snacking, sharing and healthier eating. ✓
- Enhance the value proposition. ✓
- Launch a strong digital strategy and progress the remote convenience offering. ✓
- Continue to drive trials of the brand and category. ✓

Key developments and initiatives

- Grew system-wide and like-for-like sales through improved accessibility to customers and strategic positioning as a healthier meal offering at a good value/price.
- Own-delivery capacity has been rolled out to 90% of restaurants, while third-party delivery has also been enabled through geo-targeted marketing.
- Drove brand equity with the launch of a healthier menu offering 'Under 500 calorie meals', which has been favourably received, while healthier side options (including rice instead of chips) are gaining traction.

Awards

- IPSA Goldpack's Packaging Award of the Year for the brand's new Family Box – a paper packaging innovation designed to promote environmental awareness and sustainability.
- Bronze accolade for our Fishaways Food for Thought campaign in the 2019 IAB Bookmark Awards for Paid Search Marketing.

What we will focus on in 2019/20

- Continue to expand the store footprint into favourable untapped markets.
- Grow the online ordering platform and delivery offering.
- Leverage the brand's healthier positioning through innovative value-driven summer campaigns and exploit opportunities in the sharing and additional occasions categories.
- Investment will be made in TV advertising and a strong digital plan, featuring tactical advertising. and CRM activity.

Number of restaurants

2019	2018
78	72

Areas of focus in 2018/19	• Continue to build on our successful social media campaigns across all channels. ✓ • Celebrate the brand's 60th anniversary and roll out related activities. ✓
Key developments and initiatives	• System-wide sales were flat, while like-for-like sales declined marginally in light of cost-conscious consumers trading down to lower value menu items. • We conducted a strategic review of trading formats to expand the brand's accessibility to customers. This included the launch of two NiceCream Truck mobile units, and a pop-up store in August 2018, followed by two more in March 2019. Initial customer response has been very positive. • Introduction of NiceCream cakes to the online ordering platform, which has delivered good growth of the category since launch.
Awards	• Guinness World Record for building the biggest man-made smile. In celebration of 60 years of serving up sweet smiles and sharing Feelgood moments, Milky Lane in conjunction with 1 218 learners from Edenvale High School, Gauteng, stood in formation to create the world's largest man-made smile. The official World Record is for the 'largest human image of a mouth'. • Pretoria News Award for Best Ice Cream Shop.
What we will focus on in 2019/20	• Roll out the new format NiceCream mobile units to ensure strategic growth of the brand. • Menu innovations and promotional campaigns linked to key holiday periods will be prioritised. • Continue to leverage the brand's social media presence and always-on strategy across all relevant technology channels.

Milky Lane Total Tableview

Venesha Chetty and her crew celebrate the launch of their Milky Lane NiceCream Truck, a new innovation for the brand. Venesha joined the Group as a Milky Lane franchisee in 2008.

Our **Leading Casual Dining** restaurant brands are those that offer patrons a full-service, sit-down experience. The brands in this segment include: **Wimpy, Mugg & Bean** and **Fego Caffé.**

Number of restaurants

2019	2018
467	478

Areas of focus in 2018/19

- Maintain and grow market share. Wimpy entrenched its leadership of the breakfast category and maintained market share among upper income consumers, while gaining traction with middle-income consumers through the burgers and grills categories.
- Drive the concepts of shared occasions and moments for the South African family through disruptive value promotional offers, additional media exposure and a strong focus on CRM via digital platforms.
- Prioritise new menu innovations and enhanced food preparation and plating to improve perceptions of the brand's food credentials, quality and value offering.

Key developments and initiatives

- Solid system-wide and like-for-like growth was reported, despite limited menu price inflation.
- A large number of restaurants were revamped. In major malls and key sites, kids' play areas were added to the offering. New takeaway formats were also introduced on our strategic partner, Engen's, sites.
- We launched a new international-standard menu, combining breakfast and lunch menus, which has been very well received by our customers.
- Rationalisation of menus and stock holding was implemented, improving operating efficiencies and franchise partner profitability, while maintaining quality and value.
- The delivery offering gained traction, particularly via third party service providers.
- Extensive promotional campaigns were conducted, with extremely positive results for the brand.
- We embarked on a new strategic partnership with FNB and eBucks, 'FNB On the Go', which rewards eligible eBucks members.

Awards

- The Citizen's Orchid Award for the Mr Cuddles 2.0 advert.
- Numerous 'Best Of' Awards: Johannesburg (Best Breakfast); Pretoria (Beat the Budget Restaurant); Ekurhuleni (Best Takeaway Burger); Mbombela (Best Breakfast).
- Generation Next Awards: 3rd place for Coolest Coffee Shop and 4th position for Coolest Eat Out Place.
- Sunday Times Top Brands Awards: 3rd and 5th place respectively for Best Sit Down Restaurant and Best Fast Food Restaurant.

What we will focus on in 2019/20

- Our primary goal is to position the brand for growth, leveraging sponsorships and strategic partnerships, while maintaining our leadership status in the breakfast category and growing the increasingly important burgers and grills categories.
- We will intensify our focus on catering to the rising consumer demand for convenience through an improved delivery and take-away offering.
- We will be launching a ground-breaking new app, Wimpy Rewards, introducing our customers to a unique loyalty scheme.
- We will continue to utilise creative platforms, disruptive offers, additional media exposure and a strong CRM focus to ensure continued success of our promotional campaigns.

FEGO Caffé

Number of restaurants

2019	2018
34	37

Areas of focus in 2018/19

- Prioritised menu and value/price innovations supported by national and local promotions. (Given the provincial nature of the brand footprint, local, rather than national marketing proved more effective.) ✓
- Continue to build on our strategic partnership with Kaap Agri. ✓

Key developments and initiatives

- System-wide sales declined due to restaurant closures in mall environments, however, positive like-for-like sales growth and increased transaction spend were achieved through new menu innovations gaining momentum. Pleasing double digit growth was reported in the collaborative Fego Caffé To Go outlets located in Kaap Agri stores.
- The brand's first mobile Coffee Cart was launched in Simondium in the Western Cape to positive response from customers.
- New menu innovations were launched, relevant to specific trading environments in the Sit Down and To Go formats, complemented by new uniforms and new packaging.
- We introduced an online toolkit, enabling franchise partners to more easily order locality marketing initiatives and collateral relevant to their communities.

What we will focus on in 2019/20

- Continue to optimise and align the flexible trading format model with relevant markets in captive, transit and mall environments.
- Build on the good growth achieved in the Kaap Agri Fego Caffé To Go outlets.
- Leverage the delivery offering with third-party service providers, which are now represented across 98% of the network.

Mugg & Bean

Number of restaurants

2019	2018
227	219

Areas of focus in 2018/19

- Continue to roll out the new corporate identity revamp programme which had delivered double-digit growth for revamped restaurants. ✓
- Build on the partnership with Total to expand the brand's current footprint. »
- Leverage the recently launched Generosity app. ✓
- Monitor and assess the success of the loyalty platform introduced post year-end. »

Key developments and initiatives

- Menu price inflation underpinned system-wide and like-for-like sales growth in an increasingly competitive environment in which cost-conscious consumers continued to trade down on meal selections.
- To offset declining footfall in malls, the brand continued to roll out new format offerings in other markets, including On The Move outlets (OTMs), OTM Limited Service restaurants and Coffee Counters.
- Focused on innovation and renovation in the OTM menu offering, and re-engineered the core menu to drive restaurant efficiencies and ensure relevance to consumers.
- Expanded the rewards offering relationship with strategic partner, Discovery Vitality. The high redemption rate illustrates the appeal of this programme to our customers.

Awards

- Numerous 'Best Of' awards: Johannesburg (Coffee); Pretoria (English Breakfast; Brunch Spot and Coffee); Mbombela (Coffee Shop and Business Lunch); and Ekurhuleni (Coffee Shop and English Breakfast).
- Daily News Your Choice Awards: Best Coffee Shop and Best Place to have Breakfast.

What we will focus on in 2019/20

- Roll out the OTM Limited Service format, which has strategic growth potential for the brand.
- Invest in an always-on communication campaign, talking directly to consumers via CRM, outdoor, digital and social media.
- Third-party delivery, which is in its infancy for the brand, will be an important focus.
- Leverage the new training platform for staff to offer exceptional customer experiences and support the brand's positioning.
- Our Generosity app, which rewards our loyal customers, gained traction and will remain a core brand feature. We will also continue to respond to our consumers' evolving desires with our Bottomless menu offerings, extension of healthier menu alternatives and expansion of a vegan offering.

Wakaberry and Giramundo are not reported on, but remain part of Leading brands' results.

Better for you awareness

In the interests of our consumers, and in line with the Department of Health's goal to assist South Africans to reduce obesity, our Leading brands have made a collective effort to raise awareness of healthier eating.

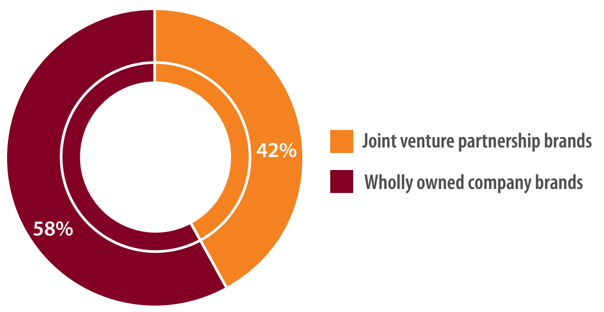
- Our Leading brands' menus all showcase a **'Better for You'** offering.
- **Vegetarian and/or vegan** offerings are available on all menus*.
- All menus differentiate between sugar sodas versus **sugar-free sodas**; the sugar-free option being cheaper. Our TruFruit juice range has also been reformulated to comply with sugar legislation.
- **Salads and vegetables** are offered as a swap-out to chips on our Wimpy menu.
- Debonairs Pizza launched its **Rustic Slim Fit Range** of pizzas with a thin base and half the cheese.
- Steers introduced a **Better for You** icon on menus to showcase better choices, and highlighted bottled **water as a swap-out to soda** at no extra cost.
- Fishaways introduced an **Under 500 Calorie** menu.
- Full nutritional guidelines are provided on all our Leading brand websites to enable customers to **make better choices**.

** This does not apply to Wakaberry and Giramundo menus.*

SIGNATURE BRANDS PORTFOLIO

Our **Signature** brands portfolio comprises a wide range of niche bespoke Casual Dining offerings, including **tashas*, Turn 'n Tender*, Paul, Vovo Telo, Mythos, NetCafé, Coffee Couture, Salsa*, Lupa Osteria*, Europa, Keg and House of Coffees**. Some of these brands are wholly owned, while others are joint venture* (JV) partnerships with the founders of the respective brands.

Contribution to revenue



On balance, the Group's Signature brands under-performed management's expectations, delivering pedestrian system-wide sales and a decline in like-for-like growth. As noted elsewhere in this report, the allocation of a higher proportion of central costs not previously allocated to this business unit resulted in a realistic, but disappointing margin, which will be the subject of remedial interventions.

In line with our strategy to use a brutal filter to unclutter the business, we continued to aggressively rationalise this portfolio to position it for growth. The key goal for this division is to ensure it is optimally structured to deliver returns which are proportionally aligned with our investment.

The following brands were exited during the review period:

- 14 on Chartwell, comprising a single restaurant, was sold;
- the five Thrupps convenience stores were closed. While the Thrupps' brand retained appeal for customers, the offering no longer aligned with the revised long-term strategy of our partner, Total South Africa, and hence the stores were withdrawn in November 2018;
- the O'Hagan's brand;
- The Bread Basket; and
- the Made pilot project trialled with Edgars.

Other developments in the portfolio:

- We acquired the balance of the 49% shareholding in the Mythos JV partnership in which the Group already owned a controlling stake.

Signature brands' restaurant footprint

Brand	2019	2018
Europa	**10**	12
House of Coffees	**2**	4
Keg	**11**	13
Lupa Osteria	**12**	6
Mythos	**15**	13
NetCafé and Coffee Couture	**45**	41
Paul	**1**	1
Salsa Mexican Grill	**13**	8
tashas	**24**	21
Turn 'n Tender	**21**	18
Vovo Telo	**13**	12

Areas of focus in 2019/20

- We will continue to optimise the portfolio through rationalising under-performing brands and restaurants, driving our own margin growth and growing the footprint of brands which are scalable.
- We are mindful that we need to compete across all technology channels and will prioritise opportunities to improve this presence.
- We will continue to develop and incubate new innovative brand concepts which have the potential to be substantial brands until such time as they are ready for launch and we have identified suitable joint venture or franchise partners.
- Based on the brand's strong track record in the UAE and driven by the new structure, discussed on page 60, management is optimistic that tashas' existing footprint of six restaurants can be expanded in the region.

Brands

Rest of Africa and the Middle East (AME)

The Group is represented in 15 countries in this region.

Salient features	2019	2018
Segment revenue (Rm)	**270**	253
Operating profit (Rm)	**22**	45
Operating margin (%)	**8.0**	17.6
System-wide sales growth (%)	**5.9**	10
Contribution to total Group system-wide Brands sales (%)	**10.2**	9.5
Total number of restaurants	**327**	328
New restaurants opened	**29**	21
Number of restaurants revamped/relocated	**13**	9
Number of restaurants closed	**35**	24
Number of corporate employees	**56**	40

Areas of focus in 2018/19

- Pursue our narrow and deep strategy in key markets. ✓
- Prioritise expansion of Debonairs Pizza's delivery sales in select markets. ✓

Key developments and initiatives

- System-wide sales (in Rands) increased despite the closure of under-performing stores in the region. Like-for-like sales also grew, underpinned by the continued deepening and strengthening of our strategic alliance partnerships.
- A significant increase in competitor activity took place in the pizza and burger categories across a number of markets.
- Five brands accounted for 93% of turnover across the region, namely, Debonairs Pizza, Steers, Mr Bigg's, Wimpy and Mugg & Bean. Debonairs Pizza and Steers grew like-for-like sales (in local currency) in most of their markets, while Wimpy and Mugg & Bean delivered mixed like-for-like sales.
- New store openings were higher than the previous year, and ahead of our target.

What we will focus on in 2019/20

- National elections will be held in five of the 15 markets we trade in; thus, we anticipate that trading conditions may deteriorate in the short term, and investment by existing and prospective franchisees will be restrained.
- We plan to take a more direct approach to developing brands in the region, through establishing an in-country team and investing in Company-owned outlets in key nodes in the Middle East and East and West Africa.
- We will continue to expand our strategic alliance partnerships, trial new trading formats, strengthen our marketing capability and leverage delivery offerings where appropriate.

Brands

United Kingdom

Our brand portfolio in the UK is segmented into Fast Casual (GBK) and Casual Dining (Wimpy).

Salient features	Gourmet Burger Kitchen 2019	Gourmet Burger Kitchen 2018	Wimpy 2019	Wimpy 2018
Revenue (Rm)	**1 431**	1 477	**113**	104
EBITDA operating profit (Rm)	**25**	52	**18**	17
EBITDA operating margin (%)	**1.8**	3.5	**16.3**	16.4
Total number of restaurants	**80**	106	**67**	78
New restaurants opened (UK)	**–**	10	**1**	1
Number of restaurants revamped	**2**	2	**3**	4
Number of restaurants closed**	**25**	1	**12**	4
Number of corporate employees	**53**	57	**13**	12

** *The number of restaurants closed includes the 24 GBK UK restaurants which were closed prior to or as part of the CVA process.*

WIMPY

Areas of focus in 2018/19

- Accelerate the roll out of delivery capability.
- Leverage our relationship with GBK to extract operational synergies where appropriate.

Key developments and initiatives

- We continued consolidating the estate to ensure optimum health of the portfolio. Twelve stores were closed due to centre redevelopments, franchisee liquidations and inferior standards or non-performance.
- Notwithstanding the closure programme, pleasing positive like-for-like sales were recorded
- We progressed the roll out of revamps to the new store design; sales in these post-revamp sites improved by circa 20%.
- We launched our new award-winning website, which has been favourably received by customers; we also introduced the new summer menu, focused on innovation and value, which is expected to drive sales.

What we will focus on in 2019/20

- The delivery offering has expanded to 50% of the estate and further expansion is planned with multi-partner delivery platforms.
- In line with our improved focus on technology, over 40% of stores are connected to the cloud, which provides management with better access to live data. We will continue to roll this out to the balance of the network.
- Our primary focus will remain on ensuring the portfolio is optimally structured and appealing to customers to capitalise on growth opportunities in the current constrained environment.

GOURMET BURGER KITCHEN

Areas of focus in 2018/19

- Streamline and optimise the operation and supply chain to deliver improved efficiencies and enable staff to focus on up-weighting the customer experience. ✓
- The new management structure will prioritise closer relationships with our teams and customers. ✓
- Capitalise on key emerging consumer trends. ✓

Key developments and initiatives

- A CVA process was completed and is discussed in detail in the Chairman's statement, the CEO's report and the Group FD's report.
- While like-for-like sales declined by 9.7% in the first half of the year, new innovations and robust remedial interventions reversed this trend, with the business reporting growth in like-for-like sales of 1.4% in the second half. This is a creditable achievement in the current challenging trading environment.
- To offset the decline in in-store trading, which is common across our industry, we increased our online presence by moving to multiple delivery platforms. The strategy has produced encouraging results and is expected to contribute to continued growth.
- We also implemented a range of corrective measures including product innovation and renovation and menu design and rationalisation, resulting in a more focused and relevant offering and a reduction in excess stockholding.
- A new brand corporate identity was developed and rolled out across all branded consumer touch points.
- In line with the brand's premium positioning, we implemented order-and-pay-at-table functionality in all the stores, complementing the previous at-counter system. This innovation has delivered encouraging uptake rates, improved the customer experience and increased per-head spend and table turns.
- We executed the first phase of our kerbside facelift programme, renovating storefronts on 30 sites. The second phase of the programme commenced in March 2019 and will incorporate the balance of the estate.

What we will focus on in 2019/20

- We will continue to strengthen the health of the brand and boost growth through our focused approach on quality (product and experience), targeted investment in refurbishments and online sales.
- We will leverage opportunities to expand the multi-party delivery platform as consumers continue to choose premium in-home experiences.

OUR SUSTAINABILITY JOURNEY

We are committed to growing our business in a sustainable manner. Our brands have embarked on a journey to achieve this goal through a range of best practice activities, and we have developed policies and implementation timeframes to hold us accountable.

January 2018: Wimpy UK converted to using free range eggs in all own label products.

December 2018: our Logistics supply chain operation ceased stocking plastic straws.

February 2019: all plastic straws were removed from the SA and UK restaurant network and replaced with paper straws. Straw volumes have reduced by 50%.

March 2019: we commenced converting all hot take-away coffee cups to a fully biodegradable and compostable alternative.

April 2019: we commenced converting plastic cutlery and coffee stirrers across the network to a fully biodegradable version.

May 2019: cage-free eggs in use at Vovo Telo and tashas restaurants. Mugg & Bean, Fego Caffé, Paul and Europa will convert by October 2019 and the balance of the restaurant network by 2025.

October 2019: all remaining polystyrene to be eliminated from our restaurant network.

2025: single-use plastic will be eliminated across our restaurant network and replaced with fully recyclable and/or biodegradable alternatives.

Eliminating food wastage is a key priority and we actively promote portion control and made-to-order practices in our restaurants. Our franchise partners also implement responsible re-use and redistribution of food through donation of excess food/by-products.

The information in this table pertains to our South African and UK restaurant network.

Logistics

Supply chain

Salient features*	2019	2018
Segment revenue (Rm)	**3 942**	3 780
Segment operating profit (Rm)	**84**	104
Operating margin (%)**	**2.1**	2.7
Number of trucks	**108**	107
% of cases delivered by owner drivers	**50.3**	50.6
Energy consumption (diesel, petrol, other) (L)	**2 821 777**	2 956 434
CO_2 emissions	**8 415.94**	8 792.65
Number of owner-drivers	**38**	36
Capex (Rm)	**7**	10

* *The information in this table pertains to our South African operation.*

** *Management cautioned at the prior year-end that the re-allocation of a higher proportion of central costs not previously allocated to this business unit would impact on the margin, which would be lumpy over the re-investment period, but would smooth over time. As of September 2018, corporate costs previously allocated to Franchising have been moved to this division.*

Areas of focus in 2018/19

- Continue to leverage efficiencies in the Longmeadow DC.
- Explore and resolve the capacity constraints of our other logistics distribution centres, with particular focus on the Western Cape and Free State.

Key developments and initiatives

- Project Decade, designed to address capacity constraints and manage the related planned investment programme over the next decade, commenced with ten-year lease agreements signed for new facilities in the Free State and Western Cape. The facilities will add substantial perishable product capacity, improve service levels to our franchise partners and reduce handling costs.
- The profitability of our franchise partners is of primary importance. In light of low food inflation and higher fuel costs, we renewed our efforts to improve cost savings and efficiencies, and where possible absorbed margin pressure in this division.
- We consistently achieved our targets and KPIs in terms of cases delivered and invoices filled, providing a reliable service to our franchise network.
- We commissioned a satellite logistics cross-dock facility in East London in September 2018, which enhanced service levels and reduced travel and overtime costs. The full benefits of this investment will be realised in FY2020.
- Longmeadow DC, commissioned in 2016, recorded another strong reduction in operating costs.
- We implemented utility consumption awareness programmes across the operation. Aligned with this, six of our DCs reported notable water savings, with substantial improvements recorded by KwaZulu-Natal and Mpumalanga, while four of our DC's reported reduced electricity consumption.
- Capex of R7 million was incurred, primarily on fleet upgrades.

What we will focus on in 2019/20

- We plan to open our new DCs in the Free State and Western Cape within our capex budget of R31 million and on time in the year ahead.
- We will continue to plan for growth in the business and will review capacity requirements across our 10 DCs on an ongoing basis.

ESG reporting

- We will continue to monitor and manage consumption of fuel, water and electricity, aimed at reducing this division's carbon footprint.
- We have implemented a trial project to convert cooking oil to diesel for consumption by our fleet, and will use learnings from this initiative if it proves viable.

Manufacturing

Supply chain

The majority of our manufacturing plants are wholly owned, but we also operate certain joint venture partnerships, as outlined on page 78

Salient features	2019	2018
Segment revenue (Rm)	**2 912**	2 851
Segment operating profit (Rm)	**429**	405
Operating profit margin (%)*	**14.7**	14.2
Capex (Rm)	**40**	31

* *The allocation of a higher proportion of central costs not previously allocated to this business unit impacted adversely on the margin, as did the low food inflation experienced throughout the period.*

Areas of focus in 2018/19

- Invest in equipment in our meat, cheese and coffee plants aimed at improving efficiencies and enhancing capacity. ✓
- Roll out a standardised system and approach to managing all facilities, focusing on teamwork, work flow, problem solving and attainment of KPIs. ✓
- Prioritise awareness around behaviours and usage of all utilities in all our operations. ✓

Key developments and initiatives

- Production volumes were down 0.4% on the prior year, while sales volumes declined by 1.0% (largely due to the loss of a major client at Lamberts Bay Foods).
- We implemented our Manufacturing Way programme – a standardised blueprint for plant management, problem solving and daily performance tracking. More scientific analysis of data has been achieved and operational efficiencies have started to filter through.
- We achieved rewarding improvements against our KPIs including:
  - 35% reduction in customer complaints, illustrating improved quality of product and service to our franchise partners;
  - 32% reduction in injuries;
  - 13% reduction in water usage and 17% in electricity consumption;
  - NOSA certified our occupational health and safety systems across all plants as 'good or great'; and
  - plant reliability improved notably.
- In line with the increased focus on reducing sugar consumption, TruBev, formerly TruFruit, has commenced production of low-sugar juice, which is exempt from the sugary beverages levy and affords consumers a healthier alternative.

What we will focus on in 2019/20

- Intensify focus on efficiencies, reducing costs and increasing production volumes to drive profitability across all plants. Further reduction in the cost base at Lamberts Bay Foods, specifically, is targeted.
- The FY2020 capex approach is conservative and phased, aimed at unlocking capacity, at amongst others, our Cheese Company.
- Improve attainment of our KPIs namely: quality, speed, cost, morale, safety, delivery and utility consumption.
- Increase volume production of chicken wings to meet the growing demand from our Meat Plant and Cater Chain.

ESG reporting

- We will continue to drive environmental awareness and reduce our carbon footprint through a range of initiatives including:
  - convert paraffin to gas boiler in the Cater Chain business which will also facilitate a step-change in costs;
  - roll out utility metering of electricity, water and heating across the business and continue to monitor and measure consumption; and
  - explore opportunities to invest in alternative energy supply (solar) and green motors.

Case study

THE CHALLENGE

Lamberts Bay Foods, our manufacturer of French fries and value-add potato products, completed a restructuring during the year to become more competitive against import pricing. Various projects were undertaken to reduce input costs and eliminate unnecessary wastage.

WHAT WE DID

Re-engineered the sorting of defects on potatoes for processing.

RESULT

Reduced waste from **44%** to **40%**.

Positive impact on **Financial capital**

- Improved production yields and reduced production expenses by R6 million.

Positive impact on **Natural capital**

- Skins previously sent to landfill are now sold on for pig food, generating revenue of R200 000 p.a., saving the equivalent in dumping costs, and providing a more sustainable solution to the environment.

Plant statistics	Product	Plant size m²	Revenue growth year-on-year (%)
Famous Brands Bakery Gauteng	Rolls and subs	1 065	3.7
Famous Brands Coffee Company^	Espresso, filter and powdered coffee	1 850	1.0
TruBev (formerly Famous Brands Juice plant)^	TruFruit house brand juice and water	1 650	8.7
Famous Brands Meat Company BB1	Beef patties, boerewors, sausages and pizza toppings	6 045	8.4
Turn 'n Tender Central Kitchen^	Brand-specific choice-cut meat products	75	15.1
Cater Chain^	Beef, lamb, mutton, chicken and pork	8 950	(7.2)
Famous Brands Sauce & Spice plant	Steers, Wimpy and Debonairs Pizza sauces, sugar and seasoning sachets	2 970	2.9
Famous Brands Ice Cream plant	Soft serve, hard ice cream and milkshake flavours	980	(4.7)
Famous Brands Fine Cheese Company^	Mozzarella, cheese slices, cheddar cheese and spread	5 200	4.8
Famous Brands Great Bakery Company^	Specialised breads, baked and frozen products, pastries and confectionaries	652	(4.8)
Lamberts Bay Foods	French fries and other value-added potato products	13 000	(11.9)
Coega Concentrate*	Licensed, processed tomato paste	4 121	660
Famous Brands serviette plant	Serviettes	244	3.6

^ *Joint venture*

CEO's report: Subsequent event (Coega Concentrate) – page 60*

GROUP ASSOCIATES

The Group holds strategic stakes in the following entities: UAC Restaurants Limited in Nigeria – more popularly known as Mr Bigg's (49%); By Word of Mouth (49.9%); FoodConnect (49%) and Sauce Advertising (35%).

uac restaurants limited

MENU

Number of restaurants

2019	2018
93	99

Areas of focus in 2018/19

- New management team to play an important role in improving the business. ✓
- Expand Debonairs Pizza's strong presence in the market. X
- Continue to focus on consolidation, building strong local market identification and regaining a voice among consumers for the Mr Bigg's brand. ✓

Key developments and initiatives

- While turnover growth was under pressure due to the adverse trading conditions, prudent cost management and improved margins in the manufacturing business resulted in operating profit exceeding our target.
- Heightened activity from competitors and aggressive investment in the competitor network, particularly in Lagos, eroded Debonairs Pizza's like-for-like sales, which declined year-on-year.
- A smaller format Mr Bigg's container unit (with significantly lower set-up costs) was trialled, designed to unlock growth in new trading environments. The success of this pilot venture will be closely monitored.
- New store openings and investment in revamps by franchisees remained constrained by unfavourable trading conditions, limited access to funding and high interest rates.

What we will focus on in 2019/20

- We will launch the first Debonairs Pizza and Mr Bigg's Company-owned combo store.
- We will continue to implement best practices across the Mr Bigg's network to improve operating standards and leverage growth opportunities. Stabilisation and consolidation remain the watchwords for this brand.
- Debonairs Pizza offers opportunity for growth and we will strive to gain back lost market share and expand the brand's presence.

BY WORD OF MOUTH

frozen for you

In line with our goal to enter the premium home meal replacement retail environment, we launched four Frozen for You stores in Gauteng, which have been favourably received by our customers. The Frozen for You concept comprises a retail offering (product purchased in store) or an online component (product ordered online). We improved the brand's accessibility to customers with the introduction of delivery capability which enables online orders to be delivered the following day. A further innovation has been the launch of smaller portions suited to one or two people, which consumers have responded to positively.

A pilot store-within-store concept has also been launched. The trial store, situated on a petroleum station forecourt in Gauteng, is designed to offer a high-end convenience offering to customers.

In light of the sustained under-performance of the pre-existing core business and the costs associated with the start-up phase of the Frozen for You roll out, an impairment of R25.5 million was recognised in the business during the review period.

Our strategic stake in this below-the-line advertising agency is centred on enhancing the Group's marketing capabilities and leveraging marketing spend.

With effect from 1 June 2018, a joint venture partnership was concluded with FoodConnect, a sales and distribution business in the food and beverage sector. In terms of the agreement, FoodConnect acquired the rights to the Group's Baltimore ice cream brand and distributes and sells the product on to third parties.

The business has traded profitably since the formation of the partnership, and has recently been appointed as the distributor for a large syrup manufacturer.

The partnership qualifies as a level 2 BBBEE enterprise in terms of preferential procurement, enterprise and supplier development criteria.

Group Financial Director's report

Lebo Ntlha

"Our gearing level improved to 108% (2018: 126%) reflecting management's continued focus on prioritising judicious allocation of capital and ensuring that the capital structure is optimal for the business."

OVERVIEW

Our results for the review period ended 28 February 2019 are reported against the backdrop of a testing financial year for the Group, exacerbated by lacklustre economic growth in our key markets. Despite this context, the Group achieved 2% growth in revenue to R7.2 billion (2018: R7.0 billion). Cash generated from operations remained strong at R1.0 billion (2018: R1.1 billion). Our gearing level improved to 108% (2018: 126%) reflecting management's continued focus on prioritising judicious allocation of capital and ensuring that the capital structure is optimal for the business. The Group's debt maturity profile was significantly improved through the proactive refinancing programme we concluded during the year, and was achieved at lower finance costs.

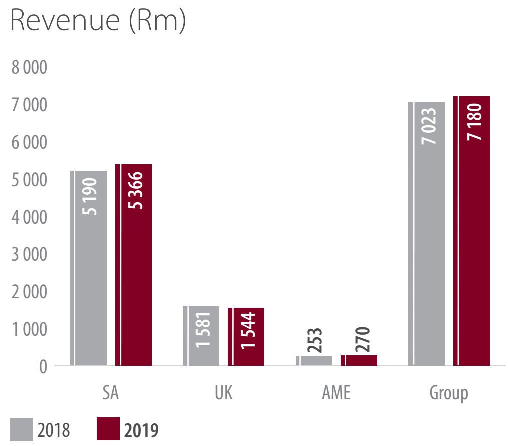
In our interim results announcement we advised that, subject to operational requirements and potential acquisitions, future dividends would be triggered when the short to medium-term gross debt:EBITDA ratio reached two times. As at 28 February 2019, the ratio improved to 1.97 times (2018: 2.56 times). In light of our commitment to shareholders and with consideration of the Group's operating requirements and optimal capital allocation programme, the Board resolved to declare a dividend payment for the period of 100 cents per share (2018: nil).

FINANCIAL PERFORMANCE

Revenue

The Group's increase in revenue is attributable to organic growth in our SA and AME operations, with SA contributing 75% to total revenue (2018: 74%).

The growth in our SA revenue was driven by a 5% growth in Brands' revenue to R895 million (2018: R851 million), and a 3% increase in Supply Chain revenue to R4.4 billion (2018: R4.3 billion). This organic growth was underpinned by the solid performance of our Leading brands, which is testament to our customers' strong affinity for our brands, the entrepreneurial spirit of our franchise partners who continued to compete successfully despite difficult trading conditions, and our ongoing operational improvement programme.

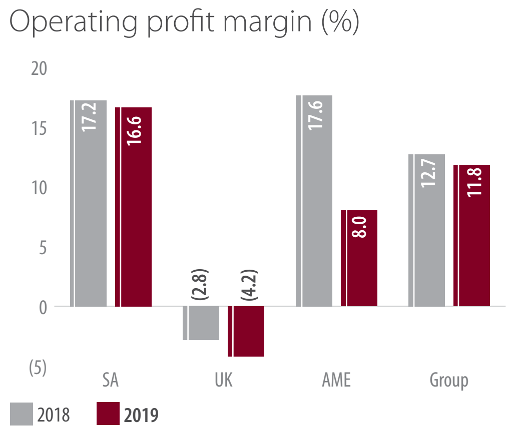


Operating profit before non-operational items and operating profit margins

The Group's operating profit before non-operational items of R850 million (2018: R890 million) was negatively impacted by the operating loss reported by our GBK business in the UK, which increased to R82 million (2018: R60 million operating loss), as well as the operating loss recorded by our Coega Concentrate tomato paste plant, which rose to R22 million (2018: R19 million operating loss).

The decrease in the Group's operating profit margin to 11.8% (2018: 12.7%) is mainly attributable to the decline in operating margin in our GBK business.

Our SA business reported a solid operating margin of 16.6% (2018: 17.2%). The decrease relative to the prior year was due to losses incurred in our Coega Concentrate business.



The decline in the UK margin is attributable to the operating loss in GBK. Our Wimpy business in the UK continued to generate solid results, as evidenced by the 16% growth in operating profit to R18 million (2018: R15 million).

We are confident that the remedial actions implemented during the review period in our GBK business, which include the completion of the CVA programme and other strategic plans to grow like-for-like sales, will result in a more sustainable performance outlook for the business. In order to curb further losses by our Coega Concentrate business, operations at the plant were ceased on 5 June 2018. Negotiations in this regard are ongoing.

The decrease in the AME margin is attributable to the re-measurement of the put option entered into with our JV partners in relation to the acquisition of Retail Group in Botswana effective 1 August 2015. The re-measurement was previously included in corporate costs. This reclassification is in line with our communication to shareholders that the allocation of corporate costs would be reviewed during the year and if required, re-allocated to the appropriate business units to which they relate.

Effective cost control will remain a key focus area in ensuring a sustainable operating profit margin across the Group's operations.

Non-operational items

The Group's non-operational items of R917 million (2018: R373 million) comprise impairments of R899 million (2018: R373 million) and R17.2 million once-off CVA costs relating to the GBK business.

Net finance costs

The Group's net finance costs reduced to R226 million (2018: R251 million) mainly as a result of our lower gearing level, and lower average finance costs secured on the refinanced debt structure. The average margin on three-month JIBAR payable on the refinanced debt facilities is between 1.6% and 1.7% (2018: between 2.35% and 2.55%).

Income from associates

The Group has four associate companies, being Sauce Advertising (35% equity interest), UAC Restaurants (Mr Bigg's) in Nigeria (49% equity interest), By Word of Mouth (49.9% equity interest) and FoodConnect (49% equity interest). The Group's share of associates' profit for the review period was R4 million (2018: R4 million).

Tax

The Group's tax expense was R134 million (2018: R207 million), representing a negative effective tax rate of 47% (2018: 77%). The effective tax rate was impacted by the impairments recognised during the review period.

Profit attributable to non-controlling interests

Our partnerships with our JV partners are a strategic pillar of our Manufacturing and Brands operations and are key to optimising our integrated business model. Profit attributable to non-controlling interests increased to R58 million (2018: R42 million), of which 80% is attributable to our manufacturing JV partners (2018: 75%).

Headline earnings per share (HEPS)

Overall, HEPS declined by 19% to 319 cents (2018: 393 cents) mainly as a result of operating losses and once-off CVA costs relating to our GBK business.

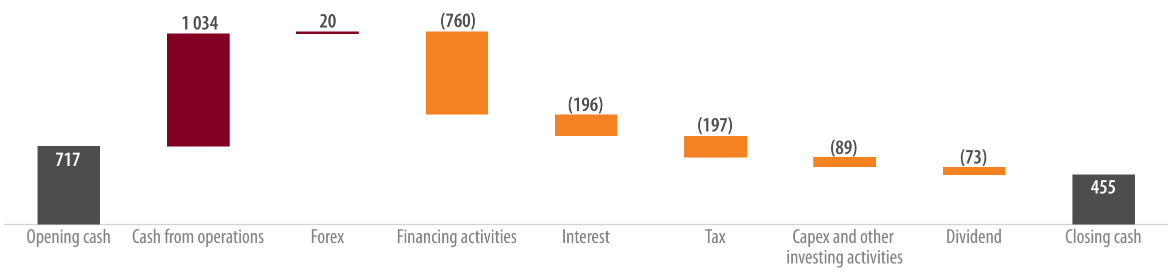
CASH FLOWS AND FINANCIAL POSITION

Salient features		**2019**	2018
Statement of cash flows			
Cash generated by operations before working capital changes	R000	**1 055 882**	1 135 121
Working capital changes	R000	**(22 298)**	(12 201)
Net cash outflow utilised in investing activities	R000	**(89 187)**	(201 388)
Net cash outflow for financing activities	R000	**(760 204)**	(107 662)
Cash realisation rate*	%	**96**	103
Statement of financial position			
Cash and cash equivalents	R000	**453 765**	716 988
Net assets#	R000	**3 699 670**	4 403 514
Net debt^	R000	**1 659 937**	2 063 764
Net debt/equity (gearing)	%	**108**	126
Total equity	R000	**1 536 796**	1 632 027
Return on equity**	%	**20**	25
Return on capital employed^^	%	**(1.6)**	11.4

** Cash generated by operations as a percentage of EBITDA.*
 # Total assets other than cash and cash equivalents and deferred tax assets, less interest-free trading liabilities.
^ Total interest-bearing borrowings less cash.
*** Headline earnings as a percentage of average shareholders' interest.*
^^ Operating profit including non-operational items, divided by capital employed (on a rolling 12-month basis – which is calculated as the sum of total equity and interest-bearing debt).

Cash flow movement during the review period

Cash flows (Rm)



Net cash inflow from operating activities

Cash generated from operations was strong at R1.0 billion (2018: R1.1 billion), with a cash realisation rate of 96% (2018: 103%).

Working capital remained an area of ongoing focus. Changes in working capital for the review period were negative R22 million (2018: negative R12 million) mainly as a result of an increase in trade and other receivables, which was adversely impacted by the timing of our credit card collections for our GBK business at reporting date.

The Group's net cash inflow from operating activities of R567 million (2018: R624 million) was negatively impacted by operating losses in our GBK business and Coega Concentrate operation.

Net cash outflow utilised in investing activities

Additions to property, plant and equipment and intangible assets were R137 million (2018: R231 million). This represents 67% invested in our SA business (2018: 41%), 29% in our UK business (2018: 54%) and 4% in our AME business (2018: 5%). There were no new business acquisitions during the year under review.

Total net cash outflow utilised in investing activities was R89 million (2018: R201 million).

Net cash outflow from financing activities (debt repayment)

Overall, net cash outflow from financing activities was R760 million (2018: net cash outflow of R108 million). The increase in the net cash outflow is mainly attributable to the reduction of our term debt facilities.

The Group's closing net cash position as at 28 February 2019 was R455 million (2018: R717 million).

Financial position

The Group's balance sheet remains healthy, with net assets of R1.5 billion (2018: R1.6 billion), representing a net asset value per share of R15.36 (2018: R16.32). The decline in the net asset position is mainly attributable to the R899 million (2018: R373 million) impairment recognised during the review period, of which R874 million related to our GBK business and R26 million to a local associate company in which the Group holds a minority stake.

The reduction in total borrowings to R2.1 billion (2018: R2.8 billion) resulted in an improved gearing position of 108% (2018: 126%).

Return on equity decreased by 5% mainly as a result of the negative impact of GBK's GBP4.6 million operating loss recorded during the review period (2018: GBP3.6 million). Return on capital employed was (1.6%) (2018: 11.4%).

As noted in the dividend paragraph on page 83, the Group's gross debt:EBITDA ratio at 28 February 2019 was 1.97 times (2018: 2.56 times). The Group's short to medium-term debt level target is a net debt:EBITDA ratio of between 1.0 and 1.5 times.

FINANCIAL COVENANTS

	2019		2018	
	Actual	**Required**	Actual	Required
Debt to EBITDA*	**1.89**	**<2.50**	2.56	<3.00
Interest cover	**3.32**	**>3.00**	3.58	>3.25
Free cash flow to debt service**	**N/a**	**N/a**	1.48	>1.20

* *EBITDA excludes non-operational items.*

** *The new funding structure does not include free cash flow to debt services ratio as a financial covenant.*

The financial covenants relating to the refinanced facilities are based on the SA Group results.

OUTLOOK

Our key focus areas will remain on:

- prudent capital allocation;
- leveraging the investment made in the ERP system implemented in the prior review period in order to improve our reporting processes for enhanced data analysis; and
- embedding divisional balance sheet reporting for the monitoring of divisional return on invested capital.

I would like to thank the finance team for their diligence and commitment in a challenging year, and the Board and other Group Committees for their counsel.

We value the support we receive from our providers of capital and remain committed to improving returns for shareholders in the year ahead.

Lebo Ntlha
Group Financial Director
27 June 2019

Board and management

Bhekokuhle Lindinkosi (Bheki) Sibiya (62)

Independent non-executive director

Appointed to the Board on 1 March 2004

Role at Famous Brands

- Chairman of the Remuneration Committee
- Member of the Social and Ethics Committee

Bheki brings to the Board a wealth of expertise in BBBEE, employment equity, change management and corporate governance gained as former Chief Executive of the Chamber of Mines, Chief Executive Officer of Business Unity South Africa, director of the Wits Business School, and from experience attained in a range of positions held at companies including Transnet, Tongaat Hulett Sugar, SA Breweries and Ford Motor Company.

Areas of expertise

Governance, strategy, risk, stakeholder relationships.

Bheki has provided notice that he will not be available for re-election at the Annual General Meeting of Shareholders. Bheki will thus retire from the Board on 26 July 2019.

Nicolaos (Nik) Halamandaris (43)

Non-executive director

Appointed to the Board on 9 November 2017

Role at Famous Brands

- Member of the Social and Ethics Committee
- Attends the Audit and Risk Committee meetings and Investment Committee meetings by invitation

Nik has extensive experience in the food services industry, having been a franchisee of many of the Group's mainstream brands over the past two decades up until 2010. He is currently an executive director of several non-listed property development and construction companies with primary responsibility for strategy and new business development.

Areas of expertise

General management, strategy, franchise management, food services, property management.

Santie Botha (54)

Independent Chairman

Appointed to the Board on 1 June 2012

Qualifications

BEcon (Hons)

Role at Famous Brands

- Chairman of the Nominations Committee
- Member of the Remuneration Committee
- Member of the Investment Committee
- Attends the Audit and Risk Committee meetings by invitation

Directorships in other listed entities

- Curro Holdings – Chairman
- Capitec Bank Holdings Limited and Capitec Bank Limited – Chairman
- Telkom – non-executive director

Santie served as an executive director of the MTN Group (2003 to 2010) and prior to that, of Absa Bank (1996 to 2003). She commenced her career at Unilever.

Santie has received a range of awards including Marketer of the Year (2002) and Business Woman of the Year (2010).

Areas of expertise

Governance, marketing, strategy, remuneration, consumer insight, stakeholder relationships.

Kelebogile (Lebo) Ntlha (36)

Group Financial Director

Appointed to the Board on 1 July 2016

Qualifications

CA(SA), MBA, PGD Tax

Role at Famous Brands

- Attends the Audit and Risk Committee meetings by invitation
- Attends the Investment Committee meetings by invitation

Lebo is a Chartered Accountant (SA) and holds an MBA degree (awarded *cum laude*) from the University of the Witwatersrand and a Post-graduate Diploma in Tax. She completed her articles with PricewaterhouseCoopers in 2007, after which she gained extensive experience in IFRS in her roles as Group Technical Accounting Adviser at Eskom and Group Reporting Manager at African Oxygen Limited.

Lebo joined Famous Brands in July 2014 as the Group Financial Executive and Company Secretary, and was appointed to the Board as Group Financial Director effective 1 July 2016.

Areas of expertise

Finance, risk, strategy.

Darren Paul Hele (48)

Chief Executive Officer

Appointed to the Board on 1 June 2012

Qualifications

BCom

Role at Famous Brands

- Member of the Social and Ethics Committee
- Attends all Committee meetings by invitation and attends various subsidiary and associate company Board meetings as a director

Darren commenced his career at Pleasure Foods Limited while studying for and completing a BCom. After participating in the management buyout of Pleasure Foods in 1996 he held executive roles at Whistle Stop and Wimpy before joining Famous Brands in 2003. He served as Managing Director of Wimpy in South Africa and later in the United Kingdom.

Darren was appointed Chief Operating Officer – Franchising division in May 2011 and in January 2013 assumed the position of Chief Operating Officer of the Group. With effect from 1 March 2014, Darren assumed the role of Chief Executive Officer – Food Services. Darren was appointed Chief Executive Officer with effect from 1 March 2016.

Areas of expertise

General management, franchise management, marketing, strategy, stakeholder relationships.

Board and management continued

Deon Jeftha Fredericks (58)

Independent non-executive director

Appointed to the Board on 1 August 2018

Qualifications

BCompt Honours, Business Management (Hons), CA(SA), CIMA

Role at Famous Brands

- Chairman of the Audit and Risk Committee

Directorships in other entities

- South African Airways – Interim CFO
- BCX – non-executive director
- Gyro Group (Pty) Ltd – non-executive director

Deon has previously held various other directorships including Telkom, Vodacom, Trudon and the Telkom Retirement Fund.

Areas of expertise

General management, risk, finance, governance.

Thetele Emmarancia (Emma) Mashilwane (43)

Independent non-executive director

Appointed to the Board on 1 December 2017

Qualifications

CA(SA), MBA, BCompt, BCom (Hons)/CTA, Global Executive Development Programme (GIBS)

Role at Famous Brands

- Member of the Audit and Risk Committee
- Member of the Investment Committee

Directorships in other listed entities

- Tiger Brands – Board member and Chairman of the Audit Committee
- Murray & Roberts – Board member and member of the Risk Committee and Audit and Sustainability Committee

Emma is a Chartered Accountant and is currently Chief Executive Officer of MASA Risk Advisory Services. Emma was nominated as a finalist in the Businesswomen's Association of South Africa 2017 Regional Business Achiever Awards.

Areas of expertise

Internal and external audit, risk management, financial management, corporate governance, strategy, general management.

Christopher Hardy Boulle (47)

Independent non-executive director

Appointed to the Board as an alternative non-executive director in December 2011 and as a non-executive director on 27 February 2014

Qualifications

BCom, LLB, LLM

Role at Famous Brands

- Chairman of the Investment Committee
- Chairman of the Social and Ethics Committee
- Attends the Remuneration Committee meeting and Audit and Risk Committee meeting by invitation

Directorships in other listed entities

- Advtech – Chairman and non-executive director

Chris is a commercial, corporate finance, tax and trust attorney and his expertise includes cross-border transactions, mergers and acquisitions, BBBEE transactions and advising on stock exchange listings both locally and internationally. His experience as a non-executive director of listed companies spans over a decade and a half.

Areas of expertise

Law, governance, strategy, risk, corporate finance.

John Lee Halamandres (65)

Non-executive director

Appointed to the Board on 9 November 1994

Role at Famous Brands

- Member of the Remuneration Committee
- Member of the Investment Committee

With experience in all aspects of Famous Brands' business, John retired from Executive management in March 2001. A founding member of the Company, he served as Managing Director from November 1994 until March 1997, after which he assumed the role of Chief Executive Officer until his appointment as non-executive Deputy Chairman in March 2001, a position he held until May 2010.

Areas of expertise

General management, franchise management, governance, strategy.

Norman Joseph Adami (65)

Independent non-executive director

Appointed to the Board on 24 February 2015

Qualifications

Bachelor of Business Science (Hons), MBA

Role at Famous Brands

- Member of the Audit and Risk Committee
- Member of the Nominations Committee
- Member of the Investment Committee

Directorships in other listed entities

- CCB Africa – non-executive director

Norman had an extensive career with SABMiller, which commenced at SAB (Pty) Limited in 1979. He was appointed Managing Director of SAB in 1994 and Chairman in 2000. In 2003, he was installed as President and Chief Executive Officer of the newly acquired Miller Brewing Company. In 2006, he was appointed President and Chief Executive Officer of SABMiller Americas. In this position he was responsible for Miller Brewing Company and SABMiller's South and Central American business units. In October 2008, he once again took on the role of Managing Director and Chairman of SAB Limited. He retired from SABMiller in 2014.

Norman is owner-operator of Nyumbu Wildlife and is a member of Stud Game Breeders, one of the pre-eminent groups leading the emergence of South Africa's burgeoning game breeding industry, which has made great strides in revitalising threatened animal species and in creating sustainable employment in many rural areas.

Areas of expertise

General management, risk, strategy, marketing, operational management, mergers and acquisitions.

Governance report

The Board of Famous Brands holds ultimate responsibility for governance, the setting of strategy, the monitoring of strategy and the setting of short to medium-term operational objectives for Executive management. The Board also holds responsibility for setting the ethical tone and creation of a culture of integrity and compliance.

KING IV

In recognition of the need to conduct the affairs of the Group according to the highest standards of corporate governance and in the best interests of investors, the Group's commitment to good governance is formalised in its policies and operating procedures. These are intended to cover all aspects of the organisation's activities wherever situated, and in its reporting internally and externally to stakeholders.

The Board is committed to achieving high standards of corporate governance, business integrity and ethics across all of its activities.

The principles and structures for facilitating good corporate governance are in place throughout the Group and are operating well. The directors are satisfied that the Group substantially complies with the principles and spirit of King IV.

Principle	Focus areas in review period	Actions in review period
Governance outcome: ethical culture		
1. Ethical leadership The governing body should lead ethically and effectively.	The Board of Famous Brands acknowledges and accepts the responsibility for ensuring that the appropriate tone is set for the Group, which is one of integrity, fairness, transparency and accountability. The Board operates under a Charter that outlines the responsibility.	The Board Charter is reviewed annually. In ensuring that the appropriate tone is set, the Board oversees that the Code is properly implemented and monitored. The Code outlines acceptable standards of conduct. In assessing performance evaluations of the Board itself and members of the Executive Committee, compliance with the required standards is essential. New members of the Board subscribe to and accept responsibility for providing the highest standards of ethical leadership.
2. Organisation values, ethics and culture The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	The Board sets the direction of the Company's values, ethics and culture. Although the Board assumes responsibility for the governance of ethics, it has delegated the responsibility to the Audit and Risk Committee and the Social and Ethics Committee. The day to day implementation of the Code of Ethics (the Code) is delegated to management. Management is required to ensure that it is implemented in all functions and sectors of the business on a day-to-day basis, which include, *inter alia*, recruitment, remuneration, supplier selection, franchisee appointments and engagement with all stakeholders. The Code is reviewed annually. Stakeholders are made aware of the Code by making it available on the Company's website and by regular communication to employees.	The Audit and Risk Committee reviewed and approved the Code. The Audit and Risk Committee monitors reports received on the independent whistleblowing facility in order to ensure that appropriate action is taken. The Committee is assisted in this regard by the internal audit function. The directive issued by CIPC in November 2018 relating to corruption was considered by both the Audit and Risk Committee and the Social and Ethics Committee. Management was tasked with ensuring that the recommendations were implemented. The Company will continue to ensure that the highest ethical standards are maintained and specifically will focus on ensuring that there is zero tolerance for corrupt practices.

Principle	Focus areas in review period	Actions in review period
3. Responsible corporate citizenship The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	The Board accepts that it is essential that the Company is and is seen to be, a responsible corporate citizen. Being a responsible corporate citizen entails that it is sensitive to the cultural and acceptable standards where it has its operations and places responsibility on its employees, franchisees and suppliers in ensuing that its operations are environmentally friendly. The Board has zero tolerance for non-compliance with legislation. The Board delegates to management the responsibility of ensuring compliance with the Company's own policies and procedures. Material breaches are reported to the Board. The Board approves the delegation of authority policy that is reviewed annually.	The Audit and Risk Committee reviews any breaches of legislation and recommends action. There have been no material breaches of legislation that were brought to its attention. The Board ensures that its strategy is consistent with the requirement that the Company is a responsible corporate citizen. Future areas of focus on minimising environmental impact are outlined elsewhere in this report.
Governance outcome: performance and value creation		
4. Strategy, implementation and performance The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	The Board sets the direction, purpose and strategy of the Company and delegates to management the responsibility of formulating and implementing the strategy. The Board approves the overall strategy and operational strategic plans. The plans include key performance measures and targets approved by the Board and it oversees the reporting on and implementation of the plans. The Board thus plays a key role in the oversight of strategy implementation. In assessing and approving the strategy, the Board takes into account risks and opportunities relating to the strategy and its implementation. The Board is required to satisfy itself that the business model is appropriate for the strategy implementation and that sustainable development is an important factor in the strategy.	The Board annually sets aside a day to review the progress on the strategy implementation and to review and approve the strategy for the following five years. At each Board meeting, management reports on progress with regard to its implementation of the approved strategy and whether targets that had been set were met. Enhanced focus has been given to the assessment and mitigation of risk, which is reported on elsewhere in this report.
5. Reports and disclosure The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.	The Board sets the direction, approach and conduct for reporting to the Company's stakeholders and approves the framework and when appropriate, the detail to be used. The Board ensures that the reporting frameworks are compliant with all regulatory requirements, which include the Companies Act and the JSE Listings Requirements, which include the requirement to adhere to the provisions of King IV. The Board approves this Integrated Annual Report, the basis of materiality to be used within the report and satisfies itself as to the assurances required from external parties.	The Board has satisfied itself that all reporting has been done in compliance with the Companies Act and the JSE Listings Requirements. The Company engages with stakeholders to discuss its reporting and how the reporting can be enhanced and improved. All other reports that are required in an Integrated Annual Report are included in this report.

Principle	Focus areas in review period	Actions in review period
Governance outcome: adequate and effective control – governing structures and delegation		
6. Role of the governing body The governing body should serve as the focal point and custodian of the corporate governance in the organisation.	The Board is aware of its responsibility as being the focal point and custodian of corporate governance in the Company. The Board exercises this leadership role through ensuring that it performs its functions in terms of its Charter and the Charters of the Committees of the Board.	The Board is satisfied that it has fulfilled its obligations in terms of its Charter. The Board met five times in the period under review, being four quarterly Board meetings and one strategic planning meeting. Details of the meetings and attendance appear elsewhere in this report. The Board is satisfied that there is no one director or group of directors who have unfettered powers of decision making.
7. Composition of the governing body The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	The Board comprises a majority of independent non-executive directors. The Nominations Committee considers whether the size, knowledge, skill, diversity, experience and independence of the Board are appropriate for the Company. The Committee is satisfied that the Board currently has the appropriate skills set. The CEO and Group FD are executive directors. The Board encourages and supports diversity of gender, race, age, culture and fields of expertise. The Board has adopted a gender policy as part of the Charter of the Nominations Committee which encourages the appointment of females to the Board and to its Committees. At the time of printing this report, one third of the Board was female. Prior to the resignation of Thembisa Skweyiya subsequent to the year-end, females comprised 40% of the Board. At the time of issuing this report one third of the Board were black persons as defined in the BBBEE Act. Prior to the resignation of Thembisa subsequent to the year-end, it was 40% of the Board. The rotation of Board members is outlined in the Company's Memorandum of Incorporation. The process for the nomination and approval of new Board members is outlined in the Charter of the Nominations Committee. There is a formal induction process for new Board members. Conflicts of interest are required to be tabled in terms of the Companies Act and are updated at each Board meeting. The Chairman of the Board is independent. The Chairman is not Chairman of the Audit and Risk Committee, the Remuneration Committee nor the Social and Ethics Committee.	An internal Board evaluation conducted by the Company Secretary on an anonymous basis, was conducted. The evaluation comprised a questionnaire, broken down into the following categories: Board Composition, Board Culture, Role and Responsibilities, Board Committees, Relationship between Board and Executive management, Board meetings, Evaluation and fees, Leadership pool and Stakeholders. The Board and the Nominations Committee considered the results of the evaluation and have agreed steps to further improve the functioning of the Board and the knowledge base of Board members. The Nominations Committee assessed whether Bheki Sibiya, who has been a member of the Board for over nine years, could be considered independent. The Committee was satisfied that notwithstanding his years of service, Bheki was regarded as independent. Bheki has, however, subsequently indicated that he will stand down as a director at the conclusion of the AGM in July 2019.

Principle	Focus areas in review period	Actions in review period
8. Committees of the governing body The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.	The Company has established the statutory Committees of Audit and Risk and Social and Ethics. It was considered appropriate that the assessment of risk would be the responsibility of the Audit and Risk Committee. The Board has established a Remuneration Committee, a Nominations Committee and an Investment Committee. The Investment Committee is convened on an *ad hoc* basis when considered appropriate. Each Committee has a Charter that is reviewed annually.	The Committees met on a regular basis, details of which are outlined on page 96. Details of the membership of the Committees is reflected elsewhere in this report. The Charters were all reviewed. The reports of the appropriate Committees are included in this report.
9. Performance evaluations The governing body should ensure that the evaluation of its own performance and that of its Committees, its Chair and its individual members, support continued improvement in its performance and effectiveness.	The Board acknowledges that it is important that a regular assessment be made of the performance and composition of itself and of its Committees through an evaluation exercise.	An evaluation was conducted by the Company Secretary which was on an online anonymous basis. Details of the process are reflected in Principle 7 adjacent.
10. Delegation to management The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities.	The Board accepted that it is the responsibility of the CEO, assisted by his management team, to lead the implementation of strategy and operational management. The CEO is not a member of the Audit and Risk Committee, Remuneration or Nomination Committees, but attends meetings by invitation. The CEO is a member of the Social and Ethics Committee. Succession of the CEO and senior executives is considered by the Nominations Committee and the Remuneration Committee. A delegation of authority framework is delegated to the Audit and Risk Committee for annual review. The Board is satisfied that it contributes to clarity of responsibilities and assists in the effective exercise of authority and responsibilities. The Remuneration and Nominations Committees have been delegated the responsibility of ensuring that Executive management functions are appropriately resourced and remunerated. The performance of the CEO and senior executives is annually evaluated by the Remuneration Committee. Board members are entitled to seek independent legal advice.	The delegation of authority framework was reviewed by the Audit and Risk Committee. The Nominations Committee and the Remuneration Committee assessed succession of the CEO and senior executives. The report of the Remuneration Committee which outlines the Remuneration Policy and the Remuneration Implementation Report are published on pages 99 to 111. They are submitted to shareholders in terms of the Notice of the AGM in non-binding advisory resolutions.

Principle	Focus areas in review period	Actions in review period
Governance outcome: adequate and effective control – governance functional areas		
11. Risk and opportunity governance The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	The Board accepts it holds responsibility for the governance of risk. This responsibility has been delegated to the Audit and Risk Committee. The assessment of risk and the implementation of risk management is the responsibility of Executive management.	The Board has given careful assessment to risk management during the year. The refinement of risk management was identified in the previous year as an area that required enhanced focus. The outcome of the enhanced focus on Risk is outlined elsewhere in this report.
12. Technology and information governance The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.	The Board accepts that the role of technology is a key enabler for success and competitive advantage, and as such, gives rise to enhanced risk for the Company and its operations. The Board has acknowledged it holds responsibility for the governance of technology. The Board has delegated to management the implementation of effective technology and information practices and to monitor the rapid advances and improvements in technology. Management has established an Information Technology Steering Committee to manage this important function.	The Board has sought from management assurance as to the effectiveness and reliability of the Company's technology and information arrangements. The Board has overseen the risks associated with technology as a key area of focus. There have been no major incidents during the review period.
13. Compliance governance The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	The Board sets the requirement of compliance by all operations with relevant legislation, codes, regulations, standards and policies. There is a zero tolerance policy towards breaches of legislation where material breaches are reported to the Audit and Risk Committee. The Board delegated to management the responsibility of ensuring such compliance.	Compliance is an ongoing responsibility for directors, employees, franchisees and suppliers. No material breaches have been brought to the attention of the Audit and Risk Committee during the review period. The Board seeks assurance on compliance from internal and external audit functions. Particular focus has been given to implementing the minimum guidelines outlined by the CIPC in November 2018.
14. Remuneration governance The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	The Board through the Remuneration Committee sets the direction and approach for remuneration practices. The Remuneration Policy and Implementation Report are detailed on pages 99 to 111 in this report.	During the period under review particular focus has been given to reviewing the remuneration practices. The views of major shareholders were sought, the outcome of which is outlined in the Remuneration Policy and Implementation Report. Shareholders will be requested to vote on the Policy and Implementation Report at the AGM.

Principle	Focus areas in review period	Actions in review period
15. Assurance The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports.	The Board has delegated the responsibility for the oversight of direct assurance services and functions to the Audit and Risk Committee. The Audit and Risk Committee has assumed the responsibility in order to ensure the existence of an effective internal control environment and thus reliability can be given to the integrity of information for decision-making. The Committee is responsible for ensuring that an applied assurance model is implemented that covers significant risks and material matters through the use of internal and external assurance providers. The Committee is satisfied as to the effectiveness of the model in respect of both financial and non-financial issues. The Board has delegated the oversight of the internal audit function to the Audit and Risk Committee. The Internal Audit Charter is reviewed annually. The Internal Audit Executive has a direct reporting line to the Chairman of the Audit and Risk Committee in addition to his day-to-day internal management reporting line. The Internal Audit Executive is not a member of Executive management.	The Audit and Risk Committee has addressed the assurance issues in compliance with its Charter and responsibility to the Board. The internal audit function was enhanced through additional appointments. The Internal Audit Charter was reviewed. The Internal Audit Executive attends the Audit and Risk Committee meetings and the internal audit report is part of the agenda for each meeting.
Governance outcome: trust, good reputation and legitimacy		
16. Stakeholders In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	The Board accepts that stakeholder management is a key responsibility that it holds. It has delegated the responsibility to management. Stakeholders include employees, shareholders, franchisees, suppliers, customers and government.	The Board has encouraged pro-active engagement with shareholders. A management committee meets regularly to discuss investor relations issues in a structured approach. Engagement with major shareholders took place on remuneration issues in order to assess their views on best remuneration practices. The engagement was seen by both management and the shareholders as being positive and constructive. The quality of the relationship with significant stakeholders is regarded as sound.

GOVERNANCE FRAMEWORK

Attendance at Board and Board Committee meetings during the year ended 28 February 2019

	Board	Audit and Risk Committee	Social and Ethics Committee	Nominations Committee	Remuneration Committee	Investment Committee
Number of meetings	**5**	**3**	**3**	**2**	**3**	**1**
Board/Committee members						
NJ Adami	3/5	3/3	n/a	1/2	n/a	1/1
SL Botha	5/5	3/3*	n/a	2/2	3/3	1/1
CH Boulle	5/5	3/3	n/a	n/a	3/3*	1/1
DJ Fredericks (appointed 1 August 2018)	2/4	2/2	n/a	n/a	n/a	n/a
N Halamandaris	5/5	3/3*	3/3	n/a	n/a	1/1*
JL Halamandres	5/5	n/a	n/a	n/a	3/3	0/1
DP Hele	5/5	3/3*	3/3	2/2*	3/3*	1/1*
TE Mashilwane	5/5	3/3	n/a	n/a	n/a	1/1
K Ntlha	5/5	3/3*	n/a	n/a	n/a	1/1*
BL Sibiya	5/5	n/a	2/3	n/a	2/3	n/a
T Skweyiya	5/5	3/3	3/3	2/2	n/a	n/a

** By invitation*

CHANGES TO THE COMPOSITION OF THE BOARD

During the year, Deon Fredericks was appointed to the Board effective 1 August 2018. Subsequent to the year end, Thembisa Skweyiya resigned effective from 8 March 2019. Bheki Sibiya will be retiring as a director at the conclusion of the AGM in July 2019.

COMPANY SECRETARY ASSESSMENT

The Company Secretary is Ian Isdale who was reappointed for a further period from 1 March 2019 until such time as a suitable replacement is found. Ian holds the degrees of BA, LLB (Natal) and EDP (Wits) and has served as Company Secretary of listed companies for over 25 years. The Board of Directors is satisfied that the Company Secretary has the experience and expertise to fulfil the role and that there is an arm's length relationship between the Company Secretary and Board members.

BOARD AND COMMITTEE CHARTERS

The Board and its Committees have Charters that are reviewed on an annual basis. The latest reviews took place during the period under review.

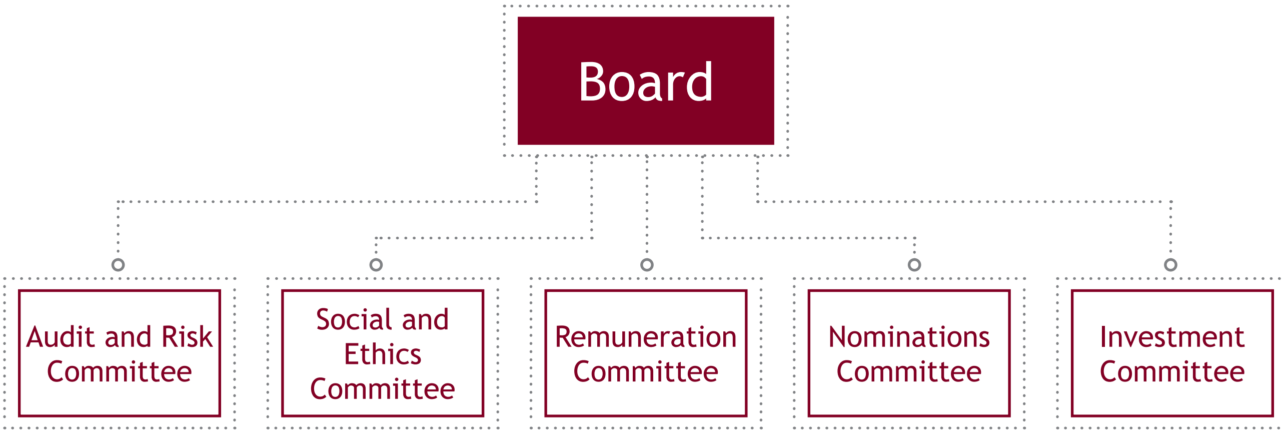
CODE OF ETHICS

The Company has a Code of Ethics that is reviewed on an annual basis and the compliance with the Code is a requirement of employment.

REGULATORY ISSUES

In January 2018 the Financial Sector Conduct Authority (FSCA) notified the Company that it was investigating share trades that had taken place in the first days of October 2017 prior to the release of a trading statement on 9 October 2017. The Company fully co-operated with the FSCA and provided all information that had been requested. The FSCA advised the Company on 24 July 2018 that no further action would be taken.

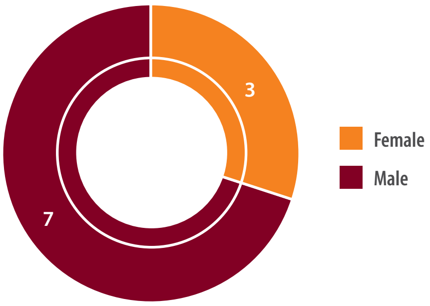
Subsequent to the year-end John Halamandres, a non-executive director of the Company received a private censure from the JSE for a non-timeous notification of two trades in the Company's shares. It related to two donations to family members, totalling 880 shares.



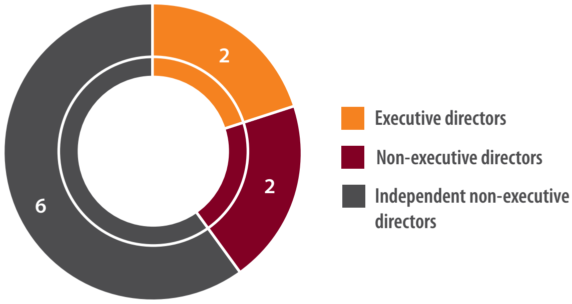
GOVERNANCE FRAMEWORK

Board statistics

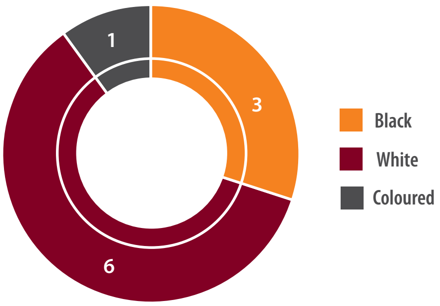
Gender



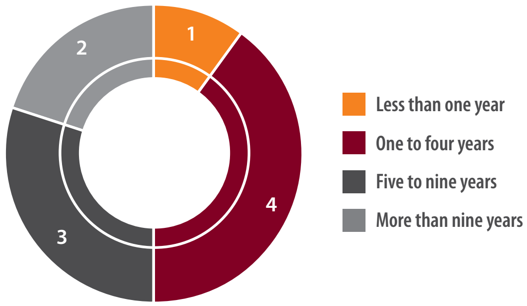
Board balance



Demographics



Tenure (years)



Remuneration Committee report

CHAIRMAN'S LETTER

Dear shareholders and other stakeholders,

I am pleased to provide you with the Remuneration Report, which includes the approved Remuneration Policy and Implementation Report as recommended by King IV that will be considered and voted upon at the forthcoming Annual General Meeting (AGM) of shareholders.

The Remuneration Committee (the Committee) at Famous Brands is governed by its Charter that is reviewed annually. The Committee has during the year under review complied with its obligations as reflected in its Charter and in terms of the policy which is outlined hereunder.

The Committee is chaired by myself. Other Committee members are Santie Botha, (Chairman of the Board), and John Halamandres, (non-executive director of the Company). The independent non-executive director Chris Boulle, the Chief Executive Officer (CEO), Darren Hele, and the Human Resources Executive Jabu Mahange attend by invitation. Darren and Jabu recuse themselves from the meeting when a conflict of interest arises. The Company Secretary is the secretary of the Committee.

The Committee met on three occasions during the year under review.

In direct response to requests from shareholders for greater transparency at the AGM in 2017, Famous Brands (in line with the King IV guidelines) requested the Company Secretary and the then Human Resources Executive to engage with key shareholders in order to seek from the shareholders their views and preferences on remuneration issues. The engagement covered the top three quarters of the investor base and the insights gained were very valuable. Following feedback from key shareholders, a redesign of the incentive structures was finalised. There is now greater focus on more appropriate performance-related measures which are used to assess and drive the business, resulting in a better alignment of management incentives with shareholder interests. Shareholder focus on sustainability and governance has increased and has resulted in the inclusion of measurable metrics in the Short-Term Incentive Scheme. This has resulted in changes to short-term incentive (STI) and long-term incentive (LTI) metrics, the introduction of minimum shareholding requirements, and a review of other remuneration practices as set out in the Remuneration Policy and Implementation Report which follows.

All shareholders who were contacted, welcomed the move to greater transparency and detail in the reporting of remuneration, and we are open to further engagement going forward. At the AGM in 2018, the Remuneration Report received a 77.12% "yes" vote and the remuneration Implementation Report a 75.58% "yes" vote, both above the 75% as per King IV requirements.

Our commitment is to enhance transparent communication to our shareholders and stakeholders, which is a goal that we intend improving upon each year.

Please send any comments to the Company Secretary at: companysecretary@famousbrands.co.za.

Bheki Sibiya
Chairman
27 June 2019

Remuneration Report

KEY AREAS OF FOCUS FOR THE YEAR

The Committee's key area of focus for the year has been in reviewing all remuneration practices to ensure convergence with King IV and with shareholder feedback. This included focus on the Group's STIP and LTIP. Details are provided in this report.

Throughout this report the term 'executive directors' is used to refer to both the CEO and the Group Financial Director (Group FD), whilst the Executive Committee (excluding the executive directors) is referred to as Exco. Reference to the Executive management team includes the executive directors and Exco. The Committee is responsible for the governance of the remuneration associated with these roles and this report will refer to both categories or separately highlight individual roles where it is appropriate.

REMUNERATION POLICY

At Famous Brands our Remuneration Policy is aligned to the longer-term strategic objectives of the Company and shorter-term operational, financial and other targets whilst ensuring that remuneration levels are competitive. This is accomplished through a governance and application framework that primarily aims to retain and where necessary attract talent through fair, transparent and competitive remuneration.

Key principles of the Remuneration Policy

In order to continue to support our remuneration approach, we have a Remuneration Policy which is based on the following key principles:

- to support the business strategy, objectives, core beliefs and long-term interests of Famous Brands;
- we reward for value created, contribution and performance and to ensure alignment to shareholder interests;
- we aim to provide competitive rewards to attract, motivate and retain the highest calibre of individuals through the payment of industry-competitive packages and incentive awards, which ensure alignment with key stakeholders in our business;
- sustainable and demanding performance metrics are set, and cover all aspects of the business;
- the Remuneration Policy will guide the structure of remuneration to ensure that our core beliefs are upheld, and the correct governance frameworks are applied across our remuneration decisions and practices; and
- in setting remuneration, appropriate remuneration benchmarks will be applied.

Remuneration design and pay mix

When determining appropriate remuneration, the Committee considers:

1. The potential maximum total remuneration that each executive could earn, and the external influences, primarily being:
   - shareholder views and recommendations;
   - economic trends;
   - competitive pressure; and
   - the labour market, and the pay gap between Executive management and the rest of the employee population in the Company.
2. Market benchmarks, choosing the appropriate benchmarks in a market with similar attributes including:
   - complexity;
   - size; and
   - geographic spread.

Remuneration Committee

The purpose of the Remuneration Committee is to assist the Board in discharging its oversight responsibilities relating to all compensation, including annual base salary, annual incentive compensation, long-term incentive compensation, employment, severance pay and ongoing perquisites, and equity compensation of the Company's executives including the CEO, as well as retention strategies, design and application of material compensation programmes and share ownership guidelines.

Shareholder feedback

Famous Brands conducted a series of shareholder consultations with some of the largest shareholders to obtain their feedback on the Remuneration Report and their views on remuneration practices. Several changes have been made to the Remuneration Policy and the Implementation Report as a result and these have been highlighted in this report. Famous Brands will continue to consult with shareholders to obtain feedback on any issues/concerns and will strive to improve transparency in terms of the Remuneration Policy and the determination of the incentive metrics.

Executive directors

Remuneration mix:

- Base salary is targeted at the 50th percentile of the market benchmark.
- The STI bonus for the CEO at target is 45% and is capped at 60%, while the STI bonus for the Group FD at target is 25% and is capped at 40% of base pay.
- On the LTIP, shares are targeted at maintaining a multiple of base salary in line with the JSE market benchmark as follows:
  - CEO: Share Appreciation Rights (SARs) at 4.0 times base salary at target and Retention Shares (RS) at 1.2 times base salary at target; and
  - Group FD: SARs at 3.0 times base salary at target and RS at 0.9 times base salary at target.

Components of remuneration

The table below details elements of remuneration for the financial year ended February 2019 in terms of the policy and the maximum performance associated with each component. The changes to the metrics of the STIP and LTIP are clearly indicated.

Remuneration element	Operation and objective	Maximum opportunity	Performance measures
Base salary			
A competitive salary awarded to executives to ensure that their experience, contribution and the appropriate market comparisons are fairly reflected.	• Base salaries are reviewed annually and are effective on 1 March each year. In the case of executives, salaries are reviewed in May (post audited results) and increases are backdated to March. • The executive base salaries are determined by considering the executive's performance; market conditions; companies with a similar geographic spread, market complexity, size and industry; and internal peer comparisons. • The CEO makes recommendations in respect of the Exco to Remco but does not make any recommendations on his own base salary, which is reviewed by the Committee.	Executive base salary increases and increases for all non-Bargaining Unit employees are aligned and this is informed by the inflation percentage, which has an upward or downward adjustment to recognise individual performance (the overall increase pool being limited to a percentage agreed by the Committee).	Individual performance is reviewed on a scale of 1 to 3, which changed to a 5 point scale with the implementation of People Sage X3 (new HR information system) in March 2019. Performance is measured against specific Key Performance Indicators (KPIs) approved by the Committee. The 1-3 performance rating (which changed to 1-5 on 01 March 2019) determines the percentage of the CPI increase pool which an executive will receive.

Remuneration element	Operation and objective	Maximum opportunity	Performance measures
Retirement fund			
Provides a retirement benefit aligned to the schemes in the respective country in which he or she operates.	• The funds vary depending on jurisdiction and legislation (some countries have national insurance). • All Company-related funds are defined contribution funds. • Any Company contribution towards the employee's membership of a retirement fund shall form part of the total guaranteed package.	In South Africa, tax deductible contributions to retirement funds are capped at R350 000 per annum in line with current legislation.	Not applicable.
Medical insurance			
Provides medical aid assistance aligned to the schemes in the respective country in which he or she operates.	• The funds vary depending on jurisdiction and legislation (some countries have national insurance). • Any Company contribution towards the employee's membership of a medical aid fund shall form part of the total guaranteed package.	All contributions to medical aid funds form part of the total guaranteed package, in line with Company policy.	Not applicable.
Benefits			
Provided to ensure broad competitiveness in the respective markets.	Benefits are provided based on local market trends and can include items such as life assurance, disability and accidental death insurance, assistance with tax filing, cash in lieu of leave not taken (above legislated minimum leave requirements) and occasional spousal travel as per the executive travel guidelines.	In line with Company policy.	Not applicable.

Remuneration element	Operation and objective	Maximum opportunity	Performance measures
Short-Term Incentive Plan (STIP)			
The STIP is designed to focus the participating executives on delivering on the key priorities for the year through achieving defined Company objectives/ targets. The performance objectives are reviewed and agreed upon annually based on their short to medium-term impact on the Company.	STIP metrics are defined annually and weightings are applied to each of the measures. The metrics are defined against the objectives that most strongly drive Company performance and are heavily weighted to EBITDA and HEPS achievements. Each metric is weighted and has a target and stretch definition based on the Company budget and the desired stretch targets for the year. The STIP is paid as a cash bonus (usually in June) after Company financial results have been externally audited. 25% of executive bonuses were paid out in November in line with the interim results performance measures as endorsed by the Group Remuneration Committee, and the balance was approved at the end of May 2019 and paid out in June 2019.	**CEO** • Maximum award: 60% of base salary. • Target award: 45%. **Group FD** • Maximum award: 40% of base salary. • Target award: 25%. **Executives** Maximum award: 40% of base salary for Customer-Centric Executives, 35% for Strategic Support Executives and 30% for Corporate Support Executives.	**CEO and Group FD** • Performance measures: › 70% Company objectives; and › 30% individual KPIs (as reviewed by the Committee). **Other executives** • Performance measures: › 30% Company objectives; and › 70% individual KPIs (as reviewed by the Committee). Divisional performance and non-financial measures are contained in the individual scorecards of executives. Both Company and individual performance are assessed over the financial year. Company metrics for FY2018/19 remain as follows for all participants with the exception of the CEO and Group FD: • EBITDA; and • HEPS. For the CEO and Group FD, the new Company metrics are as set out below. These metrics will apply to all other participants from FY2019/20: • operational plan performance (weighting of 30%); • financial performance (weighting of 35%); • market share performance and customer measures (weighting of 15%); • people performance (weighting of 10%); and • Transformation and Environmental, Social and Governance (ESG) measures (weighting at 10%). See description of these in the Implementation Report. The executive directors and Corporate Support Executives are measured on Group performance while the SA-based Customer-Centric Executives are measured on SA business performance, and the UK-based Executives are measured on UK business performance.

Remuneration element	Operation and objective	Maximum opportunity	Performance measures
Long-Term Incentive Plan (LTIP)			
The primary intention of the LTIP is to ensure that the medium to long-term interests of the executive and shareholders are aligned, providing reward to the executive and wealth creation to the shareholders when the strategic performance drivers are achieved. The strategic drivers are used in defining the LTIP metrics.	The LTIP metrics are reviewed and defined for each grant in accordance with the strategy. Weightings are provided to the metrics which must be achieved over a three, four and five-year period for the first allocation and over a three-year period for subsequent allocations. Long-term incentives are granted annually to the CEO, Group FD, executives and senior management (Paterson Grades E and D-upper roles on the Paterson Grading system). The Company operates the following LTIP: • RS; and • SARs. Shares are usually allocated in the ratio of 25% RS: 75% SARs. In terms of clause 9.1 of the Share Incentive Scheme (2015) rules, if a participant's employment with Famous Brands terminates prior to the vesting date by reason of his resignation, or dismissal on the grounds of misconduct, proven poor performance or proven dishonest or fraudulent conduct (whether such cessation occurs as a result of notice given by him/her or otherwise or where he/she resigns to avoid dismissal on grounds of misconduct, poor performance or proven dishonest or fraudulent conduct), the grant will be forfeited in its entirety and all rights will lapse immediately on the date of termination of employment.	The shares are awarded with a 1st allocation and top ups annually and vesting occurs as follows: • **1st allocation:** targeted to 50th percentile of JSE benchmarked levels. Vesting is staggered in equal portions in years 3, 4 and 5 from date of allocation. • **Subsequent allocations:** to top up to the 50th percentile of JSE benchmarked levels as required. Vesting is cliff vesting at 100% at three years from allocation. The SARs are issued at a price determined by the 30-day VWAP[1] and the RS are issued at a zero-strike price. The range of benchmarked levels which guide initial allocations and any subsequent annual top up to maintain market alignment are: **CEO** • SARs: 4.0 times base salary at target. • RS: 1.2 times base salary at target. **Group FD** • SARs: 3.0 times base salary at target. • RS: 0.9 times base salary at target. **Exco** • SARs: 2.25 times base salary at target. • RS: 0.75 base salary at target. The individual grants will not exceed the maximum allocations allowed per level and subsequent top ups will be done to maintain alignment with the market levels and will be the same for all qualifying employees of each level in the business. Annual allocations will not exceed 1% of shares in issue per year. **Minimum Shareholding Requirements (MSR)** Executive directors shall build and maintain a minimum holding of Famous Brands shares as follows: • CEO: 200% of net base salary; and • Group FD: 100% of net base salary. Executive directors may sell only up to 50% of their shares that vest until such time as they have reached their MSR.	Performance and service conditions are attached to the granting of SARs. Service conditions are attached to the allocation of RS for vesting (retention objective). **Company metrics for the FY2018/19 grants were as follows:** • EBITDA; and • HEPS. **New Group financial measures for future grants FY2019/20 onwards are:** • HEPS (defined as growth in headline earnings per share vs. CPI) – weighted 50% of the Company metrics; • ROCE – weighted 20% of the Company metrics; and • relative Total Shareholder Return (TSR) compared to a peer group, as per the suggested list of companies below: › Spur Corporation; › Taste Holdings; › City Lodge; › Sun International; and › Tsogo Sun. TSR is weighted 30% of the Company metrics. For share grants from 2019 going forward, the following conditions will apply on vesting: For SARs, vesting will be subject to: i. Targets for Company metrics for LTIs (e.g. HEPS, TSR and ROCE) having been achieved. ii. Average level of individual performance = meeting expectations (as measured against the KPIs on the individual scorecard). iii. The individual must still be in service and in good standing (i.e. the individual is not undergoing disciplinary action and/or is not in a formal poor performance management process), with the in-service conditions met. iv. Any other conditions set by Remco being fulfilled. RS vesting will be subject to: i. average level of individual performance = meeting expectations (as measured against the KPIs on the individual scorecard) over the three years between the grant and vesting dates; and ii. the individual must still be in service and in good standing, with the in-service conditions met.

[1] *VWAP = Volume Weighted Average Price*

RECRUITMENT POLICY

When recruiting new executives, a comparative benchmarking exercise is done to determine the size, nature and complexity of the role and also the skills availability in the market prior to making a competitive offer. For new appointments, the Committee may compensate for remuneration forfeited by the appointee. The intention is to not grant more than what the executive would have received from the Company in a 12-month period. The Committee does have the discretion to compensate higher values if through a fair-value valuation it can be demonstrated that the forfeited amounts exceed the grants. The Committee will compensate the forfeits through a combination of equity and cash.

Termination policy

The Executive management team does not have fixed term contracts and thus contracts are all open-ended (except where prescribed retirement ages apply), but they do have termination notice periods defined. In addition, the incentive scheme rules are clear on the termination provisions by termination category. In the event of termination, the Company has the discretion to allow the executive to either work out his or her notice or to pay the base pay for the stipulated notice period in lieu of notice.

	Reason for termination			
	Voluntary resignation	Dismissal/ termination for cause	Normal and early retirement, retrenchment and death	Mutual separation
Base salary	Paid over the notice period or as a lump sum.	Base pay is paid up to date of dismissal (exit date).	Base pay is paid up to date of retirement or death or for a defined period based on policy and legislation governing retrenchment conditions. Death benefits would be paid to the spouse (if relevant).	Paid over the notice period or as a lump sum or per agreement to remain on Famous Brands' payroll until agreed date.
Retirement fund	Provident fund contributions for the notice period will be paid; the lump sum would not include provident fund contributions unless it is contractually agreed.	Contributions to provident fund will be paid until such time that employment ceases.	Contributions to the provident fund will be paid until such time that employment ceases.	Provident fund contributions for the notice period will be paid; the lump sum will be excluding provident fund contributions and risk benefits.
Medical provisions	Where applicable medical provision for the notice period will be paid.	Medical provision/ payment will be provided until such time as employment ceases.	Medical provision/ payment will be provided until such time as employment ceases. Subject to the medical aid rules, the employee can become a direct paying member to the medical aid.	Where applicable medical provision for the notice period will be paid; the lump sum can include medical fund employee contributions if it is contractually agreed.
Benefits	Applicable benefits may continue to be provided during the notice period but will not be paid on a lump sum basis.	Benefits will fall away at such time as employment ceases.	Benefits will fall away at such time as employment ceases.	Applicable benefits may continue to be provided during the notice period.

	Reason for termination			
	Voluntary resignation	**Dismissal/ termination for cause**	**Normal and early retirement, retrenchment and death**	**Mutual separation**
Short-term performance bonus	Forfeit, no bonus.	No bonus.	No bonus, but Remuneration Committee has discretion to pro-rata for period worked during the financial year.	No bonus, but Remuneration Committee has discretion to pro-rata for period worked during the financial year.
Sign-on or retention deferred bonuses	Deferred bonuses lapse. Sign-on bonus work-back clause will apply – i.e. if not worked back in full, pro-rata repayment.	All deferred bonuses lapse. Sign-on bonus work-back clause will apply – i.e. if not worked back in full, pro-rata repayment.	Pro-rata deferred bonuses based on the length of employment from date of allocation. Sign-on bonus – work-back clause will apply.	Remuneration Committee determines whether a pro-rata portion may be granted, and work-back clause may not apply.
LTIP	Unvested long-term shares will lapse in their entirety and all rights will lapse immediately.	Lapse of all long-term shares, (both unexercised and unvested). Vested shares will be unaffected.	Pro-rata unvested long-term incentives based on the length of employment from date of offer. Performance conditions tested over the full performance period and vest on the normal vesting dates. (In case of death, test performance as per the latest results apply immediate vesting).	Remuneration Committee (or the Board in the case of the executive directors) determine whether a pro-rata portion may be granted. Performance conditions tested over the full performance period and vest on the normal vesting dates.

Service contracts

All members of the Executive management team have permanent employment contracts which entitle them to standard Group benefits as defined by their specific region and participation in the Company's Bonus Share Plan, and the LTIP. The Executive management team's contracts include a three-month notice period.

NON-EXECUTIVE DIRECTORS REMUNERATION POLICY

Remuneration policy

The Company's non-executive directors are paid based on their role and the policy is applied using the following principles:

- A Board fee is paid for the five Board meetings held each year and the Committee members receive Committee fees for participation. The fees are split with a base fee of 20% and the remaining 80% paid based on meeting attendance. Each director's fee is paid quarterly in arrears.
- Fees are reviewed annually, and increases are implemented in June after approval by shareholders at the AGM. The level of fees is set using a benchmark comparable group which is derived from companies with similar size, complexity and geographic spread.
- The non-executive directors are not eligible to receive any short or long-term incentives.
- Shareholder approval is being sought for payments to non-executive directors who sit on the Boards of associate and subsidiary companies.

Remuneration consultants

Where appropriate, the Committee obtains advice from independent remuneration consultants[1]. The consultants are employed directly by the Committee and engage directly with them to ensure independence.

[1] Consultants used in this financial year included Bowman Gilfillan and 21st Century Remuneration.

The Committee engaged the services of 21st Century Remuneration Consultants to conduct a remuneration benchmarking exercise for the Executive management to determine remuneration proposals ahead of the May 2019 Remuneration Committee meeting (which took place after audited results) and once approved, are backdated to 1 March 2019. The benchmarking included a comparison of guaranteed remuneration, STIs and LTIs, relative to the market. It is anticipated that the next formal benchmarking exercise will be conducted prior to the review of remuneration effective 1 March 2020.

The Committee is satisfied with the independence and objectivity of the service providers.

PART 2 – IMPLEMENTATION REPORT

This report relates to the actual implementation of our policies through providing details of the remuneration paid to the executive and non-executive directors for the period ended 28 February 2019.

This information is contained in Note 28 of the AFS.

EXECUTIVE PAY

Changes to Exco structure

During FY2019 there was a restructure of the Exco and the new structure comprises the following positions:

- CEO – Darren Hele (unchanged);
- Group FD – Lebo Ntlha (unchanged);
- COO Leading Brands (currently vacant pending recruitment outcome);
- COO Enterprise Development – Andrew Mundell (unchanged);
- Supply Chain Executive – Norman Richards; Norman retired from this role in February 2019, but is retained on a fixed term contract until end of January 2020;
- Managing Executive, Africa and Middle East – Philip Smith (unchanged);
- HR Executive – the appointment of Jabu Mahange as Group HR Executive was effective from 16 July 2018;
- Group Risk Officer – (currently vacant pending recruitment outcome);
- Company Secretary – Ian Isdale (incumbent unchanged, role to be an Exco position); and
- MD, GBK – Derrian Nadauld (unchanged).

This new structure recognises the increased importance of managing risk and creates a tighter focus on operational management. The current role descriptions for all the Exco positions were submitted to 21st Century Remuneration Consultants for an independent grading on the Paterson grading method.

Executive increases

After taking market surveys into account and based on the remuneration analysis conducted, the Committee was satisfied that market adjustments were required for the remuneration of the CEO and Group FD. The CEO was awarded an above-inflation increase to place him in line with the 50th percentile of market data, and to correct his job grading. The Group FD was given an above-inflation increase to also place her in line with the 50th percentile of market data, and to correct her job grading. Both these adjustments were made in line with commitments made in last year's Remuneration Report to position them at the 50th percentile, as per the Remuneration Policy.

Other executives were considered to be reasonably in line with the market and with the Group's remuneration strategy at that time. Increases were calculated on a principle of performance ranges around a percentage equating to overall CPI in their respective regions. The increases in South Africa were in a range of 4% (inflation) to a maximum of 8% (for top performers).

Famous Brands conducts an annual bespoke executive remuneration survey through independent consultants. For FY2019 the Committee reviewed the comparable peer group to ensure that changes in the market and the impact on both Famous Brands and the original peer group had not led to variances that made the current matches inappropriate.

Increases given to general Administration staff across the Group's operations were linked to local country inflation.

Company strategic focus areas

The strategic focus areas of the Company are discussed later in this report and the redesign of the STIP and LTIP Group metrics have been aligned to these key areas.

In addition, every year specific KPIs are set for executives to align with changing business conditions and areas requiring special focus.

Short-term incentive performance outcomes (STIP)

The CEO and Group FD's performance measures for the STIP are:

- 70% Company objectives; and
- 30% individual KPIs (on a balanced scorecard format, and as reviewed by the Committee).

Other Executive Committee members' performance measures are:

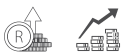
- 30% Company objectives; and
- 70% individual KPIs (on a balanced scorecard format as reviewed by the CEO).

The Group financial metrics for all executives other than the CEO and Group FD on the short-term incentives for FY2019 were HEPS growth (relative to CPI), and EBITDA growth (relative to CPI) each of which count 50% of the Group metrics. Individual scorecards contain KPIs on business plan performance, other financial metrics, market share performance and customer service, people performance and strategic projects. The new metrics described below were applied to the CEO and Group FD for FY2019.

The executive directors are measured on Group performance while the Corporate Support Executives and SA-based Customer-Centric Executives are measured on SA business performance, and the UK-based Executives are measured on UK business performance.

New metrics for the STIP FY2020

Following decisions taken in the October 2018 Remuneration Committee meeting, the new metrics for the STIP are outlined in the table below:

Weighting (%)	Key performance measures	Related key strategic material matter	Affected key stakeholders
30	**Business plan performance**		• Franchise partners. • Customers. • Shareholders, analysts and prospective investors. • Suppliers and business partners.
35	**Financial performance**		• Shareholders, analysts and prospective investors. • Funding institutions.
15	**Market share performance and customer measures**		• Franchise partners. • Customers.
10	**People performance**		• Employees. • Trade unions.
10	**Transformation and ESG measures**		• Employees. • Trade unions. • Government and regulators. • Customers. • Civil society.
100	**Total**		

These new measures applied to the CEO and Group FD for FY2019. However, as two thirds of the financial year had already passed before these were approved, it was deemed appropriate to implement the new measures for the rest of the executives only in the next financial year (FY2020) rather than apply them retrospectively in the 2019 financial year.

In line with the previous STIP metrics, the CEO and Group FD are measured on Group performance, while the SA-based executives are measured on SA business performance and the UK-based executives are measured on the UK business performance.

The narrative which follows is a report-back by the CEO on the main achievements during the review period, and illustrates the relationship between strategy, objective measurement and remuneration.

The five key performance measures (KPMs) outlined below are aligned with the Group's most material matters which determine its strategic imperatives. The CEO's report on page 54 and the Key strategic material matters report on page 44 provide further comprehensive information in this regard.

Business plan performance

This strategic imperative links to the Group's key material matters to improve operational efficiencies; enhance financial performance; lead in a competitive landscape; and prioritise the franchise partners.

The main components of this imperative were to:

- optimise the portfolio;
- entrench operational excellence;
- improve financial and cost management; and
- refine and implement the strategy for GBK UK.

The business plan was executed under difficult trading conditions with minimal shortfall or delay of the strategic imperatives. Key work has been done on clearly managing the various business units' potential and defining narrower profit pools, whilst ensuring the business has been simplified and costs managed in the right places.

By implementing a tighter growth agenda and applying a brutal filter to unclutter and grow the business, a more streamlined business model has been achieved.

In addition, an operational foundation was laid to enable the Group's Brands, Logistics and Manufacturing divisions to compete more aggressively in an increasingly competitive yet weak economic environment.

A key development was reorientating the business to prioritise its most valuable assets – the brands. The operational excellence programme implemented across the Group started to pay off. Among other initiatives, the new ERP investment was leveraged to enhance analysis and reporting in the business; a logistics upgrade programme was developed to manage capacity growth over the next decade; and the first phase of a three-phase efficiencies plan was implemented in all our manufacturing plants.

A range of transactions were well managed and successfully concluded, including: the completion of a challenging restructuring process in the UK; ceasing operations at Coega Concentrate; the formation of the TruBev joint venture; execution of Put/Call options in Mythos; establishing an offshore structure to manage the tashas business outside of SA; overhauling of Lamberts Bay Foods; putting the Paul venture on a stable footing; and creating FoodConnect.

Deliberate simplification of the business has facilitated a tightening of capital expenditure. In the short term it may appear that expansionary activity has been constrained, but given the acquisitive activity in 2016, consolidation remains an appropriate strategy.

Restructuring GBK to improve the long-term viability of the business model was a significant challenge for management. However, improved trading has been reported by the business as a result of remedial operational measures implemented. This, together with the anticipated benefits of the completed CVA programme should improve the long-term sustainability of the operation.

Financial performance

This strategic imperative links to the key material matters to enhance financial performance as well as optimise capital management in the Group.

The main components of this imperative were to:

- achieve/exceed FY2019 internal Group budgets; and
- improve capital discipline and allocation.

Disappointingly, the overall financial performance of the business was below budgeted expectations, hampered by the under-performance of GBK in the UK and the subdued second half performance of the SA business, largely attributable to macro factors.

Good progress was, however, achieved in entrenching a focus on balance sheet management to complement the rigorous approach that was adopted to income statement management. The debt profile was also successfully restructured to better suit the business and more definitive allocation of corporate costs to the appropriate business units was implemented.

Market share performance and customer measures

This strategic imperative links to the key material matters to improve operational efficiencies; lead in a competitive landscape; and prioritise the franchise partners.

The main components of this imperative were to:

- develop and implement a marketing strategy for the digital and convenience-driven world;
- support the Leading brands' generation of 'Big Bold Ideas'; and
- achieve/exceed the internal FY2019 new restaurant opening budgets by brand.

The clear strategy to prioritise the franchise partners and customers was embedded in the Group's activities throughout the year.

Capability in the digital arena was grown and home delivery reinforced across all the brands. A range of digital projects were implemented to ensure the business keeps pace with the rapidly evolving digital sphere. Key projects, managed by the tech hub and overseen by the CEO, include the Wimpy APP to create a CRM launch pad, driver tracking, self-service terminals, order-at-table functionality, and central delivery service. These projects were all run on time and within budget.

The reorientation of focus around Leading brands has ensured the Group's stronger brand assets are receiving the proportionate time, resources and funding to compete and support franchise partners appropriately. The re-prioritised resources supported the Leading brands to deliver Big Bold ideas. The brands remained extremely popular, endorsed by the plethora of consumer awards that were received across the offering over the year.

In the current constrained economy the priority has been to ensure the profitability of the franchise partners and the viability and sustainability of the franchise model, which has compelled the business to rationalise non-performing stores and brands.

People performance

This strategic imperative links to the Group's key material matter to develop and transform its people.

The main components of this imperative were to:

- upweight succession planning and talent management; and
- implement a new HR structure to deliver people capability.

This intervention has delivered a fundamental difference to the organisation's Human capital capability, transformation, and succession planning and morale factor. An acute gap in the HR capability has been filled and the right leadership installed. A process of building a clear succession pipeline that is more aligned to market norms has begun.

Transformation and ESG measures

This strategic imperative links to the organisation's key material matters to develop and transform its people, and ensure regulatory compliance.

The key components of this imperative were to:

- achieve improved BBBEE targets; and
- monitor ESG performance against agreed measures.

The business embraced the challenges arising from its slow progress with regard to transformation and the increasing demand for improved ESG awareness and reporting.

The concerted efforts to improve the BBBEE score resulted in the Group achieving a rating of level 7.

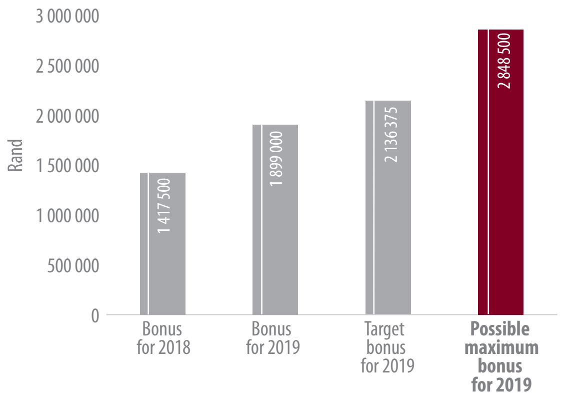
Furthermore, the ESG progress is reflected in the initiatives implemented in the operations, namely the Better for You campaign and Sustainability Journey policies and timeframes in the Brands' division, and the heightened awareness, improved reporting, and reduced consumption of non-renewable resources in the Manufacturing and Logistics divisions.

In line with the Group's goal to improve relationships with key stakeholders and align closer with best practice, management conducted, and will continue to implement an ongoing shareholder and prospective investor engagement programme to convey the Group's investment proposition in a clear consistent manner.

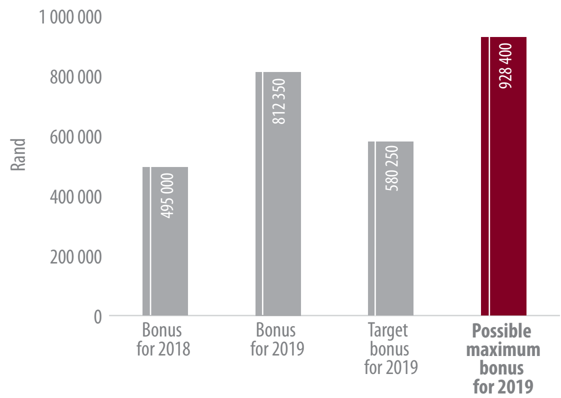
Performance bonus: executive directors

This year's performance resulted in the following bonus outcomes for the CEO and Group FD. The CEO received a bonus of 40% (threshold) of annual pay while the Group FD received a bonus of 35% of annual pay. The last three years' bonuses for the CEO and Group FD are depicted below together with the relevant target and maximum bonuses for each.

STI bonuses – CEO



STI bonuses – Group FD



Long-Term Incentive Plan (LTIP)

Vesting of 2015 share grants

The LTIP replaced the Share Options Scheme during the year ended 29 February 2016 and the first tranche of a five-year scheme with staggered vesting was 1 November 2018.

One third of the RS which were issued on 1 November 2015 at a zero strike price vested on 1 November 2018. However due to a cautionary announcement being in place, the Committee determined that the actual vesting date would be the first trading date after the cautionary announcement was lifted and thus the actual vesting took place on 12 November 2018, the value being determined by the 30 day VWAP of the share price on the date of vesting.

All share grants are equity settled at the time of vesting.

The SARs vest on the later of the dates that the Committee determines the performance condition has been met or the vesting condition has been satisfied (Rule 8.2 of the Share Scheme rules). As a result of the Committee determining that the original grant letters were not specific on the performance period for the performance condition, that this should be aligned to the 5-year term of the grant. Thus the first vesting of SARs will be 1 November 2020. (New grant letters have specific performance periods clearly specified).

FY2019 LTIP

The CEO and the Group FD elected not to accept shares for the FY2019 LTIP as per grants in November 2018 as they did not believe the performance of the Company justified any award for themselves.

The remainder of the Executive Committee members received an LTIP award in respect of FY2019 to top up to the 50th percentile of the respective JSE benchmarked levels as required. The shares were in the ratio of 25% RS to 75% SARs. Both RS and SARs are subject to vesting conditions and the SARs awards are all subject to meeting the scheme performance conditions. While the first allocation to a new participant in the scheme vests in equal portions in years 3, 4 and 5, the shares granted as top ups in the scheme for existing participants cliff-vest at 100% three years from the date of allocation.

New metrics for the LTIP FY2020

Following decisions taken in October 2018 by the Remuneration Committee, the metrics for the LTIP were modified, as discussed on page 103.

These new metrics will be applied to share allocations from June 2019.

Future focus areas for the LTIP are that in the longer term, the Committee plans to work with 21st Century Remuneration Consultants to complete a review of the Share Scheme, its cost and overall effectiveness in driving performance and retention, and the appropriate mix of RS and SARs.

MSRs

MSRs have been introduced for executive directors, as discussed on page 103. These provisions include a limitation on sale of shares but do not limit the maximum number of shares an executive director may hold. The executive directors adhered to this when transacting in November 2018, ensuring all options were converted into shareholding.

Non-executive directors' fees and allowances

The proposal which will be put to shareholders at the AGM is an increase of 5% in fees for FY2019. This is in line with salary increases in 2019.

Note 28 of the AFS summarises the directors' fees for the period.

Other employees

The Group head count is 4 805 including employees in the UK. The number is 2 411 excluding employees in the UK.

The remuneration process for other employees is as follows:

- management assesses performance of Administration employees against measurable scorecards aligned with the business objectives on an annual basis;
- employee rewards are influenced by individual and Company performance and employees are recognised by way of a discretionary performance bonus; and
- aggregate bonus pool amounts are reported to the Committee.

Bonuses were paid out at 100% as per the performance ratings and the provision, resulting in savings of R1 738 560 against the maximum bonus payout.

Bargaining Unit employees are subject to the terms of wage agreements and enjoy a 'basic plus benefits' remuneration scheme whereby Famous Brands contributes to their provident fund. They also qualify for a guaranteed bonus equal to a 13th cheque.

Famous Brands remains committed to equitable and competitive pay practices.

In South Africa, we conduct pay audits in terms of the Code of Good Practice on Equal Pay/Remuneration For Work of Equal Value under the Employment Equity Act 1998 (as amended). In the UK, we conduct gender pay audits under the terms of the Equality Act 2010.

Fair and responsible remuneration of executives relative to overall employee remuneration

Good practice would suggest that a benchmarking analysis of all employees is to be conducted every five years.

Management is initiating a project to reassess new and/or changed roles throughout the Group and conduct suitable benchmarking to be able to perform an objective assessment of the appropriateness of remuneration levels throughout the organisation in time for the annual salary reviews effective 1 March 2020. One of the key deliverables of this project will be to provide a benchmarked salary band for each employment level. This will allow a more factual assessment of whether the Group's Remuneration Policy achieves the objective of fair and responsible executive remuneration relative to overall employee remuneration.

Pay audits

In January 2019, a pay audit exercise was completed in South Africa, in accordance with the Code of Good Practice on Equal Pay/ Remuneration for Work of Equal Value. The exercise excluded the Bargaining Unit and the executives. Out of 843 Administration staff, 48 employees ranging in grades from B2 to D3 on the Patterson grading system, had their salaries adjusted in line with the Code of Good Practice to address different forms of what appeared to be arbitrary discrepancies.

Gender pay gap legislation: GBK UK

In the UK, Gender Pay Reporting is a regulation under the Equality ACT 2010. With effect from 4 April 2018, all UK employers with 250 or more employees are required to publish statistics relating to the pay rates and pay gaps of their male and female workforce. In accordance with UK legislation, GBK published its gender pay gap on 29 March 2019. The data is as follows:

- Mean Average Pay Gap = 5.24% compared to 12.26% in March 2018; and
- Median Average Pay Gap = 10.8% compared to 12.79% in March 2018.

The proportion of male and female employees according to quartile pay bands is:

- upper quartile = 65% male/35% female;
- upper middle quartile = 51% male/49% female;
- lower middle quartile = 42% male/58% female; and
- lower quartile = 37% male/63% female.

In addition, the data shows that 15% of men working at GBK received a bonus compared to 11% of women.

While our figures are below the UK national median gap of 17.9%, we recognise that as an equal and fair opportunities employer, we have a responsibility to attract more women into managerial positions as well as provide a clear career pathway to achieve those top jobs.

Directors' report

The directors have pleasure in submitting their report for the year ended 28 February 2019.

Nature of business

Famous Brands Limited (Famous Brands or the Group or the Company) is a holding company listed on the JSE Limited (JSE) under the category Consumer Services: Travel and Leisure. The Group is Africa's leading branded food services franchisor.

Famous Brands' vertically integrated business model comprises a portfolio of 25 brands represented by a franchise network of 2 871 operations across South Africa, the Rest of Africa, the United Kingdom, and the Middle East, underpinned by substantial Logistics and Manufacturing operations.

Directors' responsibilities

The responsibilities of the Company's directors are detailed in the Group's annual financial statements (AFS).

Financial statements and results

The Group's results and financial position are reflected on pages 7 to 95 of the AFS.

Significant events

Company Voluntary Arrangement (CVA) at GBK Restaurants Limited (GBK)

On 11 December 2018 we notified shareholders that GBK UK had completed a CVA aimed at improving the financial viability of the business. Management is optimistic that remedial actions underway to ensure the long-term sustainability of the business are gaining momentum, reflected by the stronger trading results reported for the second half of the year compared to the first half, and the positive like-for-like sales recorded in the period since year-end.

The costs incurred at GBK in relation to the CVA amounted to R17.2 million.

Debt restructure

The Group continues to comply with its financial covenants and comfortably meet its debt repayment obligations, in line with agreed financing commitments. In light of strong cash reserves, management proactively engaged with lenders to restructure the Group's debt finance and reduce gearing. Accordingly, the revised debt profile is more appropriate for the business and was achieved at lower interest rates.

Impairments

A decision has been taken by the Board of Directors of Famous Brands (the Board) to recognise the following amounts in relation to the Company's investment in GBK:

- an impairment of intangible assets at Group level of R573 million (2018: R304 million); and
- an impairment of property, plant and equipment at GBK entity level of R301 million (2018: R69 million).

Corporate Governance

The Corporate Governance report is set out on pages 90 to 97 of this document.

Tangible and intangible assets

Movements in the Group's tangible and intangible assets are set out in Note 1 *Property, plant and equipment* and Note 2 *Intangible assets* in the AFS.

Dividends

The directors declared a final gross ordinary dividend number 44 of 100 cents per ordinary share, payable on 8 July 2019 to ordinary shareholders recorded in the books of the Company at the close of business on 5 July 2019.

Share capital

The authorised and issued share capital of the Company at 28 February 2019 is set out in Note 9 *Issued capital and share premium* in the AFS.

Issued during the year

The Company issued 88 784 (2018: 115 000) ordinary shares for a cash subscription of Rnil (2018: R14 million) to participants of the 2015 Share Scheme for the vesting of Retention Shares.

Shareholder spread and material shareholders

In terms of the JSE Listings Requirements paragraph 3.37 and 4.28(e), Famous Brands complies with the minimum shareholder spread requirements, with 75% (2018: 89%) of ordinary shares being held by the public at 28 February 2019. Details of the Company's shareholder spread and material shareholders are set out on page 138 of this document.

Staff Share Incentive Scheme

Details are reflected in Note 29 *Share-based payments* in the AFS.

Directors and Company Secretary

The names of the directors and the Company Secretary at the date of this report are detailed on page 86 to 89 of this document.

Changes to the Board

With effect from 1 August 2018, Deon Fredericks was appointed as an independent non-executive director to the Board and a member of the Audit and Risk Committee. With effect from 1 March 2019 he was appointed as Chairman of the Audit and Risk Committee, a position he assumed from Chris Boulle who served as Interim Chairman from 2 October 2017. The Board would like to thank Chris for his support and wise counsel while performing this role.

Subsequent to 28 February 2019, the following Board changes occurred:

- effective 8 March 2019, Thembisa Skweyiya resigned as an independent non-executive director. The Board is appreciative of the contribution made by Thembisa during her tenure;
- Bheki Sibiya, a long-standing member of the Board advised that he would be retiring at the Annual General Meeting (AGM) on 26 July 2019. We would like to express our gratitude to Bheki for his significant contribution since his appointment to the Board in 2004; and
- with effect from 1 August 2019, Alexander (Alex) Maditse has been appointed as an independent non-executive director. The Board welcomes Alex and looks forward to his contribution.

Special resolutions

The special resolutions passed by the Company at its AGM held on 27 July 2018 are detailed on pages 3 to 5 of the 2018 Notice of Annual General Meeting of Shareholders and Summarised Results.

At the next AGM to be held on 26 July 2019, shareholders will be requested to approve special resolutions detailed on page 3 to 5 of the 2019 Notice of Annual General Meeting of Shareholders and Summarised Results.

Events after the reporting period

Coega Concentrate

In our interim results announcement, shareholders were advised that in anticipation of ongoing losses at the Coega Concentrate tomato paste plant, management had elected to cease operations at the facility with effect from 5 June 2018. Shareholders were further advised that a prospective buyer for the business had been identified and negotiations regarding the sale were in progress. Negotiations in this regard are ongoing.

Paul

In 2015, the Group became the SA licensed partner of global bakery-café brand, Paul, for a 10-year period. Effective 1 July 2019, the Group concluded a joint venture partnership with a local experienced restaurateur to manage and drive the profitability of the existing Paul restaurant and roll out the brand's footprint, as economic conditions improve. In terms of our Paul license agreement, the Group is contracted to open five restaurants over a five-year period. This new partnership will expedite the programme.

tashas

In April 2019, a new business entity was established to house all of the tashas business outside of South Africa and drive international growth in the Middle East as a priority. Founder of the brand, Natasha Sideris, will manage the entity and hold a 51% stake, while the Group will own the balance. Based on the brand's strong track record in the UAE, management is optimistic that tashas' existing footprint of six restaurants can be expanded in the region. The Group will continue to own 51% of the SA operation.

Audit and Risk Committee report

In terms of section 94 of the Companies Act of South Africa, the report by the Audit and Risk Committee, (the Committee), which is chaired by Deon Fredericks, is presented below.

COMPOSITION OF THE COMMITTEE

- Chris Boulle (resigned 28 February 2019);
- Norman Adami;
- Emma Mashilwane;
- Thembisa Skweyiya (resigned 8 March 2019); and
- Deon Fredericks (appointed 1 August 2018 as a member and 1 March 2019 as Chairman).

RESPONSIBILITIES OF THE COMMITTEE

During the financial year ended 28 February 2019, the Committee met on three occasions. Deon was appointed as the Chairman effective 1 March 2019. The attendance at the Committee's meetings is set out below:

Meeting attendance

	Meeting dates		
Independent non-executive director	21 and 22 May 2018	22 October 2018	25 February 2019
CH Boulle	✓	✓	✓
NJ Adami	✓	✓	✓
TE Mashilwane	✓	✓	✓
T Skweyiya	✓	✓	✓
DJ Fredericks (Chairman)*	✗	✓	✓

* *Appointed as a Committee member on 1 August 2018 and as Chairman on 1 March 2019.*

In addition to the duties set out in the Committee's charter the Committee carried out its functions, *inter alia*, as follows:

External audit

- nominated the re-appointment of Deloitte & Touche as the registered independent auditor after satisfying itself through enquiry that Deloitte & Touche and Ms SJ Nelson are independent as defined in terms of the Companies Act of South Africa and the Independent Regulatory Board for Auditors (IRBA) in terms of the Auditing Profession Act;
- determined the terms of engagement, reviewed the external audit plan and reviewed the fees to be paid to Deloitte & Touche;
- ensured that the appointment of Deloitte & Touche complied with the legislation relating to the appointment of auditors;
- considered the tenure of Deloitte & Touche and the engagement partner and deem it appropriate;
- considered the quality control processes of the external auditor and specifically audit quality reviews conducted over the designated auditor, including those performed by the IRBA as part of its routine review process in terms of the Auditing Profession Act;
- considered the appropriateness of the other auditors engaged to perform audits within the Group, being Rees Pollock Chartered Accountants in the UK and PKF Botswana and deem them appropriate;
- understood and assessed the procedures performed by Deloitte & Touche to place reliance on the work performed by the other auditors; and
- reviewed the external auditors' report on the consolidated and Company annual financial statements and the key audit matters.

Internal audit

- reviewed the internal audit reports and processes;
- reviewed and approved the internal audit business plan, budget and audit plan;
- reviewed the IT governance;
- performed the annual review and approval of the Internal Audit Charter; and
- the Committee is satisfied with the competence of the Head of internal audit.

Financial statements, accounting practices and other financial matters (including internal controls)

- reviewed an assessment prepared by management of the going concern status of the Company and made recommendations to the Board. The Committee concurred that the adoption of the going concern premise in the preparation of the annual financial statements is appropriate;
- reviewed the financial and general covenants applicable to the Group based on the current lending structure and the current capital structure, which was found to have been complied with and appropriate;
- evaluated and reported to the Board on the effectiveness of risk management controls and governance processes;
- Reviewed the processes in place for the reporting of concerns and complaints relating to financial reporting and accounting practices, internal audit, contents of the Group's and the Company's annual financial statements, internal financial controls and any related matters. The Committee can confirm that there were no concerns or complaints noted;
- reviewed and recommended the short and long-form announcements to the Board for approval;
- reviewed and recommended the interim and annual financial statements to the Board for approval;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- considered accounting treatments, significant unusual transactions and key accounting judgements;
- reviewed and recommended the Integrated Annual Report to the Board for approval;
- considered the reports of the internal auditor and external auditor on the Group's systems of internal control including financial controls, business risk management and maintenance of an effective internal control system;
- received assurance that proper and adequate accounting records were maintained and the systems safeguard the assets against unauthorised use or disposal thereof; and
- annual review and approval of the Audit and Risk Committee Charter.

Based on the above, the Committee formed the opinion that there were no material breakdowns in internal control, including financial control, business risk management and the maintenance of effective material control systems.

Expertise and experience of the Group Financial Director

The Committee is satisfied with the experience and expertise of the Group Financial Director, Lebo Ntlha.

Competence, qualifications and experience of Company Secretary

The Committee is satisfied with the competence, qualifications and experience of the Company Secretary, Ian Isdale.

KEY AUDIT MATTERS AND SIGNIFICANT AREAS OF JUDGEMENT

In considering key accounting judgement areas, the Committee considered the key audit matters as per below.

Impairment assessment of goodwill and indefinite life intangible assets associated with GBK

The Committee spent time understanding the significant estimates and judgements in the valuation model of the GBK cash-generating unit. The judgement areas include the discount rate, long-term growth rate, like-for-like growth rates and the store roll out plan. The Committee is satisfied that the impairment recognised of R573 million (2018: R304 million) results in the goodwill and the indefinite life intangible asset being reflected at their expected recoverable amounts.

Impact of the CVA on GBK store level property, plant and equipment impairment and lease balances

The GBK business completed a CVA, which is a process of restructuring the business and obtaining rental relief in the short to medium term. The CVA has resulted in 24 stores being closed during the year in the UK and thus resulted in impairment of the respective property, plant and equipment. Management has applied judgement in assessing the recoverability of the assets relating to the closed stores and remaining stores. An impairment of R301 million (2018: R69 million) has been recognised. The Committee is satisfied with the impairment recognised, the impact of the CVA on the lease balances, and disclosure thereof.

Impairment of investment – GBK (Famous Brands Limited company level)

The impairment of the investment at Famous Brands Limited Company has been assessed in line with the assumptions in the initial key audit matter noted above. The Committee is satisfied with impairment to the value of R713 million (2018: R454 million) raised in the Company financial statements of Famous Brands Limited.

Other significant judgement areas

The Committee has further considered the remaining significant judgements and sources of estimation uncertainty per Accounting Policy Note 4 of the AFS and is satisfied that appropriate judgement has been made and processes followed in concluding on the significant judgement areas.

Conclusion

Having considered all the material factors and key audit matters, the Committee recommended the annual financial statements for the year ended 28 February 2019 for approval to the Board. The Board has approved the annual financial statements which will be open for discussion at the forthcoming Annual General Meeting of shareholders.

Deon Fredericks
Chairman
27 June 2019

Social and Ethics Committee report

Chris Boulle

"I am pleased to report that resulting from concerted efforts, the Group attained BBBEE compliance, at level 7. Our goal is to achieve a level 6 status in the forthcoming year."

INTRODUCTION

The Social and Ethics Committee (the Committee) is constituted as a formal Committee in terms of the Companies Act and this report is prepared in compliance with the requirements of the Companies Act. The Committee operates according to a formal Charter which contains the terms of reference, composition, role, responsibilities and duties of the Committee. The Charter is reviewed from time to time.

ATTENDANCE AND COMPOSITION

The Committee met three times during the year under review and comprised three non-executive directors and the Chief Executive Officer. The Committee is chaired by a non-executive director. With effect from, 8 March 2019, Thembisa Skweyiya resigned from the Board and the Committee. Chris Boulle replaced her as Chairman. At the time of issuing this report, the Committee comprised of Chris Boulle (Chairman), Bheki Sibiya and Nik Halamandaris. Attendance at the meetings is reflected on page 96.

Other executives who attended by invitation included the Chief Operating Officer, HR Executive, Transformation Manager and the Chief Marketing Officer. The Company Secretary minuted the meetings.

REPORTING FRAMEWORK

The Social and Ethics Committee and the Social and Ethics Committee working group (which consists of the executives of the Group), have adopted best practice by operating in a manner which is consistent with the '10 Principles of the United Nations Global Compact'. This globally recognised framework ensures that Famous Brands covers all Social and Ethics related subjects in a comprehensive and holistic manner.

At a national level, the South African Constitution, the Labour Relations Act and the BBBEE Act form the fundamental framework around which the Committee operates.

At an environmental level, the formulation of an Environmental, Social and Governance (ESG) policy is the Company's focus.

ROLES AND DUTIES

The duties of the Committee as outlined in the Companies Act include the following:

Social and ethics responsibilities

- Review and approve the Group's policy, strategy and structures to manage social and ethics issues against the '10 Principles of the United Nations Global Compact'.
- Oversee the monitoring, assessment and measurement of the Group's activities relating to good corporate citizenship. This includes the promotion of equality; prevention of unfair discrimination; contribution to the development of the communities in which its activities are predominantly conducted or within which its services are predominantly marketed; and recording sponsorship, donations and charitable giving.
- Determine clearly articulated ethical standards (Code of Ethics, conflict of interest, anti-fraud) to be adopted by the Group, thus achieving a sustainable ethical corporate culture. This includes management of potential and actual conflicts of interest, fraud and corruption.
- Assisted by the Social and Ethics working group, regularly review the Group's Code of Ethics and compliance therewith.
- Monitor and oversee reporting and reduction of fraud and corruption.
- Review the adequacy and effectiveness of the Group's engagement and interaction with its stakeholders.
- Oversee the monitoring, assessment and measurement of the Group's consumer relationships including its advertising, public relations and compliance with consumer protection laws.
- Oversee the monitoring of the Group's labour and employment practices, including its standing in terms of the International Labour Organisation Protocol on decent work and working conditions, the Group's employment relationships and its contribution to the educational development of its employees.
- Monitor and oversee sustainability matters including ESG matters.
- Oversee the implementation of King IV as it pertains to social and ethics issues.

Transformation responsibilities

- Research, evaluate and make recommendations to the Board regarding the appropriate nature, extent and methods of implementation of transformation at all levels within the Group
- Create an enabling environment within the Group which encourages and develops a new way of doing business which embraces and celebrates diversity
- Develop a skilled and motivated workforce whose profile is representative of the demographics of this country, and
- Report to the Board on the transformation work undertaken, and the extent of any action taken by management to address areas identified for improvement.

FUNCTIONS CONDUCTED

During the review period, the Committee and/or the Social and Ethics Committee working group carried out, *inter alia*, the following:

- approved the Charter of the Committee;
- reviewed and reported to the Board on the Group's Employment Equity performance relative to the Group's Employment Equity Plan;
- reviewed and accepted management's feedback regarding the Group's activities, having regard to the relevant legislation and best practice, matters relating to:
  - social and economic development;
  - good corporate governance;
  - ESG matters;
  - consumer relationships; and
  - labour and employment.
- reviewed, updated and approved the Group's Code of Ethics, conflict of interest, anti-fraud and whistleblowing policies;
- introduced a globally accepted best practice measure for health and safety in our South African operations;
- introduced enhanced food safety measures across the business;
- introduced systems and improved efficiency of utilities consumption in the manufacturing businesses;
- reviewed and reported to the Board on the Group's detailed BBBEE strategy, targets and budget, as well as progress made aligned to the scorecard;
- approved the Group's CSI policy as pertaining to the South African operations, and provided the Board with updates on existing projects and progress achieved, as well as made recommendations regarding new proposed projects;
- reviewed and recommended to the Board for approval the non-financial disclosures contained in the IAR. These include, *inter alia*, the Sustainability disclosures as well as the Governance report; and
- reviewed and approved the approach with regard to the employment of persons with disabilities.

The Committee's priority focus throughout the year was on improving the Group's BBBEE status from non-compliant to compliant. I am pleased to report that resulting from concerted efforts on increasing enterprise and supplier development (ESD), skills development, preferential procurement and employing individuals with disabilities, the Group attained BBBEE compliance, at level 7.

Notwithstanding this achievement, and as noted in various reports in this IAR, our goal is to achieve a level 6 status in the forthcoming year through various opportunities, including preferential procurement, ESD, equity and skills development.

During the year under review, good progress was made in terms of ESD initiatives. This included the Berlin Beef project (refer to the case study on page 19) and the growth of our joint venture partnership with sales and distribution business, FoodConnect, which expanded its footprint and listings in the South African market (refer to page 80).

The Committee is satisfied that management is committed to ensuring the Group's sustainability in the short, medium and long term; embraces its responsibilities with regard to the health and safety of its employees; and is mindful of the impact of its activities on the community and on the environment.

As Chairman of this Committee, I will be available at the Group's AGM to respond to any enquiries regarding the statutory obligations of the Committee.

Chris Boulle
Chairman
27 June 2019

Summarised consolidated financial statements

Summarised consolidated statement of financial position

as at 28 February 2019

	Note	2019 R000	2018 R000
ASSETS			
Non-current assets		**3 297 136**	3 983 129
Property, plant and equipment	6	**1 048 537**	1 339 789
Intangible assets	7	**2 179 770**	2 547 845
Investments in associates		**57 199**	80 926
Deferred tax		**11 630**	14 569
Current assets		**1 636 714**	1 922 662
Inventories		**455 817**	436 102
Current tax assets		**59 060**	99 132
Trade and other receivables		**668 072**	670 440
Cash and cash equivalents		**453 765**	716 988
Assets held for sale	8	**35 350**	–
Total assets		**4 969 200**	5 905 791
EQUITY AND LIABILITIES			
Equity attributable to owners of Famous Brands Limited		**1 421 594**	1 505 598
Non-controlling interests		**115 202**	126 429
Total equity		**1 536 796**	1 632 027
Non-current liabilities		**2 467 885**	3 014 460
Borrowings	17	**2 088 098**	2 513 489
Derivative financial instruments		**21 133**	32 370
Lease liabilities		**54 952**	86 355
Deferred tax		**303 702**	382 246
Current liabilities		**962 814**	1 259 304
Non-controlling shareholder loans		**2 500**	7 500
Derivative financial instruments		**97 060**	159 555
Lease liabilities		**14 025**	11 125
Trade and other payables		**803 176**	770 720
Provisions	9	**–**	32 851
Shareholders for dividends		**2 195**	2 221
Current tax liabilities		**18 254**	8 068
Borrowings	17	**25 604**	267 071
Bank overdrafts		**–**	193
Liabilities held for sale	8	**1 705**	–
Total liabilities		**3 432 404**	4 273 764
Total equity and liabilities		**4 969 200**	5 905 791

Summarised consolidated statement of profit or loss and other comprehensive income

for the year ended 28 February 2019

	Note	2019 R000	2018 R000	% change
Revenue	10	**7 179 536**	7 023 095	2
Cost of sales		**(3 592 399)**	(3 254 591)	(10)
Gross profit		**3 587 137**	3 768 504	(5)
Selling and administrative expenses		**(2 737 463)**	(2 878 246)	5
Operating profit before non-operational items		**849 674**	890 258	(5)
Non-operational items	12	**(916 648)**	(372 592)	
Operating (loss)/profit including non-operational items		**(66 974)**	517 666	(113)
Net finance costs		**(225 634)**	(251 345)	
Finance costs		**(285 008)**	(304 687)	
Finance income		**59 374**	53 342	
Share of profit of associates		**4 479**	3 906	
(Loss)/profit before tax		**(288 129)**	270 227	(207)
Tax		**(134 414)**	(206 876)	
(Loss)/profit for the year		**(422 543)**	63 351	(767)
Other comprehensive income, net of tax:				
Exchange differences on translating foreign operations*		**281 672**	21 440	
Pre-tax exchange differences on translating foreign operations		**324 178**	22 754	
Tax effect on exchange differences on translating foreign operations		**(42 506)**	(1 314)	
Movement in hedge accounting reserve*		**155**	(3 920)	
Effective portion of fair value changes of cash flow hedges		**215**	(5 445)	
Tax on movement in hedge accounting reserve		**(60)**	1 525	
Total comprehensive (loss)/income for the year		**(140 716)**	80 871	
(Loss)/profit for the year attributable to:				
Owners of Famous Brands Limited		**(480 400)**	21 618	
Non-controlling interests		**57 857**	41 733	
		(422 543)	63 351	
Total comprehensive (loss)/income attributable to:				
Owners of Famous Brands Limited		**(198 573)**	39 138	
Non-controlling interests		**57 857**	41 733	
		(140 716)	80 871	
Basic (loss)/earnings per share (cents)	11.1			
Basic		**(480)**	22	(2 282)
Diluted		**(479)**	22	(2 277)

* *This item may be reclassified subsequently to profit or loss.*

Summarised consolidated statement of changes in equity

for the year ended 28 February 2019

	2019 R000	2018 R000
Balance at the beginning of the year	**1 632 027**	1 485 314
Issue of capital and share premium	**9 234**	13 635
Equity settled share-based payment schemes	**29 357**	26 600
Put-options over non-controlling interests*	**76 974**	42 716
Total comprehensive (loss)/income for the year	**(140 716)**	80 871
Payment of dividends	**(73 367)**	(17 182)
Change in ownership interests in subsidiaries	**3 287**	73
Balance at the end of the year	**1 536 796**	1 632 027

* *FY2018 movement relates to forfeiture of a put option. FY2019 movement relates to the exercise and expiry of put options.*

Summarised consolidated statement of cash flows

for the year ended 28 February 2019

	Note	2019 R000	2018 R000
CASH GENERATED BEFORE WORKING CAPITAL CHANGES		**1 055 882**	1 135 121
Working capital changes		**(22 298)**	(12 201)
(Increase)/decrease in inventories		**(18 352)**	18 768
Decrease/(increase) in trade and other receivables		**11 651**	(12 730)
Increase in trade and other payables		**(15 597)**	(18 239)
CASH GENERATED FROM OPERATIONS		**1 033 584**	1 122 920
Net interest paid		**(195 857)**	(207 440)
Tax paid		**(197 209)**	(274 386)
Cash available from operating activities		**640 518**	641 094
Dividends paid to owners of Famous Brands Limited		**(26)**	–
Dividends paid to non-controlling interests		**(73 367)**	(17 182)
Net cash inflow from operating activities		**567 125**	623 912
CASH UTILISED IN INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(119 046)**	(192 588)
Intangible assets acquired		**(18 144)**	(38 531)
Proceeds from disposal of property, plant and equipment and intangible assets		**43 663**	29 171
Net cash outflow on acquisition of subsidiaries	15	**–**	(2 589)
Dividends received from associate		**4 340**	3 149
Net cash outflow utilised in investing activities		**(89 187)**	(201 388)
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowings raised		**2 187 000**	–
Borrowings repaid		**(2 919 759)**	(106 667)
Cash paid on settlement of non-controlling shareholder loans		**(5 000)**	(14 630)
Proceeds from issue of equity instruments of Famous Brands Limited		**–**	13 635
Settlement of put option over non-controlling interest in subsidiary	14	**(23 374)**	–
Proceeds from disposal of non-controlling interest in subsidiary		**4 559**	–
Structuring fees paid on debt raised		**(3 630)**	–
Net cash outflow from financing activities		**(760 204)**	(107 662)
Net (decrease)/increase in cash and cash equivalents		**(282 266)**	314 862
Foreign currency effect		**20 195**	(3 261)
Cash and cash equivalents at the beginning of the year		**716 795**	405 194
Cash and cash equivalents at the end of the year*		**454 724**	716 795

* *Comprises cash and cash equivalents of R454 million (2018: R717 million) and bank overdrafts of Rnil (2018: R193 000). R1 million (2018: Rnil) is included in assets held for sale, refer to Note 8.*

Primary (business units) and secondary (geographical) segment report

for the year ended 28 February 2019

	Note	2019 R000	2018 R000	% change
REVENUE				
Brands		**894 700**	851 021	5
Leading brands		**748 889**	722 172	4
Signature brands		**145 811**	128 849	13
Supply Chain		**4 446 514**	4 327 642	3
Manufacturing		**2 911 916**	2 850 530	2
Logistics		**3 942 223**	3 779 812	4
Eliminations		**(2 407 625)**	(2 302 700)	5
Corporate		**24 305**	10 878	123
South Africa (SA)		**5 365 519**	5 189 541	3
United Kingdom (UK)		**1 544 229**	1 580 947	(2)
Gourmet Burger Kitchen (GBK)		**1 431 723**	1 476 544	(3)
Wimpy		**112 506**	104 403	8
Rest of Africa and Middle East (AME)		**269 788**	252 607	7
Total		**7 179 536**	7 023 095	2
OPERATING PROFIT BEFORE NON-OPERATIONAL ITEMS				
Brands		**475 924**	431 170	10
Leading brands		**457 237**	411 737	11
Signature brands		**18 687**	19 433	(4)
Supply Chain		**513 341**	509 114	1
Manufacturing		**429 250**	405 171	6
Logistics		**84 091**	103 943	(19)
Corporate		**(96 769)**	(49 873)	
Share-based payment charge		**(39 770)**	(26 600)	(50)
Foreign exchange movement		**7 086**	(3 470)	304
Consolidation entries*		**(16 382)**	(12 160)	(35)
Corporate administration costs**^		**(47 703)**	(7 643)	(524)
SA		**892 496**	890 411	–
UK		**(64 390)**	(44 671)	(44)
GBK		**(82 102)**	(59 977)	(37)
Wimpy		**17 712**	15 306	16
AME***		**21 568**	44 518	(52)
Total		**849 674**	890 258	(5)
UK		**(318 016)**	(68 592)	
Impairment	12	**(300 793)**	(68 592)	
Once-off CVA-related costs****	12	**(17 223)**	–	
Corporate		**(954 201)**	(758 315)	
Impairment	12	**(598 632)**	(304 000)	
Net finance costs		**(225 634)**	(251 345)	
Share of profit of associates		**4 479**	3 906	
Tax		**(134 414)**	(206 876)	
(Loss)/profit for the year		**(422 543)**	63 351	(767)

* *Consolidation entries relate to depreciation and amortisation at Group level.*

** *Corporate administration costs include internal audit, Board fees, corporate finance, CEO, other head office administrative costs not relevant to operations and operating profit from Design HQ.*

*** *Includes put option remeasurement of R27 million. The prior remeasurement, included in corporate costs, was a credit of R30 million.*

**** *CVA costs relate to the once-off costs incurred as part of the Company Voluntary Arrangement process undertaken in the UK for GBK.*

^ *The prior Corporate administration costs have not been allocated on the same basis as current year. Had the allocation been done on a similar basis, the Corporate administrations costs for FY2018 would have been R42 million.*

Segment operating margins

for the year ended 28 February 2019

	2019 %	2018 %	% change
Brands	**53.2**	50.7	2.5
Leading brands	**61.1**	57.0	4.1
Signature brands	**12.8**	15.1	(2.3)
Supply Chain	**11.5**	11.8	(0.3)
Manufacturing	**14.7**	14.2	0.5
Logistics	**2.1**	2.7	(0.6)
South Africa	**16.6**	17.2	(0.6)
UK	**(4.2)**	(2.8)	(1.4)
GBK	**(5.7)**	(4.1)	(1.6)
Wimpy	**15.7**	14.7	1.0
AME	**8.0**	17.6	(9.6)
Total	**11.8**	12.7	(0.9)

Statistics and ratios

for the year ended 28 February 2019

	2019	2018	% change
Basic (loss)/earnings per share (cents)			
Basic	**(480)**	22	(2 282)
Diluted	**(479)**	22	(2 277)
Headline earnings per share (cents)			
Basic	**319**	393	(19)
Diluted	**318**	392	(19)
Ordinary shares (000)			
in issue	**100 066**	99 977	
weighted average	**100 000**	99 872	
diluted weighted average	**100 230**	100 231	
Operating profit margin (%)	**11.8**	12.7	
Net debt/equity (%)	**108**	126	
Net asset value per share (cents)	**1 536**	1 632	
Market value per share – at year-end (cents)	**9 000**	12 300	

Notes to the summarised consolidated financial statements

for the year ended 28 February 2019

Famous Brands Limited (the "Company") is a South African registered company. The summarised consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

1 STATEMENT OF COMPLIANCE

These summarised consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in issue and effective for the Group at 28 February 2019, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, and contains the information required by IAS 34 *Interim financial reporting* and the Companies Act of South Africa.

2 BASIS OF PREPARATION

The summarised consolidated financial statements do not include all the information and disclosures required for the full set of audited consolidated financial statements, and should be read in conjunction with the full set of the audited Annual Financial Statements which are available on our website at *www.famousbrands.co.za*.

The Group's audited Annual Financial Statements and the summarised consolidated financial statements as at and for the year ended 28 February 2019 were prepared on the going-concern basis. The accounting policies applied in the presentation of the summarised consolidated financial statements are consistent with those applied for the year ended 28 February 2018, except for new standards that became effective for the Group's financial period beginning 1 March 2018, refer Note 3.

The summarised consolidated financial statements were prepared on the historical cost basis, under the supervision of Lebo Ntlha, Group Financial Director.

3 CHANGES IN ACCOUNTING POLICIES

The Group has adopted all the new, revised or amended accounting standards which were effective for the Group from 1 March 2018. The following new accounting standards have been applied in the 2019 financial period:

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard, *inter alia*, introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. The standard further introduces a single impairment model being applied to all financial assets, except those measured at fair value through profit or loss, as well as an expected credit loss (ECL) model for the measurement of financial instruments. It introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

Overall financial impact

The transition to IFRS 9 did not have a quantitative financial impact on the summarised consolidated financial statements.

Overall effect on disclosures

The classification of trade and other receivables, cash and cash equivalents and receivables from Group companies has changed from loans and receivables to amortised cost.

Overall effect on impairment of financial assets

The Group adopted the Simplified Approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the trade and lease receivables. The adoption of the ECL impairment model did not have a material impact on the impairment allowances recognised in the consolidated financial statements.

Overall effect on hedge accounting

The Group has the option to continue to apply the hedge accounting requirements of IAS 39 until the current macro-hedging project is finalised, as all documentation is already in place. Accordingly, the Group has elected not to adopt the hedge accounting requirements of IFRS 9, but to continue applying the hedge accounting requirement of IAS 39 on existing hedges.

3 CHANGES IN ACCOUNTING POLICIES CONTINUED

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 11 *Construction contract*s and IAS 18 *Revenue*. The standard, *inter alia*, requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

The Group has elected to not restate prior figures and adopt a cumulative effect method.

Overall financial impact

The transition to IFRS 15 did not have a quantitative financial impact on the summarised consolidated financial statements.

Overall effect on disclosures

IFRS 15 requires the Group to disclose the disaggregated revenue by categories which depict the nature, amount, timing or uncertainty of revenue. The Group has considered how it discloses information to investors and how information is reviewed internally for evaluation of financial performance. Refer to Note 10 and the segment report for the disaggregation.

4 ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

There are a number of new standards, amendments to standards and interpretations that are applicable to the Group with an effective date after the date of the 2019 consolidated annual audited financial statements, and have not been applied in preparing the consolidated annual audited financial statements. The standard expected to have a key impact on the Group is IFRS 16 *Leases*.

IFRS 16 *Leases*

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations. IFRS 16 has one model for lessees, which will result in the majority of leases being included on the statement of financial position. No significant changes have been introduced for lessors relative to IAS 17.

The Group has assessed its significant lease agreements, particularly leases related to property rentals. These include Company-owned store leases, leases entered into to secure key sites for franchise outlets (i.e. head leases) and warehouses for our Logistics operations. The preliminary assessment indicates that material adjustments to non-current assets and non-current liabilities are to be expected as a result of the new standard. A neutral impact is expected at profit before tax level over time. The current estimates of the impact of adopting IFRS 16 from 1 March 2019 are:

- Increase in the Right of Use assets of between R1.1 billion and R1.3 billion;
- Increase in Lease liabilities of between R1.1 billion and R1.3 billion; and
- Increase in Lease receivables of between R31 million and R39 million.

Management will be applying the Modified Retrospective Approach and will be making use of practical expedients available including the following:

- Reassessment of definition of a contract;
- Exemption of short-term leases and low value assets;
- Measurement of right of use assets based on lease liabilities recognised at transition;
- Exclusion of initial direct costs; and
- Expedients on onerous lease provisions.

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

4 ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED CONTINUED

Other standards

The other standards are not expected to have a significant impact on the summarised consolidated financial statements.

	2019 R000	2018 R000
5 CAPITAL EXPENDITURE AND COMMITMENTS		
Invested	**137 190**	231 119
Property, plant and equipment	**119 046**	192 588
Intangible assets	**18 144**	38 531
Authorised, not yet contracted	**184 797**	205 648
Property, plant and equipment	**161 582**	178 346
Intangible assets	**23 215**	27 302
6 PROPERTY, PLANT AND EQUIPMENT		
Opening balance	**1 339 789**	1 397 601
Additions	**119 046**	192 588
Foreign currency translation	**127 461**	21 102
Disposals	**(36 828)**	(21 496)
Depreciation	**(195 971)**	(181 414)
Transfer from intangible assets	**26 985**	–
Transfer to held for sale	**(31 152)**	–
Impairment	**(300 793)**	(68 592)
Closing balance	**1 048 537**	1 339 789

Impairment

An impairment of R301 million (2018: R69 million) was recognised during the year under review at GBK restaurant level.

To determine the impairment to be processed, the affected property, plant and equipment was valued using value-in-use calculations performed at a site level. The recoverable amount for sites where impairment indicators were identified was determined on the basis of value-in-use, which amounted to R32 million (2018: R18 million). The key assumptions used in calculating the recoverable amount include the discount rate and the long-term growth rate. The long-term growth rate is 3% (2018: 2.2%), but some sites with leases expiring in less than 10 years have varied growth rate assumptions which range between 3% and 15% (2018: 3% and 6%). The discount rate used in measuring value-in-use was 5% per annum (2018: 5%). The impairment is mainly as a result of the store closures resulting from the CVA at GBK.

Sensitivity

An increase/(decrease) of 1% in the discount rate would result in an increase/(decrease) in the impairment charge of R3 million/(R3 million). An increase/(decrease) in the long-term growth rate of 1% in the forecast profits will result in a decrease/(increase) in the impairment charge of R7 million/(R7 million).

		2019 R000	2018 R000
7	**INTANGIBLE ASSETS**		
	Opening balance	**2 547 845**	2 818 755
	Additions	**18 144**	38 531
	Foreign currency translation	**247 506**	21 920
	Disposals	**(7 032)**	(5 963)
	Transfer to property, plant and equipment	**(26 985)**	–
	Amortisation	**(26 576)**	(21 398)
	Impairment	**(573 132)**	(304 000)
	Closing balance	**2 179 770**	2 547 845

Impairment

The GBK business, acquired in FY2017, was assessed as a cash-generating unit. The goodwill and brand value which arose on the acquisition of the business was allocated to this cash-generating unit's carrying amount for the purpose of the impairment assessment.

The recoverable amount of the cash-generating unit was determined on the basis of fair value less cost to sell, which amounted to R1.4 billion (2018: R1.9 billion). The fair value used in determining the recoverable amount of the cash-generating unit is based on an income approach valuation method including a present value discounting technique using Level 3 inputs.

Key assumptions used in the valuation includes the probability that the cash-generating unit will achieve the set long-term profit forecasts which includes like-for-like growth rates, the discount rate applied in arriving at the fair value and the store roll out plan. The assumed profitability was based on anticipated performances but adjusted for expected growth and the impact of reduced rentals expected from the CVA.

Like-for-like for growth rates have been based on current and expected economic conditions. The discount rate is determined based on current market rates and observable input, adjusted for risk associated with the business.

The future profits were forecast over a period of 10 years applying a like-for-like sales growth rate of between 1% and 3% (2018: between 0% and 3%) over the 10 year period. A long-term growth rate of 2% (2018: 2.2%) was set for the years subsequent to the forecast. A discount rate of 10.1% (2018: 8.0%) was applied.

An impairment of R573 million (2018: R304 million) was recognised during the financial year as a result of the continued poor GBK performance and subdued market in the UK. R47 million (2018: R304 million) relates to goodwill and R526 million (2018: Rnil) relates to the brand.

Sensitivity analysis on fair value less costs to sell

- An increase/(decrease) of 1% in the discount rate will result in a decrease/(increase) in the recoverable amount of R340 million/(R258 million).
- An increase/(decrease) in the like-for-like growth of 1% in the forecast sales will result in an increase/(decrease) in the recoverable amount of R481 million/(R484 million).
- An increase/(decrease) of 1 store per year in the roll-out plan results in an increase/(decrease) in the recoverable amount of R124 million/(R121 million).

Changes in key assumptions, as well as the actual cash flows achieved compared to those forecast can result in further impairments in the GBK business. The model is reliant on a certain level of economic recovery post-Brexit and the achievement of the turnaround strategy over the long term.

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

		2019 R000	2018 R000
8	**ASSETS AND LIABILITIES HELD FOR SALE**		
	Property, plant and equipment	**31 152**	–
	Trade and other receivables	**3 239**	–
	Cash and cash equivalents	**959**	–
	Assets held for sale	**35 350**	–
	Lease liabilities	**(1 014)**	–
	Trade and other payables	**(691)**	–
	Liabilities held for sale	**(1 705)**	–

The assets and liabilities held for sale relate to the Coega Concentrate Tomato Paste Plant. Operating losses have been incurred in the financial year related to the plant, and in anticipation of further losses the operations at the plant were ceased on 5 June 2018. No gain or loss has been recognised in reclassifying the assets and liabilities to held for sale.

		2019 R000	2018 R000
9	**PROVISIONS**		
	Opening balance	**32 851**	–
	Amounts raised during the year	**–**	32 851
	Foreign currency translation	**3 140**	–
	Amounts utilised and reversed	**(35 991)**	–
	Closing balance	**–**	32 851

The provisions related to property-related expenses at GBK restaurant level. A lease is onerous where the unavoidable costs of fulfilment exceed the economic benefits expected to be received. The provision was made for the lower of the costs of closure or the cost of continued operation of certain stores in GBK. This amounted to Rnil (2018: R33 million). The key assumptions in determining the provision include the expected time until the lease can be assigned and the discount to standing rent which will have to be paid in order to attract an assignee.

In the current year the provision has been reversed as the stores, which the provision related to, were closed as part of the CVA at GBK.

		2019 R000	2018 R000
10	**REVENUE***		
	Sale of goods	**4 446 514**	4 327 642
	Services rendered, franchise and restaurant revenue	**2 733 022**	2 695 453
	Total	**7 179 536**	7 023 095

* *February 2018 disclosure has been restated to reflect Brands, International and Corporate in services rendered, franchise and restaurant revenue to enhance disclosure in line with IFRS 15. Further analysis of revenue is provided in the primary (business units) and secondary (geographical) segment report based on the information reviewed by the chief operating decision maker.*

		Note	2019 Gross amount R000	2019 Income tax R000	2019 Net R000	2018 Gross amount R000	2018 Income tax R000	2018 Net R000
11	**BASIC AND HEADLINE (LOSS)/EARNINGS PER SHARE**							
11.1	**Basic (loss)/earnings per share**							
	(Loss)/profit attributable to equity holders of Famous Brands Limited		**(480 400)**	**–**	**(480 400)**	21 618	–	21 618
	Basic and diluted (loss)/earnings		**(480 400)**	**–**	**(480 400)**	21 618	–	21 618
	Basic (loss)/earnings per share (cents)							
	Basic				**(480)**			22
	Diluted				**(479)**			22
11.2	**Headline earnings per share**							
	Basic (loss)/earnings	11.1	**(480 400)**	**–**	**(480 400)**	21 618	–	21 618
	Adjustments:		**899 623**	**(100 020)**	**799 603**	370 881	479	371 360
	Loss/(profit) on disposal of property, plant and equipment		**198**	**(55)**	**143**	(1 711)	479	(1 232)
	Impairment		**899 425**	**(99 965)**	**799 460**	372 592	–	372 592
	Headline earnings		**419 223**	**(100 020)**	**319 203**	392 499	479	392 978
	Headline earnings per share (cents)							
	Basic				**319**			393
	Diluted				**318**			392

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

		2019 R000	2018 R000
12	**NON-OPERATIONAL ITEMS**		
	Impairment*	**899 425**	372 592
	Once-off CVA-related costs	**17 223**	–
		916 648	372 592

* *Comprising an impairment of R873.9 million (2018: R373 million) related to the GBK UK business and an impairment of R25.5 million (2018: Rnil) recognised in By Word of Mouth, the Group's local premium-end commercial catering company. Impairment is not deductible for tax purposes. This has an impact on Group's effective tax rate.*

13 RELATED PARTY TRANSACTIONS

The Group entered into various sale and purchase transactions with related parties, in the ordinary course of business, on an arm's length basis. The nature of related-party transactions is consistent with those reported previously.

14 FINANCIAL INSTRUMENTS

Accounting classifications and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, as well as a comparison to their fair values. The different fair value levels are described below:

Level 1: quoted prices (adjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

		GROUP	
	Level	**2019 Carrying amount R000**	2018 Carrying amount R000
Financial assets			
Measured at amortised cost:			
Trade and other receivables		**631 726**	568 514
Cash and cash equivalents		**453 765**	716 988
		1 085 491	1 285 502
Financial liabilities			
Measured at amortised cost:			
Trade and other payables		**649 220**	599 941
Shareholders for dividends		**2 195**	2 221
Lease liabilities		**5 785**	7 446
Non-controlling shareholder loans		**2 500**	7 500
Borrowings		**2 113 702**	2 780 560
Bank overdraft		**–**	193
Fair value through profit or loss:			
Derivative financial instruments (put options over non-controlling interests)	3	**105 783**	176 186
Derivative financial instruments (foreign exchange contracts)	2	**613**	1 028
Fair value through other comprehensive income:			
Derivative financial instruments (interest-rate swaps)	2	**11 797**	14 711
		2 891 595	3 589 786

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

14 FINANCIAL INSTRUMENTS CONTINUED

The carrying amounts of financial assets and liabilities are considered to approximate the fair values.

Level 3 sensitivity information

The fair values of the level 3 financial liabilities of R106 million (2018: R176 million) were determined by applying an income approach valuation method including a present value discount technique. The fair value measurement includes inputs that are not observable in the market. Key assumptions used in the valuation of these instruments include the probability of achieving set profit targets and the interest rates. An increase/(decrease) of 1% in the interest rate would result in a decrease/(increase) of R4 million (2018: R3 million). An increase/(decrease) of 10% in the profit forecasts would result in an increase/(decrease) of R10 million (2018: R17 million).

	GROUP	
	2019 Carrying amount R000	2018 Carrying amount R000
Movements in level 3 financial instruments carried at fair value		
The following tables illustrates the movements during the year of level 3 financial instruments carried at fair value:		
Put options over non-controlling interests:		
Carrying value at beginning of the year	**176 186**	211 239
Unwinding of discount	**6 230**	13 481
Derecognition through equity	**(89 168)**	(42 716)
Settlement of put option*	**(23 374)**	–
Remeasurement	**35 909**	(5 818)
Carrying value at end of the year	**105 783**	176 186

* *The settlement of put option relates to the exercise of a put option by a minority shareholder of one of the Group's subsidiaries.*

	2019 R000	2018 R000
15 BUSINESS COMBINATIONS		
Summary of cash outflow on acquisition of subsidiaries		
Chilango (Pty) Ltd (Salsa Mexican Grill)*	**–**	2 589
Total cash outflow on acquisition of subsidiaries	**–**	2 589

* *Relates to contingent consideration for Salsa Mexican Grill.*

16 UK BUSINESS SEGMENT RESULTS

The table below sets out the performance of the UK Business Segment in GBP and ZAR respectively.

		2019	2018	% change
Revenue	£000	**86 678**	92 063	(6)
Operating loss	£000	**(3 614)**	(2 689)	34
Operating loss margin	%	**(4.2)**	(2.9)	(1.3)
Revenue	R000	**1 544 229**	1 580 947	(2)
Operating loss	R000	**(64 390)**	(44 671)	44
Operating loss margin	%	**(4.2)**	(2.8)	(1.4)

17 BORROWINGS

	Currency	Maturity date	Nature	Interest rate Margin %	Interest rate Rate	2019 %	2018 %	2019 R000	2018 R000
Unsecured									
Long-term borrowings								**2 088 098**	2 513 489
Short-term portion of borrowings								**25 604**	267 071
								2 113 702	2 780 560
Interest is paid quarterly in arrears.									
The Company has unlimited borrowing powers in terms of its Memorandum of Incorporation.									
Terms of repayment									
FY2018 facilities									
Syndicated facility 3-year bullet	ZAR	Sep 19	variable	2.35	3-month JIBAR		7.16		720 000
Syndicated facility: 4-year bullet	ZAR	Sep 20	variable	2.55	3-month JIBAR		7.16		720 000
Syndicated facility: 5-year amortising	ZAR	Sep 21	variable	2.45	3-month JIBAR		7.16		853 333
FY2019 facilities									
Loan facility: 3-year bullet	ZAR	Dec 21	variable	1.60	3-month JIBAR	**7.15**		**600 000**	
Loan facility: 4-year bullet	ZAR	Dec 22	variable	1.70	3-month JIBAR	**7.15**		**850 000**	
Loan facility: 5-year revolving facility	ZAR	Dec 23	variable	1.70	3-month JIBAR	**7.15**		**637 169**	
								2 087 169	2 293 333
Syndicated facility: revolving credit	GBP	11 Oct 19	variable	2.15	3-month LIBOR		0.52		422 799
Syndicated facility: revolving credit	GBP	11 Oct 19	variable	2.15	1-month LIBOR		0.49		65 046
Transaction costs								**(3 398)**	(37 727)
Interest accrued								**29 931**	37 109
								2 113 702	2 780 560
Maturity analysis									
Payable within 1 year								**25 604**	267 071
Payable between 2 and 5 years								**2 088 098**	2 513 489
								2 113 702	2 780 560

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

17 BORROWINGS CONTINUED

Sensitivity analysis

A change of 1% in interest rates at the reporting date would have increased/(decreased) profit or loss by R21 million (2018: R28 million).

Interest risk management

The Group utilises interest rate swap contracts to hedge its exposure to the variability of cash flows arising from unfavourable movements in interest rates.

Facilities

- Total ZAR overdraft facility in place: R380 million (2018: R80 million). Unutilised portion at year-end: R380 million (2018: R77 million).
- The Group has a 5-year revolving loan facility of R970 million (2018: Rnil). Unutilised portion is R333 million (2018: Rnil) at year end.
- Total GBP borrowings facility in place: £nil (2018: £30 million).

Refinancing

In December 2018 the Group refinanced the existing funding structure to align with the funding requirements of the business and to manage liquidity risk.

Guarantees

Famous Brands Limited, Famous Brands Management Company (Pty) Ltd, Mugg and Bean Franchising (Pty) Ltd, Lamberts Bay Foods Limited and Famous Brands Logistics Company (Pty) Ltd have guaranteed in terms of the loan agreement:

- Punctual performance by the Group of amounts due in the agreement.
- Immediate payment of amounts due which the Group has not paid.
- To indemnify the lender against any cost, loss or liability it incurs as a result of the Group not paying amounts that are due.

Transaction costs

- The unamortised portion of underwriting and participation fees related to the syndicated facility in the prior year were derecognised within the finance costs on refinancing of the borrowings.
- The unamortised portion of transaction costs relate to the loan facility which amounts to R3 million (2018: R38 million) as at 28 February 2019.

18 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sustainable returns for shareholders, benefits for other stakeholders and to maintain, over time, an optimal structure to reduce the cost of capital.

The capital structure of the Group consists of cash and cash equivalents, borrowings (Note 17) and equity as disclosed in the statement of financial position. There are no externally imposed capital requirements.

Financial Covenants

The Group's borrowings (refer Note 17) are subject to the following financial covenants, which the Group is in compliance with. The covenants pertain to the entire Group for 2018, and are limited to the SA business for 2019.

	2019	2018
Debt to EBITDA*	**<2.50**	<3.00
Interest cover	**>3.00**	>3.25
Free cash flow to debt service**	**N/A**	>1.20

** Debt for 2019 is net debt in comparison to gross debt in 2018.*
*** The new funding structure does not include free cash flow to debt service ratio as a financial covenant.*

18 CAPITAL MANAGEMENT CONTINUED

Gearing

The Group's gearing ratio is set out below:

	2019 R000	2018 R000
Borrowings	**2 113 702**	2 780 560
Bank overdrafts	**–**	193
Cash and cash equivalents***	**(454 724)**	(716 988)
Net debt	**1 658 978**	2 063 765
Equity	**1 536 796**	1 632 027
Gearing ratio****	**108%**	126%

*** *Cash and cash equivalents includes R1 million (2018: Rnil) in assets held for sale, refer to Note 8.*
**** *Calculated as Net debt divided by Equity.*

19 CONTINGENT LIABILITIES

The Group's borrowings are unsecured, no pledges have been issued.

The Company and its South African subsidiaries have issued an unlimited suretyship in favour of First Rand Bank Limited to secure the banking facilities entered into by certain subsidiary companies.

Guarantees issued by banks in favour of trade creditors totalled R9 million (2018: R7 million).

Refer to Note 17 for other guarantees and facilities in the Group.

20 SUBSEQUENT EVENTS

Coega Concentrate

In our interim results announcement, shareholders were advised that in anticipation of ongoing losses at the Coega Concentrate tomato paste plant, management had elected to cease operations at the facility with effect from 5 June 2018. Shareholders were further advised that a prospective buyer for the business had been identified and negotiations regarding the sale were in progress. Negotiations in this regard are ongoing.

Paul

In 2015, the Group became the SA licensed partner of global bakery-café brand, Paul, for a 10-year period. Effective 1 July 2019, the Group concluded a joint venture partnership with a local experienced restaurateur to manage and drive the profitability of the existing Paul restaurant and roll out the brand's footprint, as economic conditions improve. In terms of our Paul license agreement, the Group is contracted to open five restaurants over a five-year period. This new partnership will expedite the programme.

tashas

In April 2019, we established a new business entity to house all of the tashas business outside of South Africa and drive international growth in the Middle East as a priority. Founder of the brand, Natasha Sideris, will manage the entity and hold a 51% stake, while the Group will own the balance. Based on the brand's strong track record in the UAE, management is optimistic that tashas' existing footprint of six restaurants can be expanded in the region. The Group will continue to own 51% of the SA operation.

Shareholder spread

	2019				2018			
	Number of share-holders	% of total share-holdings	Number of shares	% of issued capital	Number of share-holders	% of total share-holdings	Number of shares	% of issued capital
1 – 10 000	**5 126**	**93.08**	**1 843 807**	**1.84**	6 690	94.17	3 826 686	3.83
10 001 – 50 000	**232**	**4.21**	**5 080 000**	**5.08**	270	3.80	6 095 321	6.10
50 001 – 100 000	**38**	**0.69**	**2 689 469**	**2.69**	42	0.59	3 003 218	3.00
100 001 – 1 000 000	**89**	**1.62**	**31 008 953**	**30.99**	82	1.16	26 744 202	26.75
Over 1 000 000	**22**	**0.40**	**59 443 990**	**59.40**	20	0.28	60 308 008	60.32
Total	**5 507**	**100.00**	**100 066 219**	**100.00**	7 104	100.00	99 977 435	100.00
Distribution of shareholders								
Individuals	**4 470**	**81.17**	**22 459 998**	**22.45**	5 816	81.87	24 716 778	24.72
Insurance companies	**10**	**0.18**	**428 555**	**0.43**	10	0.14	328 100	0.33
Investment trusts	**371**	**6.74**	**8 835 101**	**8.83**	555	7.81	9 259 598	9.26
Other companies & corporate bodies	**654**	**11.87**	**67 752 789**	**67.71**	723	10.18	65 672 959	65.69
Sovereign funds	**2**	**0.04**	**589 776**	**0.59**	–	–	–	–
Total	**5 507**	**100.00**	**100 066 219**	**100.00**	7 104	100.00	99 977 435	100.00
Shareholder type								
Non-public shareholders	**18**	**0.33**	**24 777 246**	**24.76**	9	0.13	10 908 120	10.91
Directors and associates (Direct)	**6**	**0.11**	**14 613 863**	**14.60**	9	0.13	10 908 120	10.91
Directors and associates (Indirect)	**12**	**0.22**	**10 163 383**	**10.16**	–	–	–	–
Public shareholders	**5 489**	**99.67**	**75 288 973**	**75.24**	7 095	99.87	89 069 315	89.09
Total	**5 507**	**100.00**	**100 066 219**	**100.00**	7 104	100.00	99 977 435	100.00
Fund managers greater than 5% of the issued shares								
Coronation Fund Managers			**17 357 866**	**17.35**			14 448 186	14.45
Public Investment Corporation			**9 053 910**	**9.05**			9 022 596	9.02
BMO LGM Asset Management Group			**9 956 335**	**9.95**			8 367 790	8.37
Total			**36 368 111**	**36.35**			31 838 572	31.84
Direct and indirect beneficial interest of 5% or more of the issued shares (excluding directors)								
Government Employees Pension Fund			**10 677 270**	**10.67**			10 230 408	10.23
Coronation Fund Managers			**10 445 681**	**10.44**			8 492 531	8.49
BMO LGM Asset Management Group			**9 956 335**	**9.95**			7 755 676	7.76
Theofanis Halamandaris			**7 017 598**	**7.01**			7 017 598	7.02
Panis Trust			**6 828 955**	**6.82**			7 350 000	7.35
Total			**44 925 839**	**44.89**			40 846 213	40.86

Shareholders' diary

Financial year-end	28 February
Annual General Meeting	26 July 2019
Reports	
Announcement of annual financial results for the year ended 28 February 2019	29 May 2019
Publication of the Integrated Annual Report for the year ended 28 February 2019	27 June 2019
Announcement of interim results for the half-year ended 31 August 2019	28 October 2019
Dividend	
Dividend declaration date	29 May 2019
Last day to trade cum-dividend	2 July 2019
Shares commence trading ex-dividend	3 July 2019
Record date	5 July 2019
Payment of dividend	8 July 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 3 July 2019 and Friday, 5 July 2019, both dates inclusive.

Administration

FAMOUS BRANDS LIMITED
Incorporated in the Republic of South Africa
Registration number: 1969/004875/06
JSE share code: FBR
ISIN code: ZAE000053328

DIRECTORS
Norman Adami, Santie Botha (Independent Chairman), Chris Boulle, Deon Fredericks, Nik Halamandaris, John Halamandres, Darren Hele (Chief Executive Officer)*, Emma Mashilwane, Lebo Ntlha (Group Financial Director)* and Bheki Sibiya.
** Executive*

COMPANY SECRETARY
Ian Isdale

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TRANSFER SECRETARIES
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PO Box 61051, Marshalltown, 2107

SPONSOR
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Registration number: 1969/017128/06
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