famous brands

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Audited Annual Financial Statements 2018

Annual Financial Statements and other information

The reports and statements set out below were prepared under the supervision of K Ntlha CA(SA), Group Financial Director, and comprise the Annual Financial Statements presented to the shareholders.

Contents

Level of assurance

These Annual Financial Statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

Exchange rates

The following significant exchange rates were applied in the preparation of the Group's results:

	Group			
	2018		2017	
	Average	**Closing**	Average	Closing
Rand to GB Pound	**17.15**	**16.26**	18.92	16.19
Rand to Euro	**15.11**	**14.35**	15.71	13.80
Rand to US Dollar	**13.08**	**11.75**	14.26	13.02
Euro to GB Pound	**1.14**	**1.13**	1.20	1.17
Rand to Zambian Kwacha	**0.73**	**0.83**	1.35	1.37
Rand to Nigerian Naira	**0.04**	**0.03**	0.04	0.04
Rand to Botswana Pula	**1.26**	**1.21**	1.31	1.22

Directors' report

The directors have pleasure in submitting their report for the year ended 28 February 2018.

Nature of business

Famous Brands Limited (Famous Brands) 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 restaurant brands represented by a network of 2 853 restaurants 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 on page 3 of this document.

Financial statements and results

The Group's results and financial position are reflected from page 20 to page 65.

Impairments and provision for property expenses

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 Restaurants Limited (GBK), a wholly owned subsidiary incorporated in the United Kingdom:

- an impairment of intangible assets at Group level of R304 million (2017: Rnil);
- an impairment of property, plant and equipment at GBK of R69 million (2017: Rnil); and
- a provision for property-related expenses at GBK of R33 million (2017: Rnil).

Refer to Note 1, 2 and 16 for further detail.

Corporate governance

The Corporate Governance report is set out in the 2018 Integrated Annual Report (IAR).

King IV Report on Corporate Governance (King IV)

King IV was published on 1 November 2016 and is effective for year-ends commencing on or after 1 April 2017. However, the JSE requires the application and disclosure of the King IV corporate governance amendments on all documents, including annual reports, published on or after 1 October 2017. The necessary disclosures in this regard are included in the Group's Corporate Governance report as set out in the 2018 IAR.

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 of this document.

Dividends

Following the acquisition of a number of businesses in the 2017 financial year, undertaken to meet robust growth targets, the Group's gearing is substantially higher than in prior years. In the interim results announcement published on 30 October 2017. It was advised that the Board and management were reviewing the options available to ensure that the allocation of capital reserves would optimise the return on investment for shareholders in the future.

In this light and following a capital structure review to ensure appropriate levels of debt and prudent capital allocation practices, the Board has resolved that no dividend is declared for the period under review.

Share capital

The authorised and issued share capital of the Company at 28 February 2018 is set out in Note 9 of this document.

Issued during the year:

The Company issued 115 000 (2017: 50 000) ordinary shares for a cash subscription of R14 million (2017: R6 million) to participants of the 2012 Famous Brands Share Incentive Scheme.

Shareholder spread and material shareholders

In terms of the JSE Listings Requirements paragraphs 3.37 and 4.28 (e), Famous Brands complies with the minimum shareholder spread requirements, with 89% (2017: 65%) of ordinary shares being held by the public at 28 February 2018. Details of the Company's shareholder spread and material shareholders are set on page 66.

Staff Share Incentive Scheme

Details are reflected in Note 29 of this document.

Directors and Company Secretary

The names of the directors and the Company Secretary at the date of this report are detailed on the inside back cover of this document.

Changes to the Board

The following Board changes took place during the period:

- Resignation of Mr RM Kgosana, independent non-executive director (effective 29 September 2017);
- Appointment of Mr CH Boulle as interim chairman of the Audit Committee (effective 2 October 2017);
- Appointment of Mr Nicolaos (Nik) Halamandaris as a non-independent non-executive director (effective 9 November 2017);
- Retirement of Messrs Panagiotis (Peter) Halamandaris, Theofanis Halamandaris and Periklis Halamandaris (effective 9 November 2017);
- Appointment of Ms Emma Mashilwane as an independent non-executive director (effective 1 December 2017);
- Retirement of Mr Kevin Hedderwick, independent non-executive director (effective 16 January 2018); and
- Re-appointment of Mr Ian Isdale as Company Secretary (effective 1 March 2018 to 28 February 2019).

Special resolutions

The special resolutions passed by the Company at its Annual General Meeting held on 28 July 2017 are detailed on page 79 of the 2017 IAR.

At the next AGM to be held on 27 July 2018, shareholders will be requested to approve special resolutions detailed on pages 3 to 5 of the Notice of Annual General Meeting of Shareholders and summarised results.

Events after the reporting period

In 2005 the Group acquired Tru Fruit (Pty) Ltd, to produce fruit juice in various formats for the Group's restaurant network and third-party customers. The business continued to be managed by the founder, Evan Antel. Subsequent to the year ended 28 February 2018, and with effect from 1 April 2018, the Group concluded a joint venture agreement with Mr Antel, whereby a 30% stake in the business was sold back to him. Mr Antel will manage the new entity, Cool Site Trading (Pty) Ltd. The nature of business will remain unchanged. The transaction outlined will not have a material impact on the performance of the Group.

Net liability position of the Company

The directors note that the Company financial statements reflect liabilities that exceed assets by R339 million. This has arisen as a result of a non-cash impairment of the investment in GBK of R454 million. The impairment does not impact the Company's ability to meet its future short-term obligations. A dividend of R350 million has been declared by Famous Brands Management Company (Pty) Ltd as of 23 May 2018 that results in the Company being restored to solvency.

Audit and Risk Committee's report

for the year ended 28 February 2018

In terms of section 94 of the Companies Act of South Africa, the report by the Audit and Risk Committee, which is chaired by Mr CH Boulle, is presented below.

Composition of the Audit and Risk Committee

- Mr CH Boulle (appointed 2 October 2017 as Interim Chairman);
- Mr NJ Adami;
- Mr RM Kgosana (resigned 29 September 2017);
- Ms TE Mashilwane (appointed 1 December 2017); and
- Ms T Skweyiya.

Responsibilities of the Audit and Risk Committee

During the financial year ended 28 February 2018 the Audit and Risk Committee met on three occasions. The attendance at the Audit and Risk Committee meetings is set out on page 64 of our Integrated Annual Report, which will be available on the Company's website at www.famousbrands.co.za.

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

- nominated the re-appointment of Deloitte & Touche as the registered independent auditor after satisfying itself through enquiry that Deloitte & Touche and Ms S Nelson are independent as defined in terms of the Companies Act of South Africa and Independent Regulatory Board for Auditors;
- determined the terms of engagement and 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 appropriateness of the other auditors engaged to perform audits within the Group, being Rees Pollock Chartered Accountants in the UK and PKF Botswana;
- understood and assessed the procedures performed by Deloitte & Touche to place reliance on the work performed by the other auditors;
- reviewed the external auditors' report on the year-end audit and the key audit matters;
- reviewed the internal audit reports and processes;
- reviewed and approved the internal audit business plan, budget and audit plan;
- annual review and approval of the internal audit charter;
- annual review and approval of the Audit and Risk Committee charter;
- reviewed the IT governance;
- reviewed an assessment prepared by management of the going concern status of the Company and made recommendations to the Board. The committee concurs that the adoption of the going concern premise in the preparation of the 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 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 effective internal control systems; and
- received assurance that proper and adequate accounting records were maintained and the systems safeguard the assets against unauthorised use or disposal therefore.

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 maintenance of effective material control systems.

The Audit and Risk Committee is satisfied with the experience and expertise of the Group Financial Director; and the competence, qualification and experience of the Company Secretary.

The Audit and Risk Committee is satisfied with the competence of the Head of Internal Audit.

Key accounting judgement areas

In considering key accounting judgement areas, the Audit and Risk Committee considered the key audit matters as per below:

Impairment of GBK goodwill and indefinite life intangible assets

The Audit and Risk Committee spent time understanding the significant estimates and judgements in the valuation model of the GBK cash-generating unit. The committee is satisfied that the impairment of R304 million recognised results in the goodwill and the indefinite life intangible asset being reflected at its expected recoverable amount.

Impairment assessment of property, plant and equipment of GBK stores

The GBK business has stores, which have not performed to the expected level and the property, plant, and equipment is required to be assessed for impairment. Management have applied judgement in assessing the store portfolio and the recoverability of the assets. An impairment of R69 million has been recognised. The committee is satisfied with the impairment recognised and disclosure thereof.

Completeness and valuation of lease obligations and onerous contracts associated with leases in GBK

GBK stores has obligations related to contracts where the costs of meeting the contracts exceed the expected economic benefits. Management have applied judgement and estimates in calculating the provision. The committee is satisfied with the value of the provision for property expenses raised in the financial statements.

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

The Audit and Risk Committee recommended the Annual Financial Statements for the year ended 28 February 2018 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.

CH Boulle
Interim Chairman of the Audit and Risk Committee

24 May 2018

Approval of the Audited Annual Financial Statements

The directors are required by the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is their responsibility to ensure that the Annual Financial Statements present fairly the state of affairs of the Group and Company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Council, the Companies Act of South Africa and the Listings Requirements of the JSE Limited.

The external auditors are engaged to express an independent opinion on the Annual Financial Statements. The Annual Financial Statements are prepared in accordance with IFRS and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The Audit and Risk Committee perform an oversight role in matters related to financial and internal controls.

The directors are of the opinion that based on the information and explanations given by management, the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the subsequent year and, in light of this review and the current financial position, they are satisfied that the Group and Company has access to adequate resources to continue in operational existence for the foreseeable future.

The consolidated and separate financial statements, which have been prepared on the going concern basis, were approved by the Board of Directors on 24 May 2018 and are signed on its behalf by:

Santie Botha

Santie Botha
Independent Chairman

Darren Hele
Chief Executive Officer

24 May 2018

Company Secretary's certificate

In my capacity as the Company Secretary, I hereby certify that Famous Brands Limited has lodged with the Companies and Intellectual Property Commission for the financial year ended 28 February 2018, all such returns and notices as are required of a public company in terms of the Companies Act of South Africa and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

I W M. Isdale

IWM Isdale
Company Secretary

24 May 2018

Independent auditor's report

TO THE SHAREHOLDERS OF FAMOUS BRANDS LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Famous Brands Limited and its subsidiaries (the Group) set out on pages 8 to 65, which comprise the statements of financial position as at 28 February 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 28 February 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
1. Impairment of goodwill and indefinite life intangible assets – Gourmet Burger Kitchen (GBK) (Consolidated financial statements)	
The Group reflects goodwill of R589 million (2017: R877 million) and indefinite life trademarks and brand names of R1 818 million (2017: R1 811 million). These assets have been recognised as a consequence of the acquisitive nature of the Group. Of those assets R40 million (2017: R342 million) and R1.38 billion (2017: R1.37 billion) is associated with the GBK business. This comprises 56% (2017: 61%) of the intangible assets and 24% (2017: 29%) of the total assets of the Group. The Group has recognised an impairment of R304 million over the GBK goodwill. As required by IAS 36 *Impairment of Assets,* the directors conduct annual impairment tests to assess the recoverability of the carrying value of goodwill and indefinite life trademarks and brand names. These tests are subjective in nature due to judgements having to be made of future performance. The directors have engaged specialists in the current year to assist with the GBK impairment assessment. The current economic climate increases the complexity of forecasting. Scrutiny has therefore been placed on forecast assumptions and discount rates, with a greater focus on more recent trends and less reliance on historical trends. Due to the significance of these GBK assets, the current year performance of the GBK business and the uncertain macro-economic environment in which the business is operating, this impairment test is considered a significant risk of material misstatement for audit purposes and a key audit matter. The directors' impairment assessment was determined with reference to the fair value less costs to sell of the GBK cash-generating unit. The key assumptions considered to have the highest impact on the impairment assessment are: • The forecast like-for-like growth rates of existing and new stores; • The discount rate applied to projected future cash flows; and • The future store roll-out plan, including the frequency of opening new stores and the total number of stores to be opened.	In evaluating the impairment of the goodwill and indefinite life brand name associated with the GBK business, we focused our testing on the key assumptions made by the directors. Our procedures included: • Testing the design and implementation of relevant controls around the impairment assessment; • Critically evaluating whether use of the fair value less costs to sell valuation method is appropriate. We used our IFRS accounting and corporate finance valuation experts to assist with this assessment; • Assessing the appropriateness of the inputs and methods used in determining the discount rate applied to projected cash flows. We used our corporate finance valuation experts to assist with this assessment which was performed with reference to external data and our own expertise; • Evaluating the forecasts and approved budgets provided by the directors, against historical data of recently achieved cash flows. This included the planned store roll-outs; • Evaluating forecast like-for-like growth rates against industry research publications; • Subjecting key assumptions to sensitivity analysis to determine the impact on potential impairment; and • Considering the adequacy of the Group's disclosures on this matter. We found the key assumptions used by the directors to be supportable and the expected future outlook and the discount rates used were appropriate in the circumstances based on current evidence available. We note that the GBK impairment charge recognised and the remaining recoverable amount of the goodwill and indefinite life brand name is dependent on the achievement of the directors' projected future cash flows which will require regular reassessment. We consider the disclosure of the impairment and remaining carrying value of these assets, included in Note 2 of the consolidated and separate financial statements to be appropriate.

Report on the audit of the consolidated and separate financial statements continued

Key audit matters continued

Key audit matter	How the matter was addressed in the audit
2. Store level property, plant and equipment impairment and onerous lease considerations – GBK (Consolidated financial statements)	
The property, plant and equipment associated with the GBK business comprises a portfolio of 99 Company-owned stores representing 67% (2017: 68%) of the property, plant and equipment and 16% (2017: 16%) of the total assets of the Group. The store portfolio operates through leased premises. Due to the operating pressures experienced by GBK, the directors assessed the level of impairment required against store level property, plant and equipment and the extent of onerous lease provisions required over existing leases. Judgement, based on store profitability, potential store closures and expiry dates of existing leases was exercised by the directors in assessing the impairment charges and provisions for onerous leases to be raised. Impairments at store level, amounting to R69 million, were determined with reference to the value in use of each store while onerous lease provision liabilities, amounting to R33 million, were determined based on the unavoidable costs of meeting future lease commitments of the related stores. Due to the significant judgement required to be exercised by the directors, we identified these areas as significant risks of material misstatement and as key audit matters. The key judgements made by the directors include: • The identification of individual stores which exhibit indicators of possible impairment; • The forecast operating cash flows, including short and long-term growth rates for each store which has an indicator of impairment; • The likelihood, timing and value to be recovered from securing sub-leases on sites to be closed; and • The discount rate applied to projected future cash flows.	In evaluating the GBK store level property, plant and equipment impairment and provisions for property-related expenses, our procedures included the following: • Testing the design and implementation of relevant controls over the directors' process followed; • Assessing the financial performance of individual stores compared to their asset base to identify indicators of impairment and potential onerous contracts; • For stores which displayed indicators of impairment, evaluating forecast operating cash flows including the relevant growth rates, against recently achieved historical performance, current economic conditions relevant for the individual store as well as the terms of the rental agreements; • Assessing the reasonability of the timing and quantum of the potential recovery of costs from sub-leases; • Assessing the appropriateness of the discount rates used; • Subjecting key assumptions to sensitivity analysis; and • Considering the adequacy of the Group's disclosures on this matter. We found the key assumptions used by the directors to be supportable and the expected future cash flows and the discount rates used were appropriate in the circumstances given currently available information. We note that the value of the store level property, plant and equipment impairment and provision for property-related expenses is dependent on the achievement of the directors' projected future cash flows. This will require regular reassessment. We consider the disclosure of these matters included in Note 1 and 16 of the consolidated and separate financial statements to be appropriate.
3. Impairment of investment – GBK (Separate financial statements)	
The Company reflects an investment in GBK of R1 161 million (2017: R1 658 million). The Company has recognised an impairment of R454 million over this investment for the reasons, and on the same basis, as described in key audit matter 1.	The procedures performed and conclusions reached in key audit matter 1 were also applicable to this key audit matter. We consider the disclosure of these matters included in Note 4 of the consolidated and separate financial statements to be appropriate.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the Audit and Risk Committee's report and the Company Secretary's certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report continued

Report on the audit of the consolidated and separate financial statements continued

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Famous Brands Limited for three years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: Shelly Nelson
Partner

24 May 2018

Accounting policies

Reporting entity

Famous Brands Limited (Famous Brands or the Company) is a holding company domiciled in South Africa and is listed on the JSE Limited under the category Consumer Services: Travel and Leisure. Famous Brands is Africa's leading quick service and casual dining restaurant franchisor. The consolidated financial statements of Famous Brands, as at 28 February 2018 and for the year ended 28 February 2018, comprise the Company and its subsidiaries (together referred to as the Group) and the Group's investments in associates.

Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the Companies Act of South Africa.

Significant accounting policies

These accounting policies are consistent with the previous period, except for the changes set out in Accounting policy Note 24 Adoption of new standards, amendments to standards and interpretations.

1. Basis of preparation

Functional and presentation currency

The Group and Company financial statements (financial statements) presented in South African Rand (Rand), which is the Company's functional and presentation currency. All financial information presented in Rand has been rounded to the nearest thousand (R000) except for when otherwise indicated.

Basis of measurement

The financial statements have been prepared on the historical-cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

The going-concern basis has been used in preparing the financial statements as the directors have a reasonable expectation that the Group and Company will continue as a going concern for the foreseeable future.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all investees which are controlled by the Company. Control exists when the Company has power over the investee; it is exposed to or has rights to variable returns from involvement with the investee; and it has the ability to use its power over the investee to affect the amount of the Company's returns.

The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal. Adjustments are made when necessary to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses incurred by subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interests.

Transactions that result in changes in ownership levels, where the Group has control of the subsidiary both before and after the transaction, are regarded as equity transactions and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

Business combinations

The Group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets acquired, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the business combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration, are not effected against goodwill, unless they are valid measurement period adjustments. They will then be accounted for through profit or loss.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 *Business Combinations* are recognised at their fair values at acquisition date, except for non-current assets (or disposal group) that are classified as held-for-sale in accordance with IFRS 5 *Non-current Assets Held-for-Sale* and discontinued operations, which are recognised at fair value less costs to sell; and deferred tax assets and liabilities which are measured in accordance with IAS 12 *Income Taxes*.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the Group assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for Group purposes.

Non-controlling interests that arise from a business combination, which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured either at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in Note 23.4 Acquisition of business operations.

Where the Group writes a put option over the equity of a subsidiary, a gross obligation (put option financial liability) is recognised in the consolidated financial statements at an amount equal to the present value of the amount that could be expected to be paid to the counterparty. The corresponding debit is presented separately within equity as a deduction from other reserves attributable to the owners of the Company.

Subsequently, the put option financial liability is remeasured in line with IAS 39 *Financial Instruments: Recognition and Measurement*, with changes in the measurement of the financial liability recognised in the profit or loss attributable to the owners of the Company.

In the separate financial statements of the parent Company, the written put option is recognised and measured initially at fair value and classified as a derivative financial instrument at fair value through profit or loss.

In cases where the Group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree. Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, the impairment loss is recognised in profit or loss and is not subsequently reversed. Goodwill is recognised on consolidation of foreign entities and is considered an asset of that foreign group. In such cases, the goodwill is translated to the functional currency of the Group at the end of each reporting period with the adjustment recognised in equity through to other comprehensive income.

Investment in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held-for-sale in accordance with IFRS 5 *Non-current Assets Held-for-Sale* and discontinued operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate less any impairment losses and dividends received. When the Group's share of losses exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. The most recent available financial statements and management accounts of the associate are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, an excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss as part of the equity-account profit of the associate in the period in which the investment is acquired.

Accounting policies continued

When the Group reduces its level of significant influence or loses significant influence, the Group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

3. Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated financial statements, are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Investments in subsidiaries and associates

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised to other comprehensive income and accumulated as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the translation reserve. They are recognised in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of the net investment.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the average rate of the year or period.

4. Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include:

Options granted

Management uses the Black-Scholes-Merton model, which takes account of the vesting period (European style option), to determine the value of the options at issue date. Additional details regarding the estimates are included in Note 29 Share-based payments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact our estimations and may require a material adjustment to the carrying value of intangible and tangible assets.

Refer to Note 1 and 2 for detailed judgements and estimates for individual impairment assessments.

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, intangible assets with an indefinite useful life and goodwill are tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value-in-use of intangible and tangible assets are inherently uncertain and could materially change over time.

Tax

Judgement is required in determining the provision for income taxes due to the complexity of legislation and varying tax jurisdictions in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Put option liabilities

These liabilities arise when new acquisitions have contractual obligations enabling non-controlling interest shareholders to put their shares back to the Group at an agreed price. The initial recognition of these amounts is debited directly to equity with subsequent remeasurements to the liability recognised in profit or loss. In arriving at the liability the future earnings need to be assessed and discounted back to calculate the present value. This is based on management's best estimate at initial recognition and each subsequent reporting period.

Purchase price allocations

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third-party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Provision for property-related expenses

Management has applied its judgement relating to property rental contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The judgement is based on management's outlook of the expected cash flows from the businesses to which the property rental contracts relate (refer Note 16 Provisions).

Management has reviewed the property portfolio in the UK based on underperforming sites and applied assumptions on recoverable amounts based on subletting the property and made provisions on this basis. As a result, the Group expects the majority of cash flows to fall within the next 18 to 24 months with residual amounts being payable over the subsequent period averaging five years. The critical assumptions are the length of time it will take to market the lease and find an assignee, and the discount which will be offered to secure the assignment. Management will continue to review the portfolio in the short and long term.

5. Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Group; and
- the cost of the item can be measured reliably.

Items of property, plant and equipment are initially measured at cost. Cost includes those costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Accounting policies continued

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses, and is depreciated on the straight-line basis over their expected useful lives to their estimated residual value. Land is not depreciated.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Useful life
Buildings	50 years
Leasehold improvements	Over expected remaining term of the lease
Plant and equipment	5 to 15 years
Furniture, fixtures and office equipment	4 to 10 years
Motor vehicles	5 to 8 years
Computer equipment	3 to 5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment, with a cost that is significant in relation to the total cost of the item, is depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset. Depreciation commences once the asset is available for use.

The gain or loss arising from the derecognition on disposal, when no further economic benefits are expected from use or disposal of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

6. Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation charge, if any, for each period, is recognised in profit or loss.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for on these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful lives.

The amortisation period and the amortisation method for intangible assets are reviewed every year-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, franchise agreements, recipes, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Trademarks	Indefinite
Lease premiums, franchise incentives or similar	Agreement period
Computer software	3 to 5 years
Brand names	3 years to indefinite

Derecognition of intangible assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

7. Interests in subsidiaries

Company financial statements
In the Company's separate financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company; plus
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

8. Financial instruments

Classification
The Group classifies financial assets and financial liabilities into the following categories:

- financial assets at fair value through profit or loss – designated;
- loans and receivables;
- financial liabilities at fair value through profit or loss – designated; and
- financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Derivatives and financial assets designated as held at fair value through profit or loss are not reclassified out of the fair value through profit or loss category.

Initial recognition and measurement
Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement
Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Gains or losses arising on remeasurement of financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value determination
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. The same applies for unlisted securities. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option-pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets
At each reporting date, the Group assesses all financial assets, other than those held at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. For amounts due to the Group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments, are all considered indicators of impairment.

Impairment losses are recognised in profit or loss, and are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset, at the date that the impairment is reversed, shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in profit or loss.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write-off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Accounting policies continued

Hedge accounting
The Group enters into forward exchange contracts, currency option contracts and interest rate swap contracts to hedge its exposure to foreign exchange and interest rate risk.

Changes in the fair value of derivative instruments that are not formally designated in a hedging relationship are recognised immediately in profit or loss.

For qualifying cash flow hedges, the fair value gain or loss on the hedging instrument associated with the effective portion of the cash flow hedge is recognised initially in other comprehensive income within hedge accounting reserve, and then recycled to profit or loss in the reporting periods when the hedged item affects profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to profit or loss.

Receivables from/payables to Group companies
These include amounts receivable from and payable to subsidiaries and associates and are recognised initially at fair value. Amounts receivable from Group companies are classified as loans and receivables. Amounts payable to Group companies are classified as financial liabilities measured at amortised costs.

Loans to shareholders, directors, managers and employees
These financial assets are classified as loans and receivables.

Trade and other receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, breach of contract and default or delinquency in payments (more than 90 days overdue), are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Other payables are classified as financial liabilities measured at amortised cost.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are measured at amortised cost.

Bank overdraft
Bank overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings. Bank overdrafts are seen as part of cash and cash equivalents.

9. Tax

Current tax assets and liabilities
Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities or assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates (and tax laws) that have been enacted by the end of the reporting period.

Deferred tax assets and liabilities
A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting nor taxable profit (tax loss).

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches, associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting nor taxable profit or tax loss.

A deferred tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches, associates and interests in joint ventures, to the extent that it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and/or unutilised capital allowances and recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unutilised capital allowances can be recovered.

Deferred tax assets are reviewed at each reporting period and are adjusted if recovery is no longer probable.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

10. Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

10.1 Operating leases – lessor

Operating lease income is recognised as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Income from leases is included in operating profit.

10.2 Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as a deferred lease asset or liability. This liability is not discounted. Any contingent rents are expensed in the period in which they are incurred.

10.3 Finance leases – lessee

Leases are classified as finance leases whenever the terms of lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

11. Inventories

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories of items that are not ordinarily

Accounting policies continued

interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs. The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the Group.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

12. Impairment of assets

The Group assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, the Group also:

- tests intangible assets with indefinite useful lives or intangible assets not yet available for use for impairment annually by comparing their carrying amounts with their recoverable amounts. This impairment test is performed during the annual period and at the same time every period; and
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and then
- to the other assets of the unit, *pro rata* on the basis of the carrying amount of each asset in the unit.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

13. Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the Company reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes), on those instruments is deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Consideration paid or received shall be recognised directly in equity.

14. Share-based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received and the corresponding increase in equity are measured, directly, at the fair value of the goods or services received provided that the fair value can be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, or if the services received are employee services, their value and the corresponding increase in equity are measured, indirectly, by reference to the fair value of the equity instruments granted.

If the share-based payments granted do not vest until the counterparty completes a specified period of service, the Group accounts for those services as they are rendered by the counterparty during the vesting period (or on a straight-line basis over the vesting period). If the share-based payments vest immediately and are simultaneously exercised, the expense for services received is recognised in full.

15. Shareholders for dividends and dividends declared

Dividends payable are recognised as a liability in the period in which they are declared.

16. Provisions and contingencies

Provisions are recognised when:

- the Group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

After their initial recognition, contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in Note 24 Contingent liabilities.

17. Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the sale of goods is recognised, when delivery is made and title has passed to the customer.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts, volume rebates and value added tax.

Interest income is recognised, in profit or loss, using the effective interest method.

Franchise fees are recognised on the accrual basis in accordance with the substance of the relevant agreements.

Dividends are recognised, in profit or loss, when the Company's right to receive payment has been established.

Franchise joining fees are recognised in the month when the outlet opens for trading.

Design and project management revenue are recognised using the stage of completion method.

18. Government grant

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognised as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets for the purposes of the manufacturing process are recognised against the carrying amount of the depreciable asset in the consolidated statement of financial position. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Accounting policies continued

19. Advertising levies

The Group receives advertising levies from franchisees that are utilised in the advertising and promotion of the Group's brands. Advertising expenditure incurred in excess of the levies received is carried forward as a prepaid expense to be set off against future levies. Any amounts not expensed are carried forward as liabilities to set off against future advertising expenditure.

20. Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

21. Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

22. Finance costs

Finance costs comprise interest payable on borrowings using the effective interest method. All other finance costs are expensed in the period in which they incurred.

23. Earnings before non-operational items

Non-operational items are disclosed to provide an additional basis on which to measure the Group's performance. It represents the impact of certain non-operational and non-recurring income and expense items on the reported earnings of the Group.

24. Adoption of amendments to standards

The Group adopted the following amendments to standards applicable for the first time during the year under review and did not have a material impact on the financial statements:

IAS 7 *Statement of Cash Flows* (effective date: 1 January 2017)

The amendments to IAS 7 are intended to improve information provided to users of financial statements about the entity's financing activities.

IAS 12 *Income Taxes* (Amendment, effective date: 1 January 2017)

IAS 12 has been amended to clarify the recognition of deferred tax assets on unrealised losses arising from certain debt instruments and the impact of various requirements of tax laws.

IFRS 12 *Disclosure of Interests in Other Entities* (Amendment, effective date: 1 January 2017)

Amendment to clarify the disclosure requirements where an entity's interests are classified as held-for-sale, held for distribution or a discontinued operation in accordance with IFRS 5 *Non-Current Assets Held-for-Sale and Discontinued Operations*.

25. New standards, amendments to standards and interpretations in issue not yet effective

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2018 or later periods:

IFRS 2 *Share-Based Payment Transactions* (Amendment, effective for financial years beginning on or after 1 January 2018)

Amendment to clarify the treatment of cash-settled share-based payment transactions which include a performance condition, share-based payment transactions which include a net settlement feature and modification of a share-based payment transaction from cash settled to equity settled.

The adoption of the standard is not expected to have a material impact on the financial statements.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018)

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 instruments, as well as an "expected credit loss" model for the measurement of financial assets. 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.

Management has assessed the impact of IFRS 9. Given the nature of the Group's financial instruments, management does not believe that the new classification categories will significantly impact on the measurement of the financial instruments. The change from the incurred loss model to the expected loss model is not expected to have material differences in the Group impairment recognised for financial instruments. The hedge accounting model is not expected to be impacted and management's intention is to continue to apply the IAS 39 requirements, which are more stringent than IFRS 9 requirements for existing hedges. IFRS 9 will be applied retrospectively with certain of the allowed transitional arrangements applied.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018)
IFRS 15 replaces IAS 11 *Construction Contracts* 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.

The Group currently has several revenue streams that include the following:
- sale of products (retail and franchisees);
- franchise fees;
- franchise joining fees;
- design and project management revenue;
- dividend income for the separate company; and
- interest income.

Based on the nature of the revenue streams and the contracts with customers the transition to IFRS 15, is not expected to have a significant impact on the recognition of the revenue within the Group. The standard has extensive disclosure requirements and thus this will require expansion on adoption of the standard. The Group has elected to not restate prior period figures and adopt a cumulative effect method when the new standard becomes effective.

IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019)
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 almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

Management has initiated a transition plan to assess the impact of the standard. The standard is expected to have a significant impact on the Group's assets and liabilities in relation to the property leases for its own business operations and leases entered into to secure key sites for franchised outlets (refer to Note 25.1 Commitments, operating leases). An estimate of the impact of the standard on the Group's financial statements will be provided in the annual financial statements for the year ending 28 February 2019 as the transition plan is still underway.

IAS 12 *Income Taxes* (Amendment, effective for financial years beginning on or after 1 January 2019)
The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

Management is determining the impact of the standard on the financial statements but no significant impact is expected.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018)
A new interpretation which has been issued in order to provide guidance on the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

Management is determining the impact of the standard on the financial statements but no significant impact is expected.

IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019)
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
- whether tax treatments should be considered collectively;
- assumptions for taxation authorities' examinations;
- the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- the effect of changes in facts and circumstances.

Management is determining the impact of the standard on the financial statements but no significant impact is expected.

26. Standards and interpretations early adopted

The Group has chosen not to early adopt any new standards.

Statements of financial position

at 28 February 2018

		Group		Company	
	Notes	**2018 R000**	2017 R000	**2018 R000**	2017 R000
Assets					
Non-current assets		**3 983 129**	4 315 513	**1 491 344**	1 961 460
Property, plant and equipment	1	**1 339 789**	1 397 601	**–**	–
Intangible assets	2	**2 547 845**	2 818 755	**–**	–
Investments in associates	3	**80 926**	83 083		
Investments in subsidiaries	4			**1 491 344**	1 961 460
Deferred tax	5	**14 569**	16 074	**–**	–
Current assets		**1 922 662**	1 570 940	**232 061**	229 461
Receivables from Group companies	4			**228 730**	227 684
Inventories	6	**436 102**	454 656	**–**	–
Current tax assets		**99 132**	38 174	**845**	730
Trade and other receivables	7	**670 440**	649 290	**2 131**	139
Cash and cash equivalents	8	**716 988**	428 820	**355**	908
Total assets		**5 905 791**	5 886 453	**1 723 405**	2 190 921
Equity and liabilities					
Capital and reserves					
Issued capital and share premium	9	**145 110**	131 475	**146 480**	132 845
Other reserves	10	**(164 056)**	(250 892)	**112 566**	85 966
Retained earnings/(losses)		**1 524 544**	1 502 926	**(597 607)**	(159 024)
Equity attributable to owners of Famous Brands Limited		**1 505 598**	1 383 509	**(338 561)**	59 787
Non-controlling interests		**126 429**	101 805		
Total equity		**1 632 027**	1 485 314	**(338 561)**	59 787
Non-current liabilities		**3 014 460**	3 407 381	**–**	60 447
Borrowings	11	**2 513 489**	2 740 744	**–**	–
Derivative financial instruments	12	**32 370**	196 469	**–**	60 447
Lease liabilities	13	**86 355**	80 123	**–**	–
Deferred tax	5	**382 246**	390 045	**–**	–
Current liabilities		**1 259 304**	993 758	**2 061 966**	2 070 687
Payables to Group companies	4			**2 058 451**	2 068 377
Non-controlling shareholder loans	14	**7 500**	22 130	**–**	–
Derivative financial instruments	12	**159 555**	23 381	**–**	–
Lease liabilities	13	**11 125**	6 547	**–**	–
Trade and other payables	15	**770 720**	790 891	**1 294**	89
Provisions	16	**32 851**	–	**–**	–
Shareholders for dividends		**2 221**	2 221	**2 221**	2 221
Current tax liabilities		**8 068**	10 109	**–**	–
Borrowings	11	**267 071**	114 853	**–**	–
Bank overdrafts	8	**193**	23 626	**–**	–
Total liabilities		**4 273 764**	4 401 139	**2 061 966**	2 131 134
Total equity and liabilities		**5 905 791**	5 886 453	**1 723 405**	2 190 921

Statements of profit or loss and other comprehensive income

for the year ended 28 February 2018

		Group		Company	
	Notes	**2018 R000**	2017 R000	**2018 R000**	2017 R000
Revenue	17	**7 023 095**	5 720 363	**–**	30 000
Cost of sales		**(3 254 591)**	(2 948 744)	**–**	–
Gross profit		**3 768 504**	2 771 619	**–**	30 000
Selling and administrative expenses		**(2 878 246)**	(1 833 571)	**15 331**	(7 285)
Operating profit before non-operational items		**890 258**	938 048	**15 331**	22 715
Non-operational items	18	**(372 592)**	(120 755)	**(454 000)**	19 877
Operating profit/(loss) including non-operational items		**517 666**	817 293	**(438 669)**	42 592
Net finance (costs)/income		**(251 345)**	(131 557)	**86**	(2 409)
Finance costs		**(304 687)**	(184 389)	**(1)**	(2 482)
Finance income		**53 342**	52 832	**87**	73
Share of profit of associates		**3 906**	4 314		
Profit/(loss) before tax	18	**270 227**	690 050	**(438 583)**	40 183
Tax	19	**(206 876)**	(235 246)	**–**	–
Profit/(loss) for the year		**63 351**	454 804	**(438 583)**	40 183
Other comprehensive income, net of tax					
Exchange differences on translating foreign operations*		**21 440**	(245 603)		
Pre-tax exchange differences on translating foreign operations		**22 754**	(252 681)		
Tax effect on exchange differences on translating foreign operations		**(1 314)**	7 078		
Movement in hedge accounting reserve*		**(3 920)**	(2 704)		
Effective portion of change in fair value of cash flow hedges		**(5 445)**	(3 867)		
Tax on movement in hedge accounting reserve		**1 525**	1 163		
Total comprehensive income/(loss) for the year		**80 871**	206 497	**(438 583)**	40 183
Profit/(loss) for the year attributable to:					
Owners of Famous Brands Limited		**21 618**	413 747	**(438 583)**	40 183
Non-controlling interests		**41 733**	41 057		
		63 351	454 804	**(438 583)**	40 183
Total comprehensive income/(loss) attributable to:					
Owners of Famous Brands Limited		**39 138**	165 440	**(438 583)**	40 183
Non-controlling interests		**41 733**	41 057		–
		80 871	206 497	**(438 583)**	40 183
Earnings per share					
Basic earnings per share (cents)					
Basic	20	**22**	414		
Diluted	20	**22**	413		

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

Statements of changes in equity

for the year ended 28 February 2018

	Attributable to owners of Famous Brands Limited							
	Share capital R000	Share premium R000	Non-distributable reserves R000	Foreign currency translation reserve R000	Retained earnings R000	Total R000	Non-controlling interests R000	Total equity R000
Group								
Balance at 1 March 2016	998	124 356	(80 296)	127 317	1 302 405	1 474 780	75 819	1 550 599
Issue of capital and share premium	1	6 120	–	–	–	6 121	–	6 121
Share-based payment charge to profit or loss	–	–	26 306	–	–	26 306	–	26 306
Put options over non-controlling interests	–	–	(73 233)	–	–	(73 233)	–	(73 233)
Total comprehensive income for the year	–	–	(2 704)	(245 603)	413 747	165 440	41 057	206 497
Payment of dividends	–	–	–	–	(213 226)	(213 226)	(14 286)	(227 512)
Non-controlling interest arising on business combination	–	–	–	–	–	–	1 033	1 033
Change in ownership interests in subsidiaries	–	–	(1 111)	–	–	(1 111)	(1 818)	(2 929)
Contingent consideration	–	–	(1 568)	–	–	(1 568)	–	(1 568)
Balance at 28 February 2017	999	130 476	(132 606)	(118 286)	1 502 926	1 383 509	101 805	1 485 314
Issue of capital and share premium	**1**	**13 634**	**–**	**–**	**–**	**13 635**	**–**	**13 635**
Share-based payment charge to profit or loss	**–**	**–**	**26 600**	**–**	**–**	**26 600**	**–**	**26 600**
Put options over non-controlling interests*	**–**	**–**	**42 716**	**–**	**–**	**42 716**	**–**	**42 716**
Total comprehensive income for the year	**–**	**–**	**(3 920)**	**21 440**	**21 618**	**39 138**	**41 733**	**80 871**
Payment of dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(17 182)**	**(17 182)**
Change in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**73**	**73**
Balance at 28 February 2018	**1 000**	**144 110**	**(67 210)**	**(96 846)**	**1 524 544**	**1 505 598**	**126 429**	**1 632 027**
Company								
Balance at 1 March 2016	998	125 726	59 660	–	15 497	201 881	–	201 881
Issue of capital and share premium	1	6 120	–	–	–	6 121	–	6 121
Share-based payment charge to profit or loss	–	–	26 306	–	–	26 306	–	26 306
Total comprehensive income for the year	–	–	–	–	40 183	40 183	–	40 183
Payment of dividends	–	–	–	–	(214 704)	(214 704)	–	(214 704)
Balance at 28 February 2017	999	131 846	85 966	–	(159 024)	59 787	–	59 787
Issue of capital and share premium	**1**	**13 634**	**–**	**–**	**–**	**13 635**		**13 635**
Share-based payment charge to profit or loss	**–**	**–**	**26 600**	**–**	**–**	**26 600**		**26 600**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(438 583)**	**(438 583)**		**(438 583)**
Balance at 28 February 2018	**1 000**	**145 480**	**112 566**	**–**	**(597 607)**	**(338 561)**	**–**	**(338 561)**

** Related to put options forfeited during the year.*

Statements of cash flows

for the year ended 28 February 2018

		Group		Company	
	Notes	**2018 R000**	2017 R000	**2018 R000**	2017 R000
Cash generated/(utilised) from/(in) operations	23.1	**1 122 920**	795 262	**(3 187)**	(47 366)
Dividends received		**–**	–	**–**	30 000
Net finance costs (paid)/received		**(207 440)**	(84 628)	**86**	(2 409)
Income taxes paid	23.2	**(274 386)**	(214 715)	**(115)**	–
Net cash inflow/(outflow) from operating activities		**641 094**	495 919	**(3 216)**	(19 775)
Dividends paid to owners of Famous Brands Limited	23.3	**–**	(212 878)	**–**	(214 356)
Dividends paid to non-controlling interests	23.3	**(17 182)**	(14 286)	**–**	–
Net cash inflow/(outflow) from operating activities		**623 912**	268 755	**(3 216)**	(234 131)
Cash generated from investing activities					
Additions to property, plant and equipment		**(192 588)**	(282 440)	**–**	–
Intangible assets acquired		**(38 531)**	(40 807)	**–**	–
Proceeds from disposal of property, plant and equipment		**29 171**	10 004	**–**	–
Proceeds from disposal of a subsidiary		**–**	–	**–**	134 870
Net cash outflow on acquisition of subsidiary	23.4	**(2 589)**	(1 897 991)	**–**	(1 598 169)
Net cash outflow on acquisition of associates		**–**	(50 573)	**–**	–
Dividends received from associates		**3 149**	4 550	**–**	–
Net cash outflow from investing activities		**(201 388)**	(2 257 257)	**–**	(1 463 299)
Cash flow from financing activities					
Borrowings raised		**–**	2 484 979	**–**	–
Borrowings repaid		**(106 667)**	–	**–**	–
Repayment due to non-controlling shareholders		**(14 630)**	(2 315)	**–**	–
Proceeds from issue of equity instruments of Famous Brands Limited		**13 635**	6 121	**13 635**	6 121
Acquired from non-controlling interests in subsidiary		**–**	(2 929)	**–**	–
(Decrease)/increase in payables to Group companies		**–**	–	**(10 972)**	1 691 789
Underwriting fees paid on debt raised		**–**	(50 635)	**–**	–
Participation fees paid on debt raised		**–**	(11 438)	**–**	–
Net cash (outflow)/inflow from financing activities		**(107 662)**	2 423 783	**2 663**	1 697 910
Net increase/(decrease) in cash and cash equivalents		**314 862**	435 282	**(553)**	480
Foreign currency effect		**(3 261)**	(35 972)	**–**	–
Cash and cash equivalents at the beginning of the year		**405 194**	5 884	**908**	428
Cash and cash equivalents at the end of the year	8	**716 795**	405 194	**355**	908

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

for the year ended 28 February 2018

	Notes	Group 2018 R000	2018 %	2017 R000	2017 %
Revenue					
Brands*		**851 021**	**12**	780 887	14
Supply Chain		**4 327 642**	**62**	3 983 297	70
Manufacturing		**2 850 530**	**41**	2 300 418	40
Logistics		**3 779 812**	**54**	3 415 746	60
Eliminations		**(2 302 700)**	**(33)**	(1 732 867)	(30)
Corporate**		**10 878**	**–**	2 800	–
South Africa		**5 189 541**	**74**	4 766 984	84
International		**1 833 554**	**26**	953 379	16
UK		**1 580 947**	**22**	704 182	12
Rest of Africa and Middle East (AME)		**252 607**	**4**	249 197	4
Total		**7 023 095**	**100**	5 720 363	100
Operating profit before non-operational items					
Brands*		**431 170**	**48**	426 755	45
Supply Chain		**509 114**	**58**	454 671	48
Manufacturing		**405 171**	**46**	330 103	35
Logistics		**103 943**	**12**	124 568	13
Corporate		**(49 873)**	**(6)**	(48 463)	(4)
South Africa		**890 411**	**100**	832 963	89
International		**(153)**	**–**	105 085	11
UK		**(44 671)**	**(5)**	55 468	6
Rest of Africa and AME		**44 518**	**5**	49 617	5
Total operating profit before non-operational items		**890 258**	**100**	938 048	100
UK		**(68 592)**		–	
Impairment	1	**(68 592)**		–	
Corporate		**(758 315)**		(483 244)	
Non-operational items, excluding impairment	18	**–**		(100 755)	
Impairment	2	**(304 000)**		(20 000)	
Net finance costs		**(251 345)**		(131 557)	
Share of profit of associates		**3 906**		4 314	
Tax		**(206 876)**		(235 246)	
Profit for the year		**63 351**		454 804	

* *Previously categorised as Franchising and Development.*

** *Includes restaurant development revenue generated through a non-wholly owned subsidiary established during the year under review.*

Operating segments are identified on the same basis that financial information is reported internally for the purpose of allocating resources between segments and assessing their performance by the Group's chief operating decision maker. Reportable segments have been identified after applying the thresholds per IFRS 8, and after aggregating segments with similar economic characteristics.

The table below sets out the performance of the UK business in GBP and ZAR respectively. The 2017 financial results of GBK relate to the period from acquisition (7 October 2016) to 28 February 2017. The 2018 financial results relate to the 12-month period ended 28 February 2018.

	Group 2018 £000	2018 R000	2017 £000	2017 R000
UK business segmental results (Wimpy and GBK)				
Revenue	**92 064**	**1 580 947**	40 722	704 182
Operating (loss)/profit	**(2 689)**	**(44 671)**	3 217	55 468
Operating (loss)/profit margin (%)*	**(2.9)**	**(2.8)**	7.9	7.9

* *Difference in margin percentage is due to translation of property-related expenses at transaction date rate versus average rate.*

Notes to the Audited Annual Financial Statements

for the year ended 28 February 2018

1. Property, plant and equipment

Owned	Group Land and buildings R000	Leasehold improvements R000	Plant and equipment R000	Motor vehicles R000	Computer equipment R000	Furniture, fittings and office equipment R000	Total R000
Carrying amount at 1 March 2016	17 048	9 631	182 372	53 350	7 247	16 800	286 448
Cost	17 275	19 169	345 878	109 001	40 188	53 134	584 645
Accumulated depreciation	(227)	(9 538)	(163 506)	(55 651)	(32 941)	(36 334)	(298 197)
Additions	4	117 878	19 569	21 528	16 729	109 759	285 467
Acquired in business combination	20 163	686 168	267 340	2 375	7 508	9 051	992 605
Government grant	–	–	(2 992)	–	–	–	(2 992)
Foreign currency translation	(214)	(41 778)	(18 851)	(912)	(621)	(2 113)	(64 489)
Disposals	–	(118)	(837)	(3 640)	(324)	(172)	(5 091)
Transfer	10 602	2 657	(16 446)	5 761	908	(3 482)	–
Depreciation	(1 238)	(28 337)	(35 998)	(9 499)	(7 338)	(11 937)	(94 347)
Carrying amount at 28 February 2017	**46 365**	**746 101**	**394 157**	**68 963**	**24 109**	**117 906**	**1 397 601**
Cost	**49 574**	**1 156 784**	**723 268**	**130 335**	**91 643**	**211 934**	**2 363 538**
Accumulated depreciation	**(3 209)**	**(410 683)**	**(329 111)**	**(61 372)**	**(67 534)**	**(94 028)**	**(965 937)**
Additions	**91**	**92 419**	**39 356**	**15 804**	**12 179**	**32 739**	**192 588**
Foreign currency translation	**456**	**18 267**	**760**	**1 240**	**34**	**345**	**21 102**
Disposals	**(1 737)**	**(4 250)**	**(5 277)**	**(1 957)**	**(4 165)**	**(4 110)**	**(21 496)**
Transfer	**(6 033)**	**6 033**	**–**	**–**	**–**	**–**	**–**
Depreciation	**(2 035)**	**(116 161)**	**(41 312)**	**(12 540)**	**(8 070)**	**(1 296)**	**(181 414)**
Impairment	**–**	**(1 546)**	**(61 306)**	**–**	**–**	**(5 740)**	**(68 592)**
Carrying amount at 28 February 2018	**37 107**	**740 863**	**326 378**	**71 510**	**24 087**	**139 844**	**1 339 789**
Cost	**42 833**	**1 217 438**	**712 595**	**134 169**	**104 543**	**244 226**	**2 455 804**
Accumulated depreciation	**(5 726)**	**(475 029)**	**(324 911)**	**(62 659)**	**(80 456)**	**(98 642)**	**(1 047 423)**
Accumulated impairment	**–**	**(1 546)**	**(61 306)**	**–**	**–**	**(5 740)**	**(68 592)**

The cost and net carrying amount of the land within land and buildings is R12 million (2017: R12 million).

Encumbrance

R7 million (2017: R6 million) of the Group's property, plant and equipment is encumbered under finance leases per Note 13.

Impairment

An impairment of R69 million (2017: Rnil) was recognised during the year under review related to various categories of property, plant and equipment at a GBK restaurant level (refer directors' report – "Impairments and provision for property expenses" on page 1).

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 R18 million. The key assumptions used in calculating the recoverable amount include the discount rate and the long-term growth rate. The long-term (beyond 10 years) growth rate is 2.2%, but some sites with leases expiring in less than 10 years have varied growth rate assumptions which range between 3% and 6%. The discount rate used in measuring value-in-use was 5% per annum. Refer to Note 2 for events leading to the impairment. Judgement has been exercised in determining which stores to impair. Should other store performance not be in line with that forecast, additional impairments may arise. Similarly if the impaired restaurants perform better than expected, the impairment recognised may be reversed.

Sensitivity analysis

An increase/(decrease) of 1% in the discount rate would result in an increase/(decrease) in the impairment charge of R15 million (R18 million). An increase/(decrease) in the long-term growth rate of 1% in the forecast profits will result in a decrease in the impairment charge of R6 million (increase R6 million).

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

2. Intangible assets

	Group				
Owned	**Trademarks and brand names R000**	**Goodwill R000**	**Franchise incentives, lease premiums and similar R000**	**Computer software R000**	**Total R000**
Carrying amount at 1 March 2016	488 280	564 968	21 961	20 679	1 095 888
Cost	488 872	576 968	43 387	45 461	1 154 688
Accumulated amortisation	(592)	–	(21 426)	(24 782)	(46 800)
Accumulated impairment	–	(12 000)	–	–	(12 000)
Additions	3 024	–	17 252	20 531	40 807
Acquired in business combinations	1 472 227	376 315	39 860	–	1 888 402
Foreign currency translation	(118 496)	(63 971)	(4 320)	–	(186 787)
Disposals	–	–	(3 955)	–	(3 955)
Transfer	(34 306)	–	34 306	–	–
Amortisation	–	–	(10 841)	(4 759)	(15 600)
Impairment	–	(12 000)	–	–	(12 000)
Carrying amount at 28 February 2017	**1 810 729**	**877 312**	**94 263**	**36 451**	**2 818 755**
Cost	**1 810 729**	**889 312**	**125 657**	**62 654**	**2 888 352**
Accumulated amortisation	**–**	**–**	**(31 394)**	**(26 203)**	**(57 597)**
Accumulated impairment	**–**	**(12 000)**	**–**	**–**	**(12 000)**
Additions	**–**	**–**	**15 887**	**22 644**	**38 531**
Foreign currency translation	**7 634**	**15 646**	**(1 360)**	**–**	**21 920**
Disposals	**–**	**–**	**(2 826)**	**(3 137)**	**(5 963)**
Amortisation	**–**	**–**	**(13 542)**	**(7 856)**	**(21 398)**
Impairment	**–**	**(304 000)**	**–**	**–**	**(304 000)**
Carrying amount at 28 February 2018	**1 818 363**	**588 958**	**92 422**	**48 102**	**2 547 845**
Cost	**1 818 363**	**904 958**	**137 156**	**86 081**	**2 946 558**
Accumulated amortisation	**–**	**–**	**(44 734)**	**(37 979)**	**(82 713)**
Accumulated impairment	**–**	**(316 000)**	**–**	**–**	**(316 000)**

Encumbrance

None of the Group's intangible assets are encumbered.

Trademarks and brand names

The Group's trademarks and brand names that have been assessed as indefinite life intangible assets are disclosed on page 27. There were no trademarks and brand names acquired during the year under review. Trademarks and brand names acquired during the year ended February 2017 related to the acquisitions of Catch, Lamberts Bay Foods and GBK. The Group does not amortise its brands by value. In arriving at the conclusion that a brand has an indefinite life, management considers that the Group is a brands business and expects to acquire, hold and support brands for an indefinite period. The Group supports its brands through spending on consumer marketing and through significant investment in promotional support.

Indefinite life trademarks are assessed as such, as management believes there is no foreseeable limit over which the Group will continue to generate revenues from their continued use. Supporting this assumption is the fact that the brands held are established, well known, and can reasonably be expected to generate revenues beyond the Group's strategic planning horizon. In addition, the Group can continue to renew legal rights attached to such trademarks, without significant costs, and intends to do so beyond the foreseeable future.

2. Intangible assets continued

Goodwill

There was no goodwill acquired during the year under review. Goodwill acquired during the year ended February 2017 as part of business combinations related to the acquisition of the Salsa, Lupa and GBK businesses.

Franchise incentives, lease premiums and similar

Franchise incentives and similar represent financial assistance given to franchisees in respect of fit-out costs. Together with lease premiums, these are initially measured at cost and amortised over the period of the franchise agreements, as well as licences held but not owned.

Computer software

Computer software relates to mainly acquired computer software licences and systems.

Impairment reviews of goodwill and indefinite life intangible assets

For the purposes of impairment testing, goodwill and indefinite life intangible assets are allocated to the smallest cash-generating unit. Significant goodwill and indefinite life intangible asset carrying amounts and the cash-generating units to which they relate are detailed below.

	Group	
	2018 R000	2017 R000
Trademarks and brand names		
Domestic^		
Wimpy, Debonairs Pizza, FishAways, Milky Lane, Steers, tashas, Vovo Telo, KEG, Mugg & Bean, Europa, Fego Caffé, Bread Basket, Mythos, Wakaberry™, Catch, Tru Fruit and Lamberts Bay Foods	**365 561**	364 752
International^^		
Wimpy UK and GBK	**1 452 802**	1 445 977
	1 818 363	1 810 729
Goodwill		
Domestic^		
Wimpy, Debonairs Pizza, FishAways, Steers, O'Hagan's, Famous Brands Coffee Company, Turn 'n Tender, Wakaberry™, Cater Chain and Retail Group Botswana, Lupa and Salsa	**446 554**	405 838
International^^		
Wimpy UK and GBK	**142 404**	471 474
	588 958	877 312

^ *Allocated to local brands and supply chain revenue stream.*
^^ *Allocated to Famous Brands UK revenue stream.*

Domestic-based intangibles

The recoverable amounts of trademarks, brand names and goodwill have been determined on the basis of value-in-use calculations. Value-in-use calculations use cash flow projections based on 2019 financial year budgets, approved by management, extrapolated by a combination of volume growth rates and long-term growth rates of 6% (2017: 6% to 10%). These five-year cumulative cash flows are discounted using a pre-tax weighted average cost of capital range between 10% and 13% (2017: between 10% and 12%). There was no impairment recognised during the year under review (2017: Rnil). A reasonable change in assumption would not result in an impairment.

UK-based intangibles

Wimpy UK

The recoverable amounts of trademarks, brand names and goodwill and other intangibles have been determined on the basis of value-in-use calculations. Value-in-use calculations use cash flow projections based on 2019 financial year budgets, approved by management, extrapolated over the following four years with an annuity calculation thereafter to represent a terminal value at an average growth rate of between 4% and 5% (2017: 3% and 4%). The five-year cumulative cash flow was discounted using a pre-tax weighted average cost of capital of between 9% to 13% (2017: 7% to 13%). There was no impairment recognised during the year under review (2017: Rnil). Key assumptions used in value-in-use calculations include the discount rate and long-term average growth rate. Such assumptions are based on historical results adjusted for anticipated future growth. These assumptions are a reflection of management's past experience in the market in which these units operate. Based on the above assumptions, management's calculations of recoverable amounts were greater than the carrying amounts. A reasonable change in assumption would not result in an impairment.

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

2. Intangible assets continued

UK-based intangibles continued

GBK

The GBK business acquired in the prior period was assessed as a cash-generating unit. The goodwill amounting to R40 million (2017: R342 million) and brand name amounting to R1.38 billion (2017: R1.37 billion) which arose on the acquisition of the business was allocated to this cash-generating unit's carrying amount for the purpose of its 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 R1.9 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. The valuation was determined using valuation experts, based on unpublished market data and adjusted for, based on management's experience and knowledge of the UK market.

Key assumptions used in the valuation includes the probability that the cash-generating unit will achieve the set profit forecasts which includes like-for-like growth rates, the discount rate and the store roll-out plan.

Like-for-like growth rates have been based on past performance adjusted for 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 like-for-like sales growth rates starting at 0% increasing to 3% over the 10-year period. A long-term growth rate of 2.2% per annum was set for the years subsequent to the forecast. A discount rate of 8.0% (2017: 9.3%) was applied.

An impairment of R304 million was recognised during the current year for the cash-generating unit. The impairment was recognised as a result of the unexpected poor GBK performance and continued subdued market in the UK.

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 R299 million (R393 million).
- A decrease/(increase) in the like-for-like growth of 1% in the forecast sales will result in a decrease/(increase) in the recoverable amount of R637 million (R663 million).
- An increase/(decrease) of 1 store per year in the roll-out plan results in an increase/(decrease) in the recoverable amount of R59 million (R53 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.

3. Investments in associates

					Group			
					2018		2017	
Name of associate	Principal activity	Place of incorporation and operation	Year-end	Effective date of acquisition	**Carrying amount R000**	**Interest held by Famous Brands Group %**	Carrying amount R000	Interest held by Famous Brands Group %
UAC Restaurants Limited	Quick service restaurants	Nigeria	31 December	1 October 2013	**28 026**	**49**	30 193	49
Sauce Advertising (Pty) Ltd	Advertising	South Africa	28 February	1 March 2013	**2 301**	**35**	1 695	35
It's a Matter of Taste (Pty) Ltd	Commercial catering	South Africa	28 February	1 December 2016	**50 599**	**49.9**	51 195	49.9
					80 926		83 083	

The above associates are accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's material associates is set out on the next page. The summarised financial information represent the associates' financial statements prepared in accordance with IFRS.

3. Investments in associates continued

UAC Restaurants Limited (UACR)

UACR is a subsidiary of UAC of Nigeria plc, a leading diversified conglomerate with operations in foods, paints, logistics and real estate, listed on the Nigerian Stock Exchange.

The UACR business, trading as Mr Bigg's, remains in repair mode. The Group recognised an impairment of R20 million for the year ended February 2017 on its investment in the UACR business due to the difficult economic climate and the introduction of a flexible exchange rate policy and subsequent devaluation of the Naira. No further impairment was recognised during the year under review. The fair presentation of the carrying amount of the investment is dependent on the performance of the business.

The latest available IFRS-compliant financial statements of UAC Restaurants Limited were at 31 December 2017 (stated in Nigerian Naira (N)). The financial year-end date of UACR was 31 December 2017. This was the reporting date established when that company was incorporated, and has been aligned with the tax year in Nigeria. For the purposes of applying the equity method of accounting, the financial statements of UACR for the year ended 31 December 2017 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 28 February 2018.

	Group	
	2017 31 December N000	2016 31 December N000
Current assets	**481 242**	539 949
Non-current assets	**422 817**	564 871
Current liabilities	**(479 107)**	(679 450)
Non-current liabilities	**(17 223)**	(22 123)
Net assets of the associate	**407 729**	403 247
Revenue	**1 242 562**	1 181 762
Profit/(loss) from continuing operations	**51 102**	(28 525)
Profit/(loss) for the year	**51 102**	(28 525)
Other comprehensive income for the year	**–**	–
Total comprehensive income/(loss) for the year	**51 102**	(28 525)

	Group	
	2018 R000	2017 R000
Reconciliation of the carrying amount of the interest in UAC Restaurants Limited		
Balance at the beginning of the year	**30 193**	50 613
Impairment on investment	**–**	(20 000)
The Group's share of profit/(loss) from continuing operations	**746**	(420)
Dividends received	**–**	–
Exchange difference on translation of foreign operations	**(2 913)**	–
Carrying amount of the Group's interest in UAC Restaurants Limited	**28 026**	30 193

It's a Matter of Taste (Pty) Ltd

It's a Matter of Taste (Pty) Ltd (trading as By Word of Mouth) is a multi-awarded commercial catering company, acquired by the Group effective 1 December 2016. The revenue for 2017 is for the three-month period from acquisition. Its summarised financial information is set out below:

	Group	
	2018 February R000	2017 February R000
Current assets	**8 785**	16 380
Non-current assets	**11 334**	9 167
Current liabilities	**(12 682)**	(19 579)
Non-current liabilities	**(3 407)**	(275)
Net assets of the associate	**4 030**	5 693
Revenue	**83 147**	21 353

The fair presentation of the carrying amount of the investment is dependent on the performance of the business.

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

3. Investments in associates continued

	Group	
	2018 February R000	2017 February R000
Reconciliation of the carrying amount of the interest in By Word of Mouth		
Balance at the beginning of the year	**51 195**	–
Acquired during the year	**–**	50 573
The Group's share of (loss)/profit from continuing operations	**(596)**	622
Carrying amount of the Group's interest in By Word of Mouth	**50 599**	51 195
Aggregate information of associates that are not individually material		
The Group's share of profit from continuing operations	**3 756**	4 112
The Group's share of other comprehensive income	**3 756**	4 112
Aggregate carrying amount	**2 301**	1 695

4. Investment in subsidiaries

	Company	
	2018 R000	2017 R000
Unlisted shares at cost less amounts written off	**1 491 344**	1 961 460
Net amount owing to subsidiaries	**(1 829 721)**	(1 840 693)
Receivables from Group companies*	**228 730**	227 684
Payables to Group companies*	**(2 058 451)**	(2 068 377)
	(338 377)	120 767

** The amounts owing from/(to) Group companies are interest free and have no fixed terms of repayment. They are disclosed as current on the statement of financial position as required by IFRS. However, repayment is not expected in the foreseeable future. Therefore, the Company's ability to settle its short-term obligations is not a concern.*

The directors note that the Company financial statements reflect liabilities that exceed assets by R339 million. This has arisen as a result of a non-cash impairment of the investment in GBK of R454 million. The impairment does not impact the Company's ability to meet its future short-term obligations. A dividend of R350 million has been declared by Famous Brands Management Company (Pty) Ltd as of 23 May 2018 that results in the Company being restored to solvency.

The impairment of investment in subsidiaries has been determined using the same methods and assumptions as the GBK CGU disclosed in Note 2 and adjusted for financing obligations. Refer to Note 18 for the amount impaired.

A schedule of subsidiaries of the Company is set out in Note 31.

5. Deferred tax

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Balance at the beginning of the year (net)	**373 971**	77 716	**–**	–
Acquired in business combinations	**–**	331 364	**–**	–
Foreign currency effect	**(6 886)**	(24 141)	**–**	–
Movement through profit or loss	**803**	(3 890)	**–**	–
Current year temporary differences	**(16 895)**	145	**–**	–
Prior year overprovision	**17 698**	(4 035)	**–**	–
Movement through other comprehensive income				–
Current year temporary differences	**(211)**	(7 078)	**–**	–
Balance at the end of the year (net)	**367 677**	373 971	**–**	–

5. Deferred tax continued

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Analysis				
Excess capital allowances over depreciation and amortisation	**405 938**	391 224	**–**	–
Property, plant and equipment	**60 719**	84 912	**–**	
Intangible assets	**345 219**	306 312	**–**	
Effect of tax losses	**(13 546)**	496	**–**	–
Prepayments	**11 158**	13 879	**–**	–
Provisions	**(14 319)**	(11 386)	**–**	–
Other temporary differences	**(21 554)**	(20 242)	**–**	–
	367 677	373 971	**–**	–
The balance comprises				
Aggregate of deferred tax assets	**(14 569)**	(16 074)	**–**	–
Aggregate of deferred tax liabilities	**382 246**	390 045	**–**	–
	367 677	373 971	**–**	–

The tax losses recognised mainly relate to the GBK restaurant business to the extent they are considered recoverable in the foreseeable future. The recognition of the deferred tax asset is based on the achievement of future taxable income.

6. Inventories

	Group	
	2018 R000	2017 R000
Raw materials	**89 307**	92 861
Finished goods	**340 057**	344 615
Stock in transit	**5 545**	6 331
Consumables	**1 193**	10 849
	436 102	454 656

Write-downs of inventories to their net realisable value and obsolete inventory provisions, mainly relating to finished goods, amounted to R0.2 million (2017: R0.3 million), and have reduced gross inventories to the carrying amounts above. There are no inventories pledged as security for liabilities.

The cost of inventory written down was R7 million (2017: R3 million).

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

7. Trade and other receivables

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Financial instruments	**568 514**	518 116	**1 904**	75
Trade receivables	**513 377**	508 694	**–**	–
Impairment allowance	**(15 895)**	(24 796)	**–**	–
Net trade receivables	**497 482**	483 898	**–**	–
Advertising levy deficit	**7 251**	8 841	**–**	–
Other receivables	**63 781**	25 377	**1 904**	75
Non-financial instruments	**101 926**	131 174	**227**	64
Prepayments	**90 470**	97 446	**–**	–
VAT receivable	**11 456**	33 728	**227**	64
	670 440	649 290	**2 131**	139
Credit quality of trade and other receivables				
The Group has a wide customer base. No credit rating has been obtained from banks. One debtor has a current balance in excess of 5% of the trade receivables balance amounting to R36 million (2017: R45 million).				
The table below illustrates the trade receivables ageing analysis:				
Less than 30 days	**442 888**	482 030	**–**	–
31 to 60 days	**36 026**	8 277	**–**	–
61 to 90 days	**20 154**	(2 085)	**–**	–
Over 90 days	**14 309**	20 472	**–**	–
	513 377	508 694	**–**	–
It is the policy of the Company to allow seven to 90-day payment terms.				
Fair value of trade and other receivables				
There is no material difference between the fair value of trade and other receivables and their book value due to the short-term nature of these items.				
Trade and other receivables past due and not impaired				
Trade and other receivables that are less than three months past due are not considered to be impaired unless specific circumstances indicate otherwise. Amounts that were past due but not impaired were as follows:				
Over 90 days	**–**	289	**–**	–
Trade and other receivables impaired				
Trade and other receivables that were impaired and provided for were as follows:				
Less than 30 days	**–**	79	**–**	–
31 to 60 days	**179**	–	**–**	–
61 to 90 days	**1 407**	–	**–**	–
91 to 120 days	**14 309**	24 717	**–**	–
	15 895	24 796	**–**	–
Reconciliation of trade and other receivables impairment allowance				
Balance at the beginning of the year	**24 796**	6 930	**–**	–
Amounts raised during the year	**5 483**	21 266	**–**	–
Amounts written off as uncollectible	**(14 384)**	(3 400)	**–**	–
Balance at the end of the year	**15 895**	24 796	**–**	–

The maximum exposure to credit risk at the reporting date is the fair value of trade and other receivables above.

The Group does not hold any collateral as security.

8. Cash and cash equivalents

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position items:				
Cash and cash equivalents	**716 988**	428 820	**355**	908
Bank overdrafts	**(193)**	(23 626)	**–**	–
Cash on hand and bank balances	**716 795**	405 194	**355**	908

As described in the accounting policies, certain bank overdrafts payable on demand fluctuate from being positive to overdrawn and are considered an integral part of the Group's cash management for cash flow statement purposes.

There is no material difference between the fair value and the book value of cash and cash equivalents.

9. Issued capital and share premium

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Share capital	**1 000**	999	**1 000**	999
Share premium	**144 110**	130 476	**145 480**	131 846
	145 110	131 475	**146 480**	132 845
Share capital				
Authorised				
200 000 000 (2017: 200 000 000) ordinary par value shares of 1 cent each	**2 000**	2 000	**2 000**	2 000
Issued				
Total shares in issue 99 977 435 (2017: 99 862 435) ordinary par value shares of 1 cent each	**1 000**	999	**1 000**	999
Unissued				
100 022 565 (2017: 100 137 565) ordinary par value shares of 1 cent each	**1 000**	1 001	**1 000**	1 001
3% of the unissued shares are under the control of the directors until the next Annual General Meeting.				
Share premium				
Balance at the beginning of the year	**130 476**	124 356	**131 846**	125 726
Premium on shares issued	**13 634**	6 120	**13 634**	6 120
Balance at the end of the year	**144 110**	130 476	**145 480**	131 846

10. Other reserves

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Foreign currency translation reserve	**(96 846)**	(118 286)	**–**	–
Share-based payments	**101 791**	75 191	**112 566**	85 966
Change in ownership	**(13 434)**	(13 434)	**–**	–
Put options equity reserve	**(148 943)**	(191 659)	**–**	–
Cash flow hedge reserve	**(6 624)**	(2 704)	**–**	–
	(164 056)	(250 892)	**112 566**	85 966

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

11. Borrowings

	Currency	Maturity date	Nature	Interest rate Margin %	Rate	Group 2018 %	Group 2017 %	Group 2018 R000	Group 2017 R000
Unsecured									
Long-term borrowings								**2 513 489**	2 740 744
Short-term portion of borrowings								**267 071**	114 853
								2 780 560	2 855 597
Interest is paid quarterly in arrears. The Company has unlimited borrowing powers in terms of its Memorandum of Incorporation.									
Terms of repayment									
Syndicated facility: three-year bullet	ZAR	Sep 2019	variable	2.35	3-month JIBAR	**7.16**	7.36	**720 000**	720 000
Syndicated facility: four-year bullet	ZAR	Sep 2020	variable	2.55	3-month JIBAR	**7.16**	7.36	**720 000**	720 000
Syndicated facility: five-year amortising	ZAR	Sep 2021	variable	2.45	3-month JIBAR	**7.16**	7.36	**853 333**	960 000
								2 293 333	2 400 000
Syndicated facility: revolving credit	GBP	11 Oct 2019	variable	2.15	3-month LIBOR	**0.52**	0.34	**422 799**	485 553
Syndicated facility: revolving credit	GBP	11 Oct 2019	variable	2.15	1-month LIBOR	**0.49**		**65 046**	–
Transaction costs								**(37 727)**	(55 035)
Interest accrued								**37 109**	25 079
								2 780 560	2 855 597
Maturity analysis – capital									
Payable within one year								**267 071**	114 853
Payable between two and five years								**2 513 489**	2 740 744
								2 780 560	2 855 597

Sensitivity analysis
A change of 1% in interest rates at the reporting date would have increased/(decreased) profit or loss by R28 million (2017: R10 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. Refer Note 32 Risk management for further details.

Facilities
Total ZAR overdraft facility in place: R80 million (2017: R190 million). Unutilised portion at year-end: R77 million (2017: R166 million).

Total GBP borrowings facility in place: £30 million (2017: £30 million). Unutilised portion at year-end: £nil (2017: £nil).

Guarantees
Famous Brands Limited, Famous Brands Management Company (Pty) Ltd, Mugg & Bean Franchising (Pty) Ltd, Venus Solutions Limited, Famous Brands UK Limited, GBK Franchises Limited, Lamberts Bay Foods Limited, Famous Brands Logistics Company (Pty) Ltd, GBK Restaurants Limited, Gourmet Burger Kitchen Limited and GBK Retail Limited have guaranteed in terms of the Syndicated loan agreement:
- punctual performance by the Group of amounts due in the syndication agreement;
- immediate payment of amounts due which the Group has not paid; and
- to indemnify the finance parties against any cost, loss or liability it incurs as a result of the Group not paying amounts that are due.

Borrowings restrictions
There are certain restrictions on the financial activities of covenant subsidiaries within the Group, who are not obligors, such as the ability to raise additional financing.

Underwriting and participation fees
The unamortised portion of underwriting and participation fees paid have been recognised in the above long-term borrowings balance. The amortised portion is included within finance costs.

12. Derivative financial instruments

	Note	Group 2018 Liabilities R000	Group 2017 Liabilities R000	Company 2018 Liabilities R000	Company 2017 Liabilities R000
Put options written over the equity of non-controlling interests		(176 186)	(211 239)	–	(60 447)
Foreign exchange contract liabilities		(1 028)	(102)	–	–
Interest-rate swap liabilities	12.1	(14 711)	(8 509)	–	–
Balance at the end of the year (net)		(191 925)	(219 850)	–	(60 447)
Maturity analysis					
Current liabilities		(159 555)	(23 381)	–	–
Non-current liabilities		(32 370)	(196 469)	–	(60 447)
Balance at the end of the year (net)		(191 925)	(219 850)	–	(60 447)

Refer to Note 32 Risk management for further details.

12.1 Interest rate swap liabilities

The Group has entered into interest rate swap contracts that entitle it to pay fixed interest rates on notional principal amounts relating to interest-bearing borrowings raised at floating interest rates (refer Note 11 Borrowings). The table below sets out the details of the interest rate swap contracts:

	Maturity date	Group 2018 Notional amount R000	Group 2018 Fixed interest rate %	Group 2017 Notional amount R000	Group 2017 Fixed interest rate %
Syndicated loans (swap from variable to fixed)					
Syndicated facility: three-year bullet	Sep 2019	**288 000**	**7.70**	288 000	7.70
Syndicated facility: four-year bullet	Sep 2020	**288 000**	**7.83**	288 000	7.83
Syndicated facility: five-year amortising, repayable bi-annually	Sep 2021	**341 333**	**7.78**	384 000	7.78

13. Lease liabilities

	Group 2018 R000	Group 2017 R000	Company 2018 R000	Company 2017 R000
Operating leases smoothing liability	**90 034**	80 380	–	–
Finance lease payables	**7 446**	6 290	–	–
Balance at the end of the year	**97 480**	86 670	–	–
Maturity analysis				
Current liabilities	**11 125**	6 547	–	–
Non-current liabilities	**86 355**	80 123	–	–
	97 480	86 670	–	–
13.1 Operating lease smoothing liability				
Balance at the beginning of the year	**80 380**	6 757	–	–
Movement during the year	**9 654**	73 623	–	–
Balance at the end of the year	**90 034**	80 380	–	–
Maturity analysis				
Current liabilities	**8 851**	5 186	–	–
Non-current liabilities	**81 183**	75 194	–	–
	90 034	80 380	–	–
13.2 Finance lease payables				
Balance at the beginning of the year	**6 290**	5 790	–	–
Movement during the year	**1 156**	500	–	–
Balance at the end of the year	**7 446**	6 290	–	–
Maturity analysis				
Current liabilities	**2 274**	1 361	–	–
Non-current liabilities	**5 172**	4 929	–	–
	7 446	6 290	–	–

Details of the lease rental commitments are disclosed in Note 25. Finance lease liabilities are secured by property, plant and equipment with net book value of R7 million (2017: R6 million) as per Note 1.

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

14. Non-controlling shareholder loans

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Unsecured				
Amounts due to non-controlling shareholders of:				
Famous Brands Cheese Company (Pty) Ltd	**–**	13 266	**–**	–
Famous Brands Great Bakery Company (Pty) Ltd	**–**	1 364	**–**	–
Cater Chain Food Services (Pty) Ltd	**7 500**	7 500	**–**	–
	7 500	22 130	**–**	–

The loans have no fixed terms of repayment. Interest is charged at variable rates. The book value of the loans is considered to be in line with the fair value.

15. Trade and other payables

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Financial instruments	**599 941**	648 162	**1 294**	89
Trade payables	**391 265**	429 103	**–**	–
Accruals	**204 590**	214 007	**1 294**	89
Advertising levy surplus	**4 086**	5 052	**–**	–
Non-financial instruments	**170 779**	142 729	**–**	–
Employee benefits	**100 210**	82 448	**–**	–
Deferred income	**11 436**	22 326	**–**	–
VAT payable	**59 133**	37 955	**–**	–
	770 720	790 891	**1 294**	89

Accruals and deferred income represent miscellaneous contractual liabilities that relate to expenses that were incurred, but not paid for at the year-end and income received during the year, for which the Group had not supplied the goods or services at the end of the year.

The book value of trade payables, accruals and deferred income is considered to be in line with their fair values due to the short-term nature of the instruments.

16. Provisions

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Balance at the beginning of the year	**–**	–	**–**	–
Amounts raised during the year	**32 851**	–	**–**	–
Balance at the end of the year	**32 851**	–	**–**	–

The provisions relate to property-related expenses at GBK restaurant level.

The provision has been made for the lower of the costs of closure or the cost of continued operation of certain stores in GBK. This amounted to R33 million (2017: Nil). 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. Judgement has been exercised in determining which stores require property-related provisions. Should the store performances not be in line with that forecast, additional provisions may be required. Similarly if the identified stores perform better than anticipated the provision raised may be reversed.

17. Revenue

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Sale of goods	**4 478 346**	4 116 221	**–**	–
Services rendered and franchise revenue	**2 544 749**	1 604 142	**–**	–
Dividends received from subsidiaries	**–**	–	**–**	30 000
	7 023 095	5 720 363	**–**	30 000

18. Profit/(loss) before tax

	Note	Group 2018 R000	Group 2017 R000	Company 2018 R000	Company 2017 R000
Profit/(loss) before tax is arrived at after taking into account, among other items, those detailed below:					
Depreciation of property, plant and equipment		**181 414**	94 347	**–**	–
Amortisation of intangible assets		**21 398**	15 600	**–**	–
Employee costs		**1 318 928**	865 534	**–**	–
Directors' remuneration	28	**13 960**	11 302	**4 160**	3 083
Executive directors		**9 800**	8 219	**9 800**	8 219
Non-executive directors		**4 160**	3 083	**4 160**	3 083
Less: Amounts paid by subsidiaries		**–**	–	**(9 800)**	(8 219)
Auditor's remuneration		**6 430**	7 519	**–**	–
Audit fee		**6 280**	6 559	**–**	–
Fees for other services		**150**	960	**–**	–
Foreign exchange loss		**3 203**	6 522	**1 046**	14 783
Net finance costs/(income)		**251 345**	131 557	**(86)**	2 409
Finance costs		**304 687**	184 389	**1**	2 482
Finance income		**(53 342)**	(52 832)	**(87)**	(73)
Net operating lease charges		**260 995**	129 182	**–**	–
Operating lease charges on immovable property		**261 696**	155 111	**–**	–
Operating lease charges recovered from sub-lessees		**(14 169)**	(35 268)	**–**	–
Operating lease charges on movable property		**13 468**	9 339	**–**	–
Profit on disposal of property, plant, equipment and intangible assets		**(1 711)**	(958)	**–**	–
Share of profit of associates		**(3 906)**	(4 314)	**–**	–
Share-based payments – equity settled		**26 600**	26 306	**–**	–
Non-operational items*		**372 592**	120 755	**454 000**	(19 877)
Impairment		**372 592**	20 000	**454 000**	–
Gain on bargain purchase		**–**	(6 213)	**–**	–
Derivative loss on call option utilised to hedge purchase price		**–**	33 253	**–**	–
Foreign exchange loss on initial recognition of investment		**–**	23 295	**–**	23 295
Professional fees		**–**	50 420	**–**	17 572
Profit on the restructuring of the Company's offshore structure (Cyprus)		**–**	–	**–**	(60 744)

** Represents non-operational items that are not expected to recur in future.*

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

19. Tax

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Normal tax				
Current tax	**206 073**	239 136	**–**	–
Current year	**211 133**	238 047	**–**	–
Prior year (overprovision)/underprovision	**(5 061)**	1 089	**–**	–
Deferred tax	**803**	(3 890)	**–**	–
Current temporary differences	**(16 895)**	145	**–**	–
Prior year overprovision	**17 698**	(4 035)	**–**	–
	206 876	235 246	**–**	–

Reconciliation of rate of tax

	Group		Company	
	%	%	**%**	%
South African normal rate of tax	**28.0**	28.0	**28.0**	28.0
Reduction in rate for year, due to:				
Exempt dividend income	**–**	–	**–**	(20.9)
Share of profits of associates	**(0.4)**	(0.2)	**–**	–
Prior year overprovision: Current tax	**(1.9)**	–	**–**	–
Prior year overprovision: Deferred tax	**–**	(0.6)	**–**	–
Foreign tax differential	**–**	(1.1)	**–**	–
Non-taxable income	**(1.1)**	–	**1.3**	(42.3)
Increase in rate for year, due to:				
Disallowable expenditure*	**41.8**	5.3	**(29.0)**	11.0
Prior year underprovision: Deferred tax	**6.5**	–	**–**	–
Withholding taxes	**–**	0.2	**–**	–
Unutilised losses	**0.6**	2.2	**(0.3)**	24.2
Securities transfer tax	**–**	0.3	**–**	–
Foreign tax differential	**3.0**	–	**–**	–
Effective rate of tax	**76.5**	34.2	**–**	–

** Mainly attributable to non-deductible acquisition costs in 2017. Mainly relates to impairment in the current year.*

20. Earnings and diluted earnings per share

Basic earnings per share

The calculation of basic earnings per ordinary share is based on earnings of R22 million (2017: R414 million) and a weighted average number of shares in issue of 99 872 018 (2017: 99 841 602).

Diluted earnings per share

The calculation of diluted earnings per ordinary share is based on diluted earnings of R22 million (2017: R414 million) and a weighted average number of shares in issue of 100 231 341 (2017: 100 091 771), after taking into account the effect of the possible issue of 359 323 (2017: 250 169) ordinary shares in the future relating to the share incentive scheme.

	Group					
	2018			2017		
	Gross R000	Tax R000	Net R000	Gross R000	Tax R000	Net R000
Reconciliation between basic earnings and diluted basic earnings						
Attributable profit to owners of Famous Brands Limited	21 618	–	21 618	413 747	–	413 747
Basic and diluted basic earnings	21 618	–	21 618	413 747	–	413 747
Basic earnings per share (cents)			22			414
Diluted earnings per share (cents)			22			413

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

21. Headline earnings and diluted headline earnings per share

Basic headline earnings

The calculation of headline earnings per ordinary share is based on headline earnings of R393 million (2017: R427 million) and a weighted average number of shares in issue of 99 872 018 (2017: 99 841 602).

Diluted headline earnings

The calculation of diluted headline earnings per ordinary share is based on diluted headline earnings of R393 million (2017: R427 million) and a weighted average number of shares in issue of 100 231 341 (2017: 100 091 771), after taking into account the effect of the possible issue of 359 323 (2017: 250 169) ordinary shares in the future relating to the share incentive scheme.

	Group					
	2018			2017		
	Gross R000	**Tax R000**	**Net R000**	Gross R000	Tax R000	Net R000
Reconciliation between earnings, headline earnings and diluted headline earnings						
Attributable profit to owners of Famous Brands Limited	**21 618**	**–**	**21 618**	413 747	–	413 747
Adjustment for:	**370 881**	**479**	**371 360**	12 829	268	13 097
Profit on disposal of property, plant and equipment	**(1 711)**	**479**	**(1 232)**	(958)	268	(690)
Impairment	**372 592**	**–**	**372 592**	20 000	–	20 000
Gain on bargain purchase price	**–**	**–**	**–**	(6 213)	–	(6 213)
Basic and diluted headline earnings	**392 499**	**479**	**392 978**	426 576	268	426 844
Basic headline earnings per share (cents)			**393**			428
Diluted headline earnings per share (cents)			**392**			426

22. Dividends

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Final dividend number 43 of 215 cents, paid 11 July 2016	**–**	214 704	**–**	214 704
	–	214 704	**–**	214 704

23. Cash flow information

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
23.1 Reconciliation of profit/(loss) before tax to cash generated by operations				
Profit/(loss) before tax	**270 227**	690 050	**(438 583)**	40 183
Adjustments for:				
Depreciation of property, plant and equipment	**181 414**	94 347	**–**	–
Amortisation of intangible assets	**21 398**	15 600	**–**	–
Impairment	**372 592**	20 000	**454 000**	–
Dividends received	**–**	–	**–**	(30 000)
Foreign currency effect of equity loans	**(11 376)**	(43 078)	**–**	–
Gain on bargain purchase	**–**	(6 213)	**–**	–
Movement in lease liabilities	**9 670**	2 217	**–**	–
Net finance costs paid/(received)	**251 345**	131 557	**(86)**	4 892
Profit on disposal of property, plant, equipment	**(1 711)**	(958)	**–**	–
Profit on sale of business	**–**	–	**–**	(60 744)
Share of profits from associates	**(3 906)**	(4 314)	**–**	–
Share-based payments reserve	**26 600**	26 306	**–**	–
Provision for property expenses	**32 851**	–	**–**	–
Other non-cash items	**(13 983)**	6 338	**(17 731)**	(1 628)
Cash generated/(utilised) before changes in working capital	**1 135 121**	931 852	**(2 400)**	(47 297)
Working capital changes	**(12 201)**	(136 590)	**(787)**	(69)
Decrease/(increase) in inventories	**18 768**	(91 118)	**–**	–
Increase in receivables	**(12 730)**	(16 033)	**(1 992)**	(139)
(Decrease)/increase in payables	**(18 239)**	(29 439)	**1 205**	70
Cash generated from/(utilised in) operations	**1 122 920**	795 262	**(3 187)**	(47 366)

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

23. Cash flow information continued

		Group		Company	
		2018 R000	2017 R000	**2018 R000**	2017 R000
23.2	**Reconciliation of tax paid during the year**				
	Amounts receivable at the beginning of the year	**28 065**	49 073	**730**	730
	Amounts charged to profit or loss	**(206 876)**	(235 246)	**–**	–
	Adjustment for deferred tax	**803**	(3 890)	**–**	–
	Acquisition of subsidiary	**–**	(821)	**–**	–
	Foreign currency effect	**(5 314)**	4 234	**–**	–
	Amounts receivable at the end of the year	**(91 064)**	(28 065)	**(845)**	(730)
	Tax paid	**(274 386)**	(214 715)	**(115)**	–
23.3	**Reconciliation of dividends paid during the year**				
	Amounts owing at the beginning of the year	**(2 221)**	(1 873)	**(2 221)**	(1 873)
	Amounts charged to retained earnings	**(17 182)**	(227 512)	**–**	(214 704)
	Amounts owing at the end of the year	**2 221**	2 221	**2 221**	2 221
	Dividends paid	**(17 182)**	(227 164)	**–**	(214 356)
23.4	**Acquisition of business operations**				
	Summary of cash outflow on acquisition of subsidiaries				
	BC Hospitality (Lupa)	**–**	3 958		
	Chilango (Pty) Ltd	**2 589**	4 985		
	Lamberts Bay Foods Limited	**–**	73 530		
	GBK Restaurants Limited	**–**	1 815 518		
	Total cash outflow on acquisition of subsidiaries	**2 589**	1 897 991		
	BC Hospitality (Pty) Ltd (Lupa)				
	Effective 1 May 2016, a 51% share was acquired in BC Hospitality (Pty) Ltd (Lupa), for a consideration of R4 million. R3.9 million was allocated to goodwill because of anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.				
	Fair value of assets and liabilities acquired				
	Cash and cash equivalents		42		
	Trade and other payables		89		
	Current tax liabilities		(5)		
	Net assets acquired		126		
	Non-controlling interests measured at their share of the fair value of net assets		(62)		
	Amount capitalised		64		
	Goodwill		3 936		
	Purchase price		4 000		
	Cash and cash equivalents		(42)		
	Cash outflow on acquisition of subsidiary		3 958		

23. Cash flow information continued

	Group 2018 R000	Group 2017 R000	Company 2018 R000	Company 2017 R000
23.4 Acquisition of business operations continued				
Chilango (Pty) Ltd (Salsa)				
Effective 31 May 2016, a 51% interest was acquired in Chilango (Pty) Ltd (Salsa), for a consideration of R6.1 million. R7.8 million was allocated to goodwill because of anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.				
Fair value of assets and liabilities acquired				
Property, plant and equipment		2 566		
Inventories		137		
Trade and other receivables		34		
Cash and cash equivalents		1 197		
Trade and other payables		(1 220)		
Non-controlling shareholder loans		(732)		
Net assets acquired		1 982		
Non-controlling interests measured at their share of the fair value of net assets		(971)		
Amount capitalised		1 011		
Goodwill		7 760		
Purchase price		8 771		
Contingent consideration		(2 589)		
Cash and cash equivalents		(1 197)		
Cash outflow on acquisition of subsidiary		4 985		
Lamberts Bay Foods Limited				
Effective 1 August 2016, a 100% interest was acquired in Lamberts Bay Foods Limited, for a consideration of R70 million. R6.2 million gain on bargain purchase was realised.				
Fair value of assets and liabilities acquired				
Property, plant and equipment		48 188		
Intangible assets		16 277		
Inventories		38 361		
Trade and other receivables		36 932		
Current tax assets		1 314		
Cash and cash equivalents		8		
Deferred tax		(16 218)		
Trade and other payables		(45 110)		
Bank overdrafts		(3 539)		
Net assets acquired		76 213		
Gain on bargain purchase		(6 213)		
Purchase price		70 000		
Cash and cash equivalents		3 530		
Cash outflow on acquisition of subsidiary		73 530		

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

23. Cash flow information continued

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
23.4 Acquisition of business operations continued				
GBK Restaurants Limited				
Effective 7 October 2016, a 100% interest was acquired in GBK Restaurants Limited, for a consideration of R1.82 billion. R365 million was allocated to goodwill because of anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.				
Fair value of assets and liabilities acquired				
Property, plant and equipment		941 813		
Intangible assets		1 495 809		
Inventories		25 034		
Trade and other receivables		122 622		
Provision for doubtful debt		(14 332)		
Cash and cash equivalents		11 275		
Borrowings		(427 301)		
Deferred tax liabilities		(315 146)		
Trade and other payables		(375 471)		
Current tax liabilities		(2 130)		
Net assets acquired		1 462 173		
Goodwill*		364 620		
Purchase price		1 826 793		
Cash and cash equivalents		(11 275)		
Cash outflow on acquisition of subsidiary		1 815 518		
23.5 Investment in associates				
Effective 1 December 2016, the Group acquired a 49.9% stake in the multi-awarded commercial catering company, It's a Matter of Taste (Pty) Ltd trading as By Word of Mouth, advancing the Group's strategy to expand into the broader leisure and consumer product sector.				
Cash flow on investments in associates		50 573		

** Converted at exchange rate at acquisition date.*

24. Contingent liabilities

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

24.2 Guarantees issued by banks in favour of trade creditors totalled R7 million (2017: R9 million).

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

24.4 Refer to Note 11 for other guarantees and facilities in the Group.

25. Commitments

		Group		Company	
		2018 R000	2017 R000	**2018 R000**	2017 R000
25.1	**Operating leases and consulting fees**				
	The Company and the Group have commitments arising from property leases for its own business operations and leases entered into to secure key sites for franchised outlets. With regard to leases entered into to secure key sites, it is the Group's policy to enter into sub-lease agreements with the franchisees on the same terms and conditions as those in the main lease.				
	Lease rentals for South African operations are negotiated on an average term of six years and escalated at an average rate of 8% per annum. No contingent rent is payable.				
	Lease rentals for UK operations are negotiated on an average term of 20 years, with price reviews scheduled on average over five-year periods. No contingent rent is payable.				
	In circumstances where the amounts recoverable are lower than the amounts payable, the Group immediately recognises provisions for onerous contracts.				
	Certain operating commitments relating to computer equipment and professional fees exist.				
	The net future minimum rentals due under operating leases are as follows:				
	Gross amounts due	**2 588 846**	2 299 232	**–**	–
	Amounts recoverable from sub-lessees*	**(112 292)**	(129 441)	**–**	–
		2 476 554	2 169 791	**–**	–
	The gross future minimum rentals due are repayable as follows:				
	Payable within the next 12 months	**269 225**	233 003	**–**	–
	Payable within two to five years	**797 179**	724 919	**–**	–
	Thereafter	**1 522 442**	1 341 310	**–**	–
		2 588 846	2 299 232	**–**	–

** On the same terms as the gross amounts due.*

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

25. Commitments continued

		Group		Company	
		2018 R000	2017 R000	**2018 R000**	2017 R000
25.2	**Finance leases**				
	The amounts set out below relate to fork lifts and motor vehicles that have been accounted for in line with the requirements of IFRIC 4 *Determining whether an arrangement contains a lease*				
	The gross future minimum rentals due are repayable as follows:				
	Payable within the next 12 months	**2 561**	1 369		
	Payable within two to five years	**6 009**	6 748		
	Less: Future finance charges	**(1 124)**	(1 827)		
		7 446	6 290		
	Present value of minimum lease payments:				
	Payable within the next 12 months	**2 274**	1 361		
	Payable within two to five years	**5 172**	4 929		
		7 446	6 290		
25.3	**Capital expenditure**				
	Approved by the directors but not contracted for*	**205 648**	426 163		
	This capital expenditure relates to additions and improvements to production facilities, motor vehicles, franchise incentives, computer equipment and furniture and fittings.				
	It is anticipated that this expenditure will be financed by existing borrowing facilities and internally generated funds.				

** Authorised capital expenditure has reduced in line with the revised GBK store roll-out plan.*

26. Retirement benefit plans

Employees within the Group are members of nine provident funds. Six funds are administered by Liberty Life, one fund by Borwa Financial Services and two by Sanlam. Each fund provides benefits on a defined contribution basis. The funds are subject to the Pension Funds Act of 1956, as amended. All employees of the Group are eligible to be members of the funds. As at 28 February 2018, the membership of the funds was 1 999 (2017: 1 593) employees. The Group's contribution to the provident funds for the year was R47 million (2017: R35 million). The market value of the investments of the various funds as at 28 February 2018 was R221 million (2017: R136 million).

27. Directors' interest in shares

	Group					
	2018			2017		
	Beneficial direct interest 000	**Beneficial indirect interest 000**	**Total 000**	Beneficial direct interest 000	Beneficial indirect interest 000	Total 000
Executive						
Mr DP Hele	**70**	**–**	**70**	70	–	70
Non-executive						
Mr KA Hedderwick (retired 16 January 2018)	**–**	**–**	**–**	374	–	374
Mr P Halamandaris (retired 6 November 2017)	**–**	**–**	**–**	366	7 500	7 866
Mr P Halamandaris (Jnr) (retired 6 November 2017)	**–**	**–**	**–**	4 957	155	5 112
Mr T Halamandaris (retired 6 November 2017)	**–**	**–**	**–**	7 138	–	7 138
Mr N Halamandaris (appointed 6 November 2017)	**646**	**7 350**	**7 996**	–	–	–
Mr JL Halamandres	**2 842**	**–**	**2 842**	3 418	–	3 418
Mr RM Kgosana (resigned 29 September 2018)	**–**	**–**	**–**	2	–	2
	3 558	**7 350**	**10 908**	16 325	7 655	23 980

No director has any non-beneficial interest in the ordinary shares of the Company.

The Company has not been advised of any changes in the above interests of the directors during the period up to the date of this report.

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

28. Directors' remuneration

	Group					
	For services as directors R000	Remuneration R000	Bonuses R000	Provident fund contributions R000	Other benefits and payments R000	Total R000
28 February 2018						
Executive	–	6 018	3 100	478	204	9 800
Mr DP Hele	–	4 077	2 500	263	160	7 000
Ms K Ntlha	–	1 941	600	215	44	2 800
Non-executive	4 160	–	–	–	–	4 160
Mr NJ Adami	439	–	–	–	–	439
Mr CH Boulle	630	–	–	–	–	630
Ms SL Botha	751	–	–	–	–	751
Mr P Halamandaris (retired 6 November 2017)	77	–	–	–	–	77
Mr P Halamandaris (Jnr) (retired 6 November 2017)	186	–	–	–	–	186
Mr T Halamandaris (retired 6 November 2017)	77	–	–	–	–	77
Mr N Halamandaris (appointed 6 November 2017)	100	–	–	–	–	100
Mr JL Halamandres	330	–	–	–	–	330
Mr KA Hedderwick (retired 16 January 2018)	241	–	–	–	–	241
Mr RM Kgosana (resigned 29 September 2018)	322	–	–	–	–	322
Ms TE Mashilwane (appointed 6 November 2017)	97	–	–	–	–	97
Mr BL Sibiya	433	–	–	–	–	433
Ms T Skweyiya	477	–	–	–	–	477
	4 160	6 018	3 100	478	204	13 960
Less: Paid by subsidiaries	–	(6 018)	(3 100)	(478)	(204)	(9 800)
	4 160	–	–	–	–	4 160
28 February 2017						
Executive	–	5 319	2 151	413	336	8 219
Mr DP Hele	–	3 462	1 565	280	258	5 565
Mr NS Richards (period 1/3/2016 to 30/6/2017)	–	684	586	–	51	1 321
Ms K Ntlha (period 1/7/2016 to 28/2/2017)	–	1 173	–	133	27	1 333
Non-executive	3 083	–	–	–	–	3 083
Mr NJ Adami	287	–	–	–	–	287
Mr CH Boulle	315	–	–	–	–	315
Ms SL Botha	554	–	–	–	–	554
Mr P Halamandaris	204	–	–	–	–	204
Mr P Halamandaris (Jnr)	125	–	–	–	–	125
Mr T Halamandaris	125	–	–	–	–	125
Mr JL Halamandres	312	–	–	–	–	312
MR RM Kgosana	447	–	–	–	–	447
Mr BL Sibiya	447	–	–	–	–	447
Ms T Skweyiya (appointed 1 June 2016)	267	–	–	–	–	267
	3 083	5 319	2 151	413	336	11 302
Less: Paid by subsidiaries	–	(5 319)	(2 151)	(413)	(336)	(8 219)
	3 083	–	–	–	–	3 083

Directors' remuneration is only reflected from the date upon which an appointment commences and up to the date of resignation. Performance bonuses reflect the amounts accrued in respect of the year to which the performance relates.

28. Directors' remuneration continued

The following amounts, which have not been included in the remuneration above, were recognised in line with IFRS 2 *Share-Based Payment*:

	Group			
	Share appre-ciation rights R000	Reten-tion shares R000	Share options R000	Total R000
28 February 2018				
Mr DP Hele	**1 532**	**2 020**	**288**	**3 840**
Ms K Ntlha	**566**	**684**	**–**	**1 250**
	2 098	**2 704**	**288**	**5 090**
28 February 2017				
Mr DP Hele	961	924	432	2 317
NS Richards	575	550	270	1 395
Ms K Ntlha	312	342	–	654
	1 848	1 816	702	4 366

29. Share-based payments

Famous Brands operates the Famous Brands Share Incentive Scheme, which comprises the following equity-settled share based payments arrangements:
(a) Share options (refer 29.1);
(b) Share appreciation rights (SARs) (refer 29.2); and
(c) Retention shares (refer 29.3).

The share incentive scheme enables directors, executive management and specified directors of subsidiaries to benefit from the Famous Brands share price performance. The Group's remuneration philosophy is contained in the Integrated Annual Report which is available on the Company's website.

www.famousbrands.co.za

29.1 Share options

This scheme confers the right to participants to acquire ordinary shares at the value of the Famous Brands share at the date that the option is granted. On acceptance of the option, the participant has the right to exercise the option at any time, after vesting, during the option life, in as many tranches as the participant may elect. To receive shares, participants must be either employed by or retirees of the Company when the rights to the shares vest. The directors of the Company may amend the vesting period of the options by Board resolution.

The scheme has a single type of vesting category which comprises a three-year vesting period and seven-year expiry period subsequent to grant date.

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

29. Share-based payments continued

29.1 Share options continued

A reconciliation of the movement of all share options is detailed below:

	Group			
	Option exercise price range (Rand)		Number of shares	
	2018	2017	**2018**	2017
Opening balance	**43.4 – 101.2**	43.4 – 101.2	**510 000**	620 000
Forfeited	**–**	101.2	**–**	(60 000)
Allotted and issued	**43.4 – 101.2**	101.2	**(115 000)**	(50 000)
Options granted, shares not issued up to the end of the period	**43.4 – 101.2**	43.4 – 101.2	**395 000**	510 000

The weighted average share price at the date of exercise was R119.

The last options were granted in November 2014.

The following options have been granted and accepted, but delivery of shares will only take place in the future.

	Group			
Number of ordinary shares	**Grant date**	**Option fair value at grant date (Rand)**	**Option exercise price (Rand)**	**Financial year in which options vest**
395 000*	**November 2014**	**16.21**	**101.20**	**February 2018**

** Vested, but not yet exercised.*

An analysis of share options granted to executive directors is detailed below:

	Group					
	Option vesting date	**Subscription price Rand**	**Outstanding as at 1 March 2017**	**Granted during the period**	**Exercised during the period**	**Outstanding as at 28 February 2018**
Executive director						
Mr DP Hele	**November 2017**	**101.20**	**80 000**	**–**	**–**	**80 000**
Options granted, shares not issued up to the end of the period			**80 000**	**–**	**–**	**80 000**

The share options granted have been valued, at grant date, using the Black-Scholes-Merton model which takes account of the vesting period (European style option). Expected volatility of the share price was determined by giving consideration to the historical volatility of the Famous Brands share price.

29. Share-based payments continued

29.2 Share appreciation rights

The share appreciation rights (SARs) represent the right participants have to be paid the difference between the share price on grant date and the share price on the date on which the SARs vest. The Company has the option to settle in equity or cash. The SARs vest in three equal tranches, with the first tranche vesting at the end of the third year.

A reconciliation of the movement of all SARs granted is detailed below:

	Number of SARs	
	2018	2017
Opening balance	**1 395 792**	1 106 382
Granted	**188 688**	321 300
Management	**115 422**	293 139
Executive directors	**73 266**	28 161
Forfeited	**(94 866)**	(31 890)
Settled	**–**	–
SARs outstanding at the end of the year	**1 489 614**	1 395 792

The number of SARs outstanding as at 28 February 2018 are as set out below:

	Group						
Grant date	Financial year of vesting	Fair value at grant date (Rand)	Opening balance	Granted	Forfeited	Settled	Closing balance
November 2015			**1 074 492**	**–**	**(54 363)**	**–**	**1 020 129**
Tranche 1	**February 2019**	**32.75**	**358 164**	**–**	**(18 121)**	**–**	**340 043**
Tranche 2	**February 2020**	**37.65**	**358 164**	**–**	**(18 121)**	**–**	**340 043**
Tranche 3	**February 2021**	**41.61**	**358 164**	**–**	**(18 121)**	**–**	**340 043**
June 2016			**321 300**	**–**	**(22 812)**	**–**	**298 488**
Tranche 1	**February 2019 – 2020**	**31.67^**	**121 026**	**–**	**(7 604)**	**–**	**113 422**
Tranche 2	**February 2020 – 2021**	**36.41^**	**121 026**	**–**	**(7 604)**	**–**	**113 422**
Tranche 3	**February 2021 – 2022**	**42.12^**	**79 248**	**–**	**(7 604)**	**–**	**71 644**
June 2017			**–**	**188 688**	**(17 691)**	**–**	**170 997**
Tranche 1	**February 2020 – 2021**	**24.54^**	**–**	**162 368**	**(8 193)**	**–**	**154 175**
Tranche 2	**February 2021 – 2022**	**31.01^**	**–**	**13 160**	**(4 749)**	**–**	**8 411**
Tranche 3	**February 2022 – 2023**	**36.58^**	**–**	**13 160**	**(4 749)**	**–**	**8 411**
Number of SARs			**1 395 792**	**188 688**	**(94 866)**	**–**	**1 489 614**

^ Average fair value for new grants and top-up grants.

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

29. Share-based payments continued

29.2 Share appreciation rights continued

The number of SARs outstanding as at 28 February 2017 are as set out below:

	Group							
Grant date	Financial year of vesting	SARs fair value at grant date (Rand)	Opening balance	Granted	Forfeited	Settled	Closing balance
November 2015			1 106 382	–	(31 890)	–	1 074 492
Tranche 1	February 2019	32.75	368 794	–	(10 630)	–	358 164
Tranche 2	February 2020	37.65	368 794	–	(10 630)	–	358 164
Tranche 3	February 2021	41.61	368 794	–	(10 630)	–	358 164
June 2016			–	321 300	–	–	321 300
Tranche 1	February 2019 – 2020	31.67^	–	121 026	–	–	121 026
Tranche 2	February 2020 – 2021	36.41^	–	121 026	–	–	121 026
Tranche 3	February 2021 – 2022	42.12^	–	79 248	–	–	79 248
Number of SARs			1 106 382	321 300	(31 890)	–	1 395 792

^ Average fair value for new grants and top-up grants.

Details of the SARs granted to executive directors are as set out below:

	Group					
	Grant date	**Fair value at grant date (Rand)**	**Outstanding at the beginning of the year**	**Granted**	**Settled**	**Outstanding at the end of the year**
28 February 2018						
Executive director						
Mr DP Hele			**90 582**	**–**	**–**	**90 582**
Tranche 1	**November 2015**	**32.75**	**30 194**	**–**	**–**	**30 194**
Tranche 2	**November 2015**	**37.65**	**30 194**	**–**	**–**	**30 194**
Tranche 3	**November 2015**	**41.61**	**30 194**	**–**	**–**	**30 194**
			11 571	**–**	**–**	**11 571**
Tranche 1	**June 2016**	**30.27**	**3 857**	**–**	**–**	**3 857**
Tranche 2	**June 2016**	**35.26**	**3 857**	**–**	**–**	**3 857**
Tranche 3	**June 2016**	**41.09**	**3 857**	**–**	**–**	**3 857**
			–	**51 552**	**–**	**51 552**
Tranche 1	**June 2017**	**17.53**	**–**	**17 184**	**–**	**17 184**
Tranche 2	**June 2017**	**25.09**	**–**	**17 184**	**–**	**17 184**
Tranche 3	**June 2017**	**31.54**	**–**	**17 184**	**–**	**17 184**
Ms K Ntlha			**25 743**	**–**	**–**	**25 743**
Tranche 1	**November 2015**	**32.75**	**8 581**	**–**	**–**	**8 581**
Tranche 2	**November 2015**	**37.65**	**8 581**	**–**	**–**	**8 581**
Tranche 3	**November 2015**	**41.61**	**8 581**	**–**	**–**	**8 581**
			8 022	**–**	**–**	**8 022**
Tranche 1	**June 2016**	**30.27**	**2 674**	**–**	**–**	**2 674**
Tranche 2	**June 2016**	**35.26**	**2 674**	**–**	**–**	**2 674**
Tranche 3	**June 2016**	**41.09**	**2 674**	**–**	**–**	**2 674**
			–	**21 714**	**–**	**21 714**
Tranche 1	**June 2017**	**17.53**	**–**	**7 238**	**–**	**7 238**
Tranche 2	**June 2017**	**25.09**	**–**	**7 238**	**–**	**7 238**
Tranche 3	**June 2017**	**31.54**	**–**	**7 238**	**–**	**7 238**
			135 918	**73 266**	**–**	**209 184**

29. Share-based payments continued

29.2 Share appreciation rights continued

	Group					
	Grant date	Fair value at grant date (Rand)	Out-standing at the beginning of the year	Granted	Settled	Out-standing at the end of the year
28 February 2017						
Executive director						
Mr DP Hele			90 582	–	–	90 582
Tranche 1	November 2015	32.75	30 194	–	–	30 194
Tranche 2	November 2015	37.65	30 194	–	–	30 194
Tranche 3	November 2015	41.61	30 194	–	–	30 194
			–	11 571	–	11 571
Tranche 1	June 2016	30.27	–	3 857	–	3 857
Tranche 2	June 2016	35.26	–	3 857	–	3 857
Tranche 3	June 2016	41.09	–	3 857	–	3 857
Mr NS Richards (director for period 1/3/2016 to 30/6/2017)			52 764	–	–	52 764
Tranche 1	November 2015	32.75	17 588	–	–	17 588
Tranche 2	November 2015	37.65	17 588	–	–	17 588
Tranche 3	November 2015	41.61	17 588	–	–	17 588
			–	8 568	–	8 568
Tranche 1	June 2016	30.27	–	2 856	–	2 856
Tranche 2	June 2016	35.26	–	2 856	–	2 856
Tranche 3	June 2016	41.09	–	2 856	–	2 856
Ms K Ntlha (director for period 1/7/2016 to 28/2/2017)			25 743	–	–	25 743
Tranche 1	November 2015	32.75	8 581	–	–	8 581
Tranche 2	November 2015	37.65	8 581	–	–	8 581
Tranche 3	November 2015	41.61	8 581	–	–	8 581
			–	8 022	–	8 022
Tranche 1	June 2016	30.27	–	2 674	–	2 674
Tranche 2	June 2016	35.26	–	2 674	–	2 674
Tranche 3	June 2016	41.09	–	2 674	–	2 674
			169 089	28 161	–	197 250

The SARs granted have been valued, at grant date, using the Black-Scholes-Merton model which takes account of the vesting period (European style option). Expected volatility of the share price was determined by giving consideration to the historical volatility of the Famous Brands share price.

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

29. Share-based payments continued

29.2 Share appreciation rights continued

Details of the weighted average fair value of the SARs granted during the year and the related assumptions utilised are as set out below:

	Group	
	2018	2017
Number of SARs granted	**188 688**	321 300
The principal inputs are as follows:		
Range of the weighted average fair value at grant date for the respective tranches (Rand)	**17.53 – 41.26**	30.27 – 43.16
Weighted average grant price (Rand)	**138.12**	113.3
Closing share price at grant date (Rand)	**133.00**	125.5
Expected life (years)	**4.00**	4.00
Expected volatility (%)	**24.4**	24.4
Range of the risk-free interest rates utilised for the respective tranches (%)	**7.36 – 7.51**	7.96 – 9.04
Average expected dividend yield (%)	**1.61**	2.74

29.3 Retention shares

Retention shares represent the right participants have to be paid the value of the Company's 30-day volume weighted average price immediately preceding the vesting date. The Company has the option to settle in equity or cash. The retention shares vest in three equal tranches, with the first tranche vesting at the end of the third year.

A reconciliation of the movement of all retention shares granted is detailed below:

	Group	
	Number of shares	
	2018	2017
Opening balance	**369 072**	283 734
Granted	**72 909**	95 967
Management	**49 998**	87 246
Executive directors	**22 911**	8 721
Forfeited	**(27 276)**	(10 629)
Settled	**–**	–
Retention shares outstanding at the end of the year	**414 705**	369 072

29. Share-based payments continued

29.3 Retention shares continued

Details of the retention shares allocated as at 28 February 2018 are as set out below:

	Group						
Grant date	**Financial year of vesting**	**Fair value at grant date (Rand)**	**Opening balance**	**Granted**	**Forfeited**	**Settled**	**Closing balance**
November 2015			**273 105**	**–**	**(16 995)**	**–**	**256 110**
Tranche 1	**February 2019**	**122.14**	**91 035**	**–**	**(5 665)**	**–**	**85 370**
Tranche 2	**February 2020**	**119.11**	**91 035**	**–**	**(5 665)**	**–**	**85 370**
Tranche 3	**February 2021**	**116.15**	**91 035**	**–**	**(5 665)**	**–**	**85 370**
June 2016			**95 967**	**–**	**(4 116)**	**–**	**91 851**
Tranche 1	**February 2019 – 2020**	**116.71^**	**36 576**	**–**	**(1 372)**	**–**	**35 204**
Tranche 2	**February 2020 – 2021**	**113.55^**	**36 576**	**–**	**(1 372)**	**–**	**35 204**
Tranche 3	**February 2021 – 2022**	**110.48^**	**22 815**	**–**	**(1 372)**	**–**	**21 443**
June 2017			**–**	**72 909**	**(6 165)**	**–**	**66 744**
Tranche 1	**February 2020 – 2021**	**127.97^**	**–**	**65 389**	**(3 451)**	**–**	**61 938**
Tranche 2	**February 2021 – 2022**	**125.93^**	**–**	**3 760**	**(1 357)**	**–**	**2 403**
Tranche 3	**February 2022 – 2023**	**119.24^**	**–**	**3 760**	**(1 357)**	**–**	**2 403**
Number of retention shares			**369 072**	**72 909**	**(27 276)**	**–**	**414 705**

^ *Average fair value for new grants and top-up grants.*

Details of the retention shares allocated as at 28 February 2017 are as set out below:

Grant date	Financial year of vesting	Fair value at grant date (Rand)	Opening balance	Granted	Forfeited	Settled	Closing balance
November 2015			283 734	–	(10 629)	–	273 105
Tranche 1	February 2019	122.14	94 578	–	(3 543)	–	91 035
Tranche 2	February 2020	119.11	94 578	–	(3 543)	–	91 035
Tranche 3	February 2021	116.15	94 578	–	(3 543)	–	91 035
June 2016			–	95 967	–	–	95 967
Tranche 1	February 2019 – 2020	116.71^	–	36 576	–	–	36 576
Tranche 2	February 2020 – 2021	113.55^	–	36 576	–	–	36 576
Tranche 3	February 2021 – 2022	110.48^	–	22 815	–	–	22 815
Number of retention shares			283 734	95 967	(10 629)	–	369 072

^ *Average fair value for new grants and top-up grants.*

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

29. Share-based payments continued

29.3 Retention shares continued

Details of the retention shares granted to executive directors are as set out below:

	Group					
	Grant date	Fair value at grant date (Rand)	Opening balance	Granted	Settled	Closing balance
28 February 2018						
Executive director						
Mr DP Hele			26 421	–	–	26 421
Tranche 1	November 2015	122.14	8 807	–	–	8 807
Tranche 2	November 2015	119.11	8 807	–	–	8 807
Tranche 3	November 2015	116.15	8 807	–	–	8 807
			3 549	–	–	3 549
Tranche 1	June 2016	117.64	1 183	–	–	1 183
Tranche 2	June 2016	114.46	1 183	–	–	1 183
Tranche 3	June 2016	111.36	1 183	–	–	1 183
			–	17 754	–	17 754
Tranche 1	June 2017	130.03	–	5 918	–	5 918
Tranche 2	June 2017	127.95	–	5 918	–	5 918
Tranche 3	June 2017	125.92	–	5 918	–	5 918
Ms K Ntlha			8 580	–	–	8 580
Tranche 1	November 2015	122.14	2 860	–	–	2 860
Tranche 2	November 2015	119.11	2 860	–	–	2 860
Tranche 3	November 2015	116.15	2 860	–	–	2 860
			2 673	–	–	2 673
Tranche 1	June 2016	117.64	891	–	–	891
Tranche 2	June 2016	114.46	891	–	–	891
Tranche 3	June 2016	111.36	891	–	–	891
			–	5 157	–	5 157
Tranche 1	June 2017	130.03	–	1 719	–	1 719
Tranche 2	June 2017	127.95	–	1 719	–	1 719
Tranche 3	June 2017	125.92	–	1 719	–	1 719
Number of retention shares			41 223	22 911	–	64 134

29. Share-based payments continued

29.3 Retention shares continued

	Group					
	Grant date	Fair value at grant date (Rand)	Opening balance	Granted	Settled	Closing balance
28 February 2017						
Executive director						
Mr DP Hele			26 421	–	–	26 421
Tranche 1	November 2015	122.14	8 807	–	–	8 807
Tranche 2	November 2015	119.11	8 807	–	–	8 807
Tranche 3	November 2015	116.15	8 807	–	–	8 807
			–	3 549	–	3 549
Tranche 1	June 2016	117.64	–	1 183	–	1 183
Tranche 2	June 2016	114.46	–	1 183	–	1 183
Tranche 3	June 2016	111.36	–	1 183	–	1 183
Mr NS Richards (resigned as director on 30/6/2016)			15 390	–	–	15 390
Tranche 1	November 2015	122.14	5 130	–	–	5 130
Tranche 2	November 2015	119.11	5 130	–	–	5 130
Tranche 3	November 2015	116.15	5 130	–	–	5 130
			–	2 499	–	2 499
Tranche 1	June 2016	117.64	–	833	–	833
Tranche 2	June 2016	114.46	–	833	–	833
Tranche 3	June 2016	111.36	–	833	–	833
Ms K Ntlha (appointed as director on 1/7/2016)			8 580	–	–	8 580
Tranche 1	November 2015	122.14	2 860	–	–	2 860
Tranche 2	November 2015	119.11	2 860	–	–	2 860
Tranche 3	November 2015	116.15	2 860	–	–	2 860
			–	2 673	–	2 673
Tranche 1	June 2016	117.64	–	891	–	891
Tranche 2	June 2016	114.46	–	891	–	891
Tranche 3	June 2016	111.36	–	891	–	891
Number of retention shares			50 391	8 721	–	59 112

The retention shares granted have been valued, at grant date, using the Black-Scholes-Merton model which takes account of the vesting period (European style option). Expected volatility of the share price was determined by giving consideration to the historical volatility of the Famous Brands share price.

Details of the weighted average fair value of the retention shares granted during the year and the related assumptions utilised are as set out below:

	Group	
	2018	2017
Number of retention shares granted	**72 909**	95 967
The principal inputs are as follows:		
Range of the weighted average fair value at grant date for the respective tranches (Rand)	**112.57 – 130.03**	109.60 – 117.64
Weighted average grant price (Rand)	**–**	–
Closing share price at grant date (Rand)	**133.00**	125.49
Expected life (years)	**4.00**	4.00
Expected volatility (%)	**24.40**	24.35
Range of the risk-free interest rates utilised for the respective tranches (%)	**7.36 – 7.51**	7.96 – 9.04
Average expected dividend yield (%)	**1.61**	2.74

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

30. Related party transactions

The Group, in the ordinary course of business, entered into various transactions with related parties. These transactions occurred under terms and conditions no more favourable to those entered into with third parties.

30.1 Franchise agreements

Directors have interests in one (2017: 22) franchised outlet(s). Franchise fees and product sales have been charged under terms and conditions no more favourable than those entered into with third parties.

30.2 Lease agreements

The Group has entered into lease agreements with an entity controlled by certain directors. The transactions were concluded at market-related rates prevailing at the time of entering into the transactions.

30.3 Supply agreements

The Group has entered into a supply agreement with an entity controlled by certain directors. All products purchased were concluded at market-related prices.

30.4 Advertising fees

Advertising fees have been paid to an associate. The transactions were conducted at market-related fees prevailing at the time of entering into the transactions.

The aggregate of the above transactions is as follows:

	Group	
	2018 R000	2017 R000
Sale of product and franchise fee revenue	**22 214**	36 418
Lease payments	**20 258**	19 367
Purchases of product	**37 579**	65 802
Advertising fees paid to associate	**83 037**	83 492
Interest paid to related parties	**–**	3 340
Loans payable to related parties	**2 905**	–
Trade payables to related parties	**6 710**	6 958
Trade receivables from related parties	**72**	–
30.5 Commitments to related parties		
The aggregate future commitments to related parties are as follows:	**33 438**	52 970
Payable within the next 12 months	**22 010**	20 379
Payable within two to five years	**11 428**	32 591
30.6 Transactions between the holding company and subsidiaries		
Dividends received	**–**	30 000
Management fees received by the Company from the operating subsidiary for statutory costs incurred	**1 188**	1 100
30.7 Remuneration		
Directors' remuneration		
The remuneration for directors of the holding company paid during the year by subsidiaries within the Group has been disclosed in Notes 28 and 29. Executive directors are defined as key management.		
Employees' remuneration		
The remuneration to all employees amounted to:	**1 318 928**	865 534

31. Schedule of investments in subsidiaries

	Share capital	Interest		Cost less impairment of investment in shares		Amounts owing by/(to) subsidiaries		Profit/(loss)	
	2018	2018 %	2017 %	2018 R000	2017 R000	2018 R000	2017 R000	2018 R000	2017 R000
31.1 Direct									
Debonairs Pizza (Pty) Ltd[3]	100	100	100	110	110	-	–	1 344	1 505
Famous Brands Cyprus Limited[2]	-	-	–	-	–	-	–	-	–
Famous Brands Management Company (Pty) Ltd[1]	100	100	100	114 178	87 578	(2 058 451)	(2 068 377)	349 227	336 276
FishAways (Pty) Ltd[3]	2 000	100	100	2 269	2 269	-	–	185	193
Gourmet Burger Kitchen (GBK) Limited[2]	75 118 580	100	100	1 161 045	1 657 761	222 588	221 542	(141 044)	28 489
Mugg & Bean Franchising (Pty) Ltd[3]	101	100	100	100 000	100 000	-	–	580	606
Pleasure Foods (Pty) Ltd[4]	800	100	100	-	–	-	–	(18)	–
Pleasure Foods Intellectual Property Company (Pty) Ltd[3]	800	100	100	107 499	107 499	-	–	1 666	1 300
Pleasure Foods Property Holdings 1 (Pty) Ltd[1]	100	100	100	-	–	-	–	20	39
Steers (Pty) Ltd[3]	200	100	100	6 243	6 243	24	24	1 195	870
The Famous Brands Share Incentive Trust[1]	-	100	100	-	–	6 118	6 118	-	–
31.2 Indirect									
4 E Holdings (Pty) Ltd[3]	120	100	100	-	–	-	–	(36)	(44)
BC Hospitality (Pty) Ltd[1]	100	51	51	-	–	-	–	856	76
Cater Chain Foodservices (Pty) Ltd[1]	100	75	75	-	–	-	–	25 333	6 998
City Deep Cold Storage (Pty) Ltd[1]	100	75	75	-	–	-	–	2 062	1 899
Famous Brands Cheese Company (Pty) Ltd[1]	100	51	51	-	–	-	–	49 607	40 782
Famous Brands Design Studio (Pty) Ltd[1]	1 000	60	–	-	–	-	–	883	–
Famous Brands Lilongwe[1]	100	100	–	-	–		–	175	–
Famous Brands Logistics Company (Pty) Ltd[4]	100	100	–	-	–	-	–	-	–
Coega Concentrate (Pty) Ltd[1]	100	100	100	-	–	-	–	(14 075)	(4 474)
Cool Site Trading (Pty) Ltd[4]	100	100	–	-	–	-	–	-	–
Chilango (Pty) Ltd[1]	1 025 462	51	51	-	–	-	–	2 781	2 670
Creative Coffee Franchise Systems (Pty) Ltd[1]	100	100	100	-	–	-	–	5 192	5 339
Famous Brands Coffee Company (Pty) Ltd[1]	100	62	62	-	–	-	–	18 910	28 745
Famous Brands Great Bakery (Pty) Ltd[1]	100	51	51	-	–	-	–	4 764	3 986
Famous Brands UK Limited[2]	8 054 005	100	100	-	–	-	–	16 002	11 429
Gorilla Holdings Limited[2]	-	-	–	-	–	-	–	2 969	1 518
Hawk Like Trade and Invest (Pty) Ltd[1]	32 000 000	51	51	-	–	-	–	3 967	3 842
Lamberts Bay Foods Limited[1]	52 700	100	100	-	–	-	–	10 874	(339)
Marathon Holdings (Pty) Ltd[1]	-	100	100	-	–	-	–	(3 635)	(6 666)
Mountain Rush Trading 4 (Pty) Ltd[1]	100	51	51	-	–	-	–	8 394	7 334
Pink Potato Trading 103 (Pty) Ltd[1]	100	51	51	-	–	-	–	7 124	9 260
Quantum International Franchising (Pty) Ltd[4]	1 000	100	100	-	–	-	–	-	–
Quickstep Investment 10 (Pty) Ltd[4]	1 000	100	100	-	–	-	–	-	–
Retail Group Botswana (Pty) Ltd[1]	122	51	51	-	–	-	–	12 904	18 637
Risingbiz Trade and Invest (Pty) Ltd[4]	100	100	–	-	–	-	–	-	–
Souldance Holdings 11 (Pty) Ltd[1]	100	100	100	-	–	-	–	(42)	47
Steers Holdings (Jersey) Limited[2]	19	100	100	-	–	-	–	(246)	(7 537)
Vovo Telo Bakery and Café (Pty) Ltd[1]	1 000	100	100	-	–	-	–	1 538	2 280
Venus Solutions Limited[2]	14 205	100	100	-	–	-	–	-	1 659
Wakaberry™ Holdings (Pty) Ltd[1]	1 000	100	100	-	–	-	–	72	58
Wimpy Marketing Fund (Pty) Ltd[1]	2	100	100	-	–	-	–	(25)	–
				1 491 344	1 961 460	(1 829 721)	(1 840 693)	372 385	496 777
Total amount owing by subsidiaries						228 730	227 684		
Total amount owing to subsidiaries						(2 058 451)	(2 068 377)		
Total profits								529 819	515 837
Total losses								(158 875)	(19 060)

All the above subsidiaries are incorporated in South Africa, except for Famous Brands UK Limited, GBK Limited and Venus Solutions Limited (incorporated in the United Kingdom), Steers Holdings (Jersey) Limited (incorporated in Jersey), Retail Group Botswana (incorporated in Botswana), Gorilla Holdings Limited (incorporated in Mauritius) and Famous Brands Lilongwe (incorporated in Malawi). Famous Brands Cyprus Limited is in the process of being deregistered.

Main business

[1] *Franchisor, product manufacture, distribution, management and/or administration.*
[2] *Offshore holding company.*
[3] *Trademark owner.*
[4] *Dormant.*

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

31. Schedule of investments in subsidiaries continued

31.3 Investment in subsidiaries with material non-controlling interests

Famous Brands Coffee Company (Pty) Ltd

Famous Brands Limited has an indirect interest of 62% in Famous Brands Coffee Company (Pty) Ltd, a company involved in the production of coffee. The information below summarises the financial position and performance of the subsidiary:

	2018 R000	2017 R000
Current assets	**45 917**	48 650
Non-current assets	**10 997**	11 915
Current liabilities	**(4 737)**	(5 193)
Non-current liabilities	**–**	(593)
Net assets of the subsidiary	**52 177**	54 779
Revenue	**148 085**	151 227
Profit from continuing operations	**28 984**	39 296
Profit for the year	**18 910**	28 745
Total comprehensive income for the year	**18 910**	28 745

Famous Brands Cheese Company (Pty) Ltd

Famous Brands Limited has an indirect interest of 51% in Famous Brands Cheese Company (Pty) Ltd, a company involved in the production of cheese. The information below summarises the financial position and performance of the subsidiary:

	2018 R000	2017 R000
Current assets	**71 272**	14 772
Non-current assets	**93 129**	88 738
Current liabilities	**(34 707)**	(29 129)
Non-current liabilities	**(14 868)**	(8 154)
Net assets of the subsidiary	**114 826**	66 227
Revenue	**500 210**	367 720
Profit from continuing operations	**69 139**	58 231
Profit for the year	**49 607**	40 782
Total comprehensive income for the year	**49 607**	40 782

32. Risk management

The Board of Directors has approved strategies for the management of financial risks, which are in line with corporate objectives. These guidelines set up the short-term and long-term objectives and actions to be taken in order to manage the financial risks that the Group faces.

The major guidelines of this policy are the following:
- minimise interest rate, currency and market risk for all transactions;
- all financial risk management activities are carried out and monitored at a central level; and
- all financial risk management activities are carried out on a prudent and consistent basis.

The Group's activities expose it to a variety of financial risks namely, market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and capital risk.

Accounting classifications and fair values

The table below sets out the Group and Company 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.

For level 2 financial instruments, the fair value of all external over-the-counter derivatives is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes to the credit profile of the involved parties.

32. Risk management continued

	Level	Group				Company			
		2018 Carrying amount R000	**2018 Fair value R000**	2017 Carrying amount R000	2017 Fair value R000	**2018 Carrying amount R000**	**2018 Fair value R000**	2017 Carrying amount R000	2017 Fair value R000
Financial assets									
Loans and receivables									
Trade and other receivables		**568 514**	**568 514**	518 116	518 116	**1 904**	**1 904**	75	75
Cash and cash equivalents		**716 988**	**716 988**	428 820	428 820	**355**	**355**	908	908
Receivables from Group companies						**228 730**	**228 730**	227 684	227 684
		1 285 502	**1 285 502**	946 936	946 936	**230 989**	**230 989**	228 667	228 667
Financial liabilities									
Measured at amortised cost									
Trade and other payables		**599 941**	**599 941**	648 162	648 162	**1 294**	**1 294**	89	89
Shareholders for dividends		**2 221**	**2 221**	2 221	2 221	**2 221**	**2 221**	2 221	2 221
Lease liabilities*		**7 446**	**7 446**	6 290	6 290	**–**	**–**	–	–
Non-controlling shareholder loans		**7 500**	**7 500**	22 130	22 130	**–**	**–**	–	–
Borrowings		**2 780 560**	**2 780 560**	2 855 597	2 855 597	**–**	**–**	–	–
Bank overdrafts		**193**	**193**	23 626	23 626	**–**		–	–
Payables to Group companies		**–**	**–**	–	–	**2 058 451**	**2 058 451**	2 068 377	2 068 377
Fair value through profit or loss									
Derivative financial instruments (put options over non-controlling interests)	3	**176 186**	**176 186**	211 239	211 239	**–**	**–**	60 447	60 447
Derivative financial instruments (foreign currency swaps and foreign exchange contracts)	2	**1 028**	**1 028**	102	102	**–**	**–**	–	–
Designated as hedged items									
Derivative financial instruments (interest rate swaps)	2	**14 711**	**14 711**	8 509	8 509	**–**	**–**	–	–
		3 589 786	**3 589 786**	3 777 876	3 777 876	2 061 966	2 061 966	2 131 134	2 131 134

** Prior year restated to exclude operating leases.*

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

32. Risk management continued

Level 3 sensitivity information

The fair values of the level 3 financial liabilities of R176 million (2017: R211 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 instrument include the probability of achieving set profits targets and the interest rates. An increase/(decrease) of 1% in the interest rate would result in decrease/(increase) of R3 million (2017: R7 million). An increase/(decrease) of 10% in the profit forecasts would result in an increase/(decrease) of R17 million.

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:

	Group				Company			
	2018 Carrying amount R000	**2018 Fair value R000**	2017 Carrying amount R000	2017 Fair value R000	**2018 Carrying amount R000**	**2018 Fair value R000**	2017 Carrying amount R000	2017 Fair value R000
Put options over non-controlling interests								
Carrying value at beginning of the year	**211 239**	**211 239**	124 821	124 821	**60 447**	**60 447**	–	–
Initial recognition in equity for new acquisitions	**–**	**–**	73 233	73 233	**–**	**–**	59 592	59 592
Unwinding of discount	**13 481**	**13 481**	14 813	14 813	**–**	**–**	2 483	2 483
Derecognition in equity	**(42 716)**	**(42 716)**	–	–	**(42 716)**	**(42 716)**	–	–
Remeasurements	**(5 818)**	**(5 818)**	(1 628)	(1 628)	**(17 731)**	**(17 731)**	(1 628)	(1 628)
Carrying value at end of the year	**176 186**	**176 186**	211 239	211 239	**–**	**–**	60 447	60 447

32. Risk management continued

32.1 Liquidity risk

The Group manages liquidity risk on the basis of expected maturity dates, through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared, adequate borrowing facilities are secured and utilisation monitored.

The following table analyses financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

	2018			2017**		
	Less than 1 year R000	**1 – 5 years R000**	**Total R000**	Less than 1 year R000	1 – 5 years R000	Total R000
Group						
Borrowings	**420 846**	**2 822 092**	**3 242 938**	342 705	3 180 342	3 523 047
Trade and other payables	**599 941**	**–**	**599 941**	648 162	–	648 162
Non-controlling shareholder loans	**7 500**	**–**	**7 500**	22 130	–	22 130
Shareholders for dividends	**2 221**	**–**	**2 221**	2 221	–	2 221
Lease liabilities*	**2 561**	**6 009**	**8 570**	1 369	6 748	8 117
Derivative financial instruments (put options over non-controlling interests)	**158 528**	**21 215**	**179 743**	23 381	277 418	300 799
Derivative financial instruments (foreign currency options)	**1 028**	**–**	**1 028**	102	–	102
Derivative financial instruments (interest rate swaps)	**–**	**14 711**	**14 711**	–	8 509	8 509
Bank overdrafts	**193**	**–**	**193**	23 626	–	23 626
	1 192 818	**2 864 027**	**4 056 845**	1 063 696	3 473 017	4 536 713
Company						
Trade and other payables	**1 294**	**–**	**1 294**	89	–	89
Payables to Group companies	**2 058 451**	**–**	**2 058 451**	2 068 377	–	2 068 377
Shareholders for dividends	**2 221**	**–**	**2 221**	2 221	–	2 221
	2 061 966	**–**	**2 061 966**	2 070 687	–	2 070 687

** Prior year restated to reflect undiscounted cash flows.*
*** Prior year restated to exclude operating leases.*

The carrying amount of the financial liabilities is considered to be in line with the fair value at the reporting date.

At present the Group expects to pay all liabilities at their contractual maturity. In order to meet such cash commitments the Group expects operating activities to generate sufficient cash inflows. In addition, the Group holds financial assets for which there is a liquid market and that are readily available to meet liquidity needs.

The Group has access to financing facilities, of which R77 million (2017: R166 million) was unused at the end of the reporting period. The Group expects to meet its obligations from operating cash flows.

32.2 Interest rate risk

The Group's exposure to interest rate risk mainly concerns financial liabilities and interest-bearing liabilities (refer Note 11 Borrowings).

The following table analyses the breakdown of liabilities by type of interest rate.

		Group		Company	
	Note	**2018 R000**	2017 R000	**2018 R000**	2017 R000
Variable rate instruments					
Derivative financial instruments:					
Put options written over the equity of non-controlling interests	12	**176 186**	211 239	**–**	60 447
Interest rate swap liabilities	12	**14 711**	8 509	**–**	–
Borrowings	11	**2 780 560**	2 855 597	**–**	–
Bank overdraft	8	**193**	23 626	**–**	–
Fixed rate instruments					
Lease liabilities	13	**7 446**	6 290	**–**	–
Non-controlling shareholder loans	14	**7 500**	22 130	**–**	–
		2 986 596	3 127 391	**–**	60 447

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2018

32. Risk management continued

32.2 Interest rate risk continued

Sensitivity analysis

A hypothetical increase/decrease in interest rates by 100 basis points, with all other variables remaining constant, would increase/decrease profit after tax by R31 million (2017: R17 million).

The analysis has been performed for variable interest rate financial liabilities. The impact of a change in interest rates on floating interest rate financial liabilities has been assessed in terms of the changing of their cash flows and net expenses.

The Group's operating income and operating cash flows are substantially independent of changes in market interest rates.

32.3 Foreign currency risk

Since the Group operates internationally, it is exposed to foreign currency risk in its normal industrial and commercial businesses. On occasion, the Group hedges transactional foreign exchange exposures.

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk.

Financial assets and financial liabilities are analysed by currency as follows:

	Group									
	2018					2017				
	GB Pound CU000*	**Euro CU000***	**US Dollar CU000***	**Zambian Kwacha CU000***	**Pula CU000***	GB Pound CU000*	Euro CU000*	US Dollar CU000*	Zambian Kwacha CU000*	Pula CU000*
Financial assets										
Trade and other receivables	**4 172**	**–**	**–**	**4 329**	**3 601**	3 502	81	–	4 379	4 730
Cash and cash equivalents	**7 625**	**–**	**1 118**	**13 768**	**17 169**	8 384	648	1 117	8 282	11 355
Financial liabilities										
Borrowings	**(30 000)**	**–**	**–**	**–**	**–**	(30 008)	–	–	–	–
Trade and other payables	**(16 345)**	**–**	**–**	**(1 930)**	**(12 970)**	(19 190)	(792)	–	(2 356)	(12 920)
Bank overdraft	**–**	**–**	**–**	**–**	**–**	–	(577)	–	–	–
	(34 548)	**–**	**1 118**	**16 167**	**7 800**	(37 312)	(640)	1 117	10 305	3 165
Exchange rates used for conversion of foreign amounts to the South African Rand were (R):	**16.26**	**14.35**	**11.75**	**0.83**	**1.21**	16.19	13.80	13.02	1.17	1.22
Sensitivity analysis At 28 February, if the Rand had weakened/strengthened by 10% against any currency above, with all other variables held constant, profit after tax for the year would have decreased/increased as follows (R000):	**(56 180)**	**–**	**1 314**	**1 348**	**947**	(60 389)	(882)	1 455	1 411	387

** Currency unit thousands.*

32.4 Credit risk

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to retail customers are settled in cash or using major credit cards. Refer to Note 7 for details on the quality and provision for impairment of trade receivables.

	Group		Company	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Trade and other receivables	**568 514**	518 116	**1 904**	75
Receivables from Group companies	**–**	–	**228 730**	227 684
Cash and cash equivalents	**716 988**	428 820	**355**	908
	1 285 502	946 936	**230 989**	228 667

32. Risk management continued

32.5 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 (Note 8), borrowings (Note 11) 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 11) are subject to the following financial covenants, which the Group is in compliance with:

	Group	
	2018	2017
Debt to EBITDA*	**<3.00**	<3.25
Interest cover	**>3.25**	>3.00
Free cash flow to debt service	**>1.20**	>1.20

** EBITDA excludes non-operational items.*

Gearing

The Group's gearing ratio is set out below:

	Group	
	2018 R000	2017 R000
Borrowings	**2 780 560**	2 855 597
Bank overdrafts	**193**	23 626
Cash and cash equivalents	**(716 988)**	(428 820)
Net debt	**2 063 765**	2 450 403
Equity	**1 632 027**	1 485 314
Gearing ratio**	**126%**	165%

*** Calculated as net debt divided by equity.*

33. Subsequent events

Events after the reporting period

In 2005 the Group acquired Tru Fruit (Pty) Ltd, to produce fruit juice in various formats for the Group's restaurant network and third-party customers. The business continued to be managed by the founder, Evan Antel. Subsequent to the year ended 28 February 2018, and with effect from 1 April 2018, the Group concluded a joint venture agreement with Mr Antel, whereby a 30% stake in the business was sold back to him. Mr Antel will manage the new entity, Cool Site Trading (Pty) Ltd. The nature of business will remain unchanged.

Shareholder spread

	Group							
	2018				2017			
	Number of share-holdings	% of total share-holdings	Number of shares	% of issued capital	Number of share-holdings	% of total share-holdings	Number of shares	% of issued capital
1 – 10 000	6 690	94.17	3 826 686	3.83	10 326	95.10	10 780 911	10.80
10 001 – 50 000	270	3.80	6 095 321	6.10	359	3.31	7 806 411	7.82
50 001 – 100 000	42	0.60	3 003 218	3.00	56	0.52	3 803 295	3.81
100 001 – 1 000 000	82	1.15	26 744 202	26.75	104	0.96	30 157 526	30.20
Over 1 000 000	20	0.28	60 308 008	60.32	13	0.12	47 314 292	47.38
Total	7 104	100.00	99 977 435	100.00	10 858	100.00	99 862 435	100.00
Distribution of shareholders								
Individuals	5 816	81.87	24 716 778	24.72	8 424	77.58	29 742 785	29.78
Insurance companies	10	0.14	328 100	0.33	12	0.11	203 682	0.20
Investment trusts	555	7.81	9 259 598	9.26	1 333	12.28	11 577 385	11.59
Other companies and corporate bodies	723	10.18	65 672 959	65.69	1 089	10.03	58 338 583	58.42
Total	7 104	100.00	99 977 435	100.00	10 858	100.00	99 862 435	100.00
Shareholder type								
Non-public shareholders	9	0.13	10 908 120	10.91	17	0.16	34 703 520	34.75
Directors and associates	9	0.13	10 908 120	10.91	13	0.12	23 450 356	23.48
Government Employees Pension Fund (holders > 10%)	–	–	–	–	4	0.04	11 253 164	11.27
Public shareholders	7 095	99.87	89 069 315	89.09	10 841	99.84	65 158 915	65.25
Total	7 104	100.00	99 977 435	100.00	10 858	100.00	99 862 435	100.00
Fund managers greater than 5% of the issued shares								
Coronation Fund Managers			14 448 186	14.45			6 075 661	6.08
Public Investment Corporation			9 022 596	9.02			8 839 996	8.85
LGM Investments			8 367 790	8.37				
Total			31 838 572	31.84			14 915 657	14.93
Beneficial shareholders greater than 5% of the issued shares (excluding directors)								
Government Employees Pension Fund			10 230 408	10.23			11 253 164	11.27
Coronation Fund Managers			8 492 531	8.49				
LGM Investments			7 755 676	7.76				
Halamandaris Theofanis Mr			7 017 598	7.02				
Total			33 496 213	33.50			11 253 164	11.27
Total number of shareholdings	7 104				10 858			
Total number of shares in issue			99 977 435				99 862 435	

Administration

Famous Brands Limited
Incorporated in the Republic of South Africa
Registration number: 1969/004875/06
JSE share code: FBR
ISIN: ZAE000053328

Directors
SL Botha (Independent Chairman), CH Boulle, DP Hele*, K Ntlha*, BL Sibiya, NJ Adami, JL Halamandres, T Skweyiya, TE Mashilwane, N Halamandaris
** Executive*

Company Secretary
IWM Isdale

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you're in good company

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