famous | brands

you're in good company

Summarised Results

for the year ended 28 February

2019

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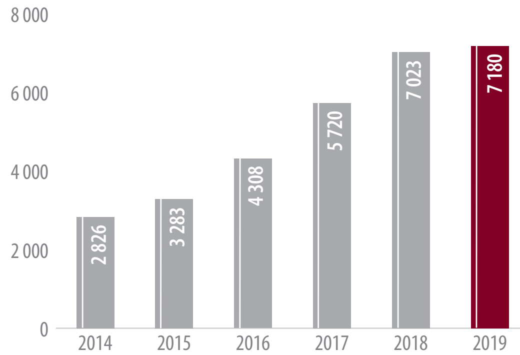
Financial highlights

REVENUE (Rm)



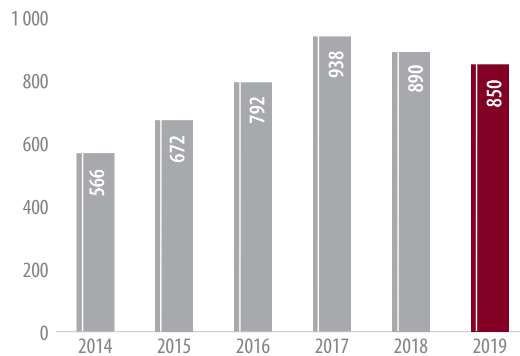
Revenue

R7.2 billion

up by

2%

OPERATING PROFIT BEFORE NON-OPERATIONAL ITEMS (Rm)



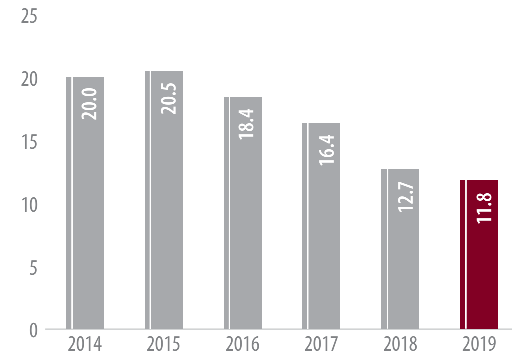
Operating profit

R850 million

down by

5%

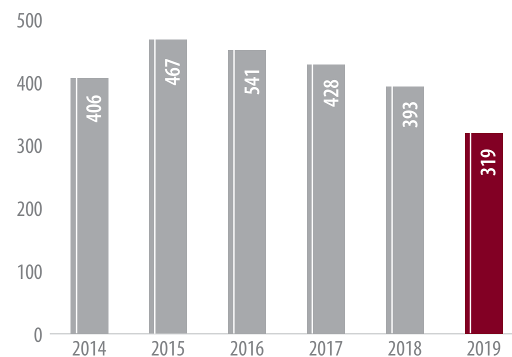
OPERATING MARGIN (%)



Operating profit margin

11.8%

HEADLINE EARNINGS PER SHARE (cents)



Headline earnings per share

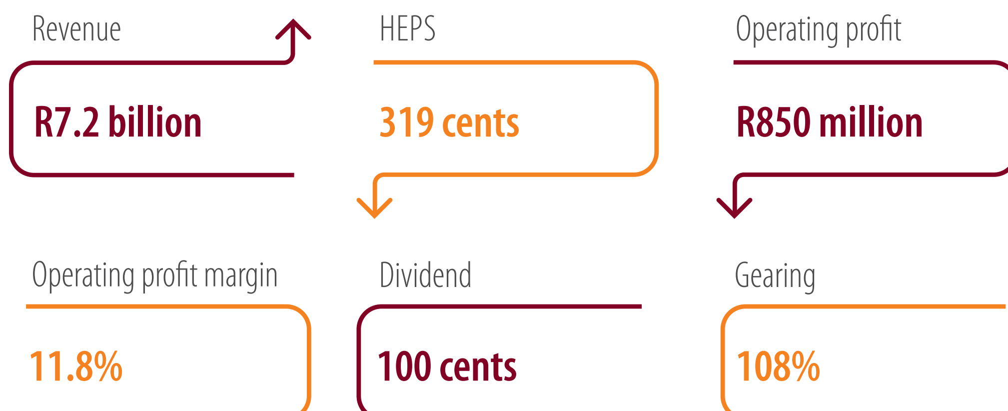
319 cents per share

down by

19%

Performance overview

FINANCIAL PERFORMANCE



Commentary

OPERATING ENVIRONMENT

Economic and political uncertainty defined our major markets, both locally, in the lead up to the national government elections, and in the United Kingdom, as the Brexit process continues to unfold. Across these markets, the trading environment was characterised by restrained consumer discretionary spend and negative sentiment, while keen competitor activity intensified margin pressure. In South Africa, weak economic conditions were exacerbated by country-specific risks.

Technological advancements continued to cause a strategic shift in the industry, evidenced by the rapid growth of online ordering and door-to-door delivery services in our sector. Our strategic response continued to be to develop new skills sets and constantly evolve our customer-facing offering in terms of efficiency, costs and total customer experience.

Aligned with the global demand from stakeholders for improved disclosure on environmental, social and governance (ESG) policies and accountability, is growing consumer activism regarding issues such as cage-free eggs, eliminating single-use plastic and greater health consciousness. We are mindful of these developments and have formulated sustainability policies and are committed to implementation timeframes in this regard.

GROUP PERFORMANCE

Our key strategic focus areas during the review period were to:

- enhance the profitability of our franchise partners and the viability of the franchise model;
- ensure the improvement of returns for stakeholders through refining and implementing our long-term strategy in the UK; and
- optimise allocation of capital in the business.

In the Leading (mainstream) brands portfolio, we made good progress in aligning our supply chain and cost drivers to provide better support for the brands, to ensure they are positioned to deliver like-for-like growth ahead of food inflation. In the Signature (niche) brands portfolio, following our sustained investment over recent years, our interventions were directed at significantly improving our own operating margins in this division. Across the Leading and Signature brands, we continued to review and optimise our footprint in terms of trading relevance, rental viability, changes in footfall, and competitor activity.

Our goal to deliver sustainable returns to our shareholders is underpinned by ensuring that GBK Restaurants Limited ("GBK") outperforms the UK casual dining market and delivers ahead of our targeted performance. On 11 December 2018 we notified shareholders that GBK UK had completed a Company Voluntary Arrangement (CVA) aimed at improving the financial viability of the business. Management is optimistic that remedial actions underway to ensure the long term sustainability of the business are gaining momentum, reflected by the stronger trading results reported for the second half of the year compared to the first half, and the positive like-for-like sales recorded in the period since year-end.

In line with our stated intent to optimise capital allocation, good progress was made in better allocating capital to the appropriate business units in our Brands, Manufacturing and Logistics operations. This exercise has been significant in determining our future strategies to ensure the best return on capital employed across this diverse business.

Commentary continued

GROUP FINANCIAL RESULTS

		2019	2018	% change
Statement of profit or loss and other comprehensive income				
Revenue	Rm	**7 180**	7 023	2
Operating profit before non-operational items	Rm	**850**	890	(5)
Operating profit margin	%	**11.8**	12.7	
Impairments◊	Rm	**899**	373	
EBITDA	Rm	**1 072**	1 093	(2)
Basic (loss)/earnings per share	Cents	**(480)**	22	(2 282)
Headline earnings per share (HEPS)	Cents	**319**	393	(19)
Statement of cash flows				
Cash generated by operations before working capital changes	Rm	**1 056**	1 135	
Working capital changes	Rm	**(22)**	(12)	
Net cash outflow utilised in investing activities	Rm	**(89)**	(201)	
Net cash outflow from financing activities	Rm	**(760)**	(108)	
Cash realisation rate*	%	**96**	103	
Statement of financial position				
Cash and cash equivalents	Rm	**454**	717	
Net assets#	Rm	**3 700**	4 403	
Net debt^	Rm	**1 659**	2 064	
Net debt/equity (Gearing)	%	**108**	126	
Total equity	Rm	**1 537**	1 632	
Return on equity (ROE)**	%	**20**	25	
Return on capital employed (ROCE)^^	%	**(1.6)**	11.4	

◊ *Comprising an impairment of R873.9 million related to the GBK UK business and an impairment of R25.5 million recognised in By Word of Mouth, the Group's local premium-end commercial catering company.*

* *Cash generated by operations as a percentage of EBITDA.*

Total assets other than cash and cash equivalents and deferred tax assets, less interest-free trading liabilities.

^ *Total interest-bearing borrowings less cash.*

** *Headline earnings as a percentage of average total equity.*

^^ *Operating profit including non-operational items, divided by capital employed (on a rolling 12-month basis – which is calculated as the sum of total equity and interest-bearing debt).*

Gearing

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

Margins

As noted in the interim results announcement published on 29 October 2018, the re-allocation of corporate costs to the pertinent business units has been implemented. This re-allocation has had an impact on the margins of the individual business segments, but not on the Group's overall margin. The effect of this restructuring is evident in the additional disclosures provided in the Segment report under "Corporate" (on page 18).

Commentary continued

ATTAINMENT OF STRATEGIC IMPERATIVES

At the end of the prior year, we outlined the strategic imperatives which arise from our most material matters. We continued to execute them with good success during the review period.

Improve our operational efficiencies: among other initiatives, we leveraged our new ERP investment to enhance analysis and reporting in the business; developed and commenced implementing a logistics upgrade programme to manage capacity growth over the next decade; and implemented the first phase of a three-phase efficiencies plan, being a standardised operating programme in all our manufacturing plants.

Enhance our financial performance and optimise capital management: by implementing a tighter growth agenda and applying a brutal filter to unclutter and grow the business, we have achieved a more streamlined business model. As noted on page 4, we successfully restructured our debt profile to better suit the business and implemented more definitive allocation of corporate costs to the appropriate business units.

Prioritise our franchise partners and lead in the categories we compete in: in the extremely challenging conditions experienced this year, our business mantra, "We are obsessed with being close to our trading partners (our franchisees) and customers across our markets", proved to be particularly important. Our clear strategy to position these primary stakeholders front and centre was embedded in our activities throughout the year. We prioritised resources to support our Leading brands to deliver Big Bold ideas; reviewed our Signature brands portfolio to position it for growth; we grew our capability in the digital arena and reinforced home delivery across all our brands; and we developed a pipeline of branded offers ready to launch.

Develop and transform our people: we restructured the HR function to align closer with our key performance indicators. This intervention has delivered a fundamental difference to our Human capital capability, transformation, succession planning and morale factor. Our concerted efforts to improve our BBBEE score resulted in a rating of level 7.

OPERATIONAL REVIEWS

Brands

This portfolio consists of 25 restaurant brands, represented by a network of 2 871 operations across South Africa, the rest of Africa and the Middle East (AME) and the United Kingdom. The business is segmented into Leading brands and Signature brands, strategically positioned to appeal to a wide range of consumers across the income and demographic spectrum and across meal preferences and value propositions. The Leading brands are categorised as quick service, fast casual and casual dining.

Our network comprises 2 761 franchised and 110 company-owned operations.

Revenue grew by 5% to R895 million (2018: R851 million). Operating profit rose by 10% to R476 million (2018: R431 million), while the operating profit margin increased to 53.2% (2018: 50.7%). This improvement in margin is largely a function of allocating corporate costs previously housed in this segment, to other appropriate business units, primarily in the supply chain. In addition, the benefits of sustained investment in resources in the Brands division and concerted efforts to improve margins in our Signature portfolio started to filter through; this positive trend should continue over time.

Given the subdued economic environment, our expansion programme was measured and conservative. We opened 162 restaurants (2018: 182) and revamped, relocated or converted 260 sites (2018: 248).

Across the industry, take away and fast food operators outperformed restaurants and coffee shops, largely due to aggressive pricing promotions and more accessible online and delivery services which appealed to cash strapped consumers seeking convenience. While price/value remained a key purchasing determinant, there was also growing support for loyalty offerings and rewards promotions. Industry data confirms that consumer repertoires remained stable at an average of 4.3 brands in the consideration set, compared to 4.4 in 2017, while their interaction on a regular basis with 1.9 brands was unchanged from 2017.

Commentary continued

South Africa

Our brands remained extremely popular, endorsed by the plethora of consumer awards we received across our offering during the year.

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

* *System-wide sales refer to sales reported by all restaurants across the network, including new restaurants opened during the period.*
** *Like-for-like sales refer to sales reported by all restaurants across the network, excluding restaurants opened or closed during the period.*
# *Leading brands' sales refer to sales of the Leading brands trading in SA.*
^ *Signature brands' sales refer to franchise and company-owned store sales in SA as well as sales cross border only where the brand is a Joint Venture partnership and the brand is not managed by its AME management team.*

Leading brands portfolio

The strong organic growth reported by these brands in the first half of the year was not sustained in the latter six months, with our traditional peak holiday period results, specifically, failing to meet management's expectations. This downturn is primarily a reflection of weak consumer spend and confidence in the current uncertain economic and socio-political environment.

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

Across these brands, our key focus during the period was to continue to improve the experience and service for our customers. Over 850 of our SA restaurants have now enabled online ordering via web or app. We also introduced driver-tracking technology and expanded our delivery offering to over 2 000 drivers on all major delivery platforms.

We continued to leverage CRM capabilities to communicate with loyal customers via push notifications; upgraded the care portal to facilitate quicker response; and introduced third-party technology in Steers and Wimpy to enable selected and strategic partners to utilise their loyalty points across the network. We are also rolling out e-Vouchering, which will be available in all of our restaurants by the end of 2019.

In order to capitalise on the sustained demand from customers for enhanced convenience and accessibility, we expanded our format offering to Steers containers and vending trailers; Mugg & Bean, Wimpy and Fego Karts; Mugg & Bean limited service and office park offerings; Debonairs Pizza containers; and Milky Lane pop-ups and a mobile truck.

Signature brands portfolio

On balance, our Signature brands under-performed management's expectations, and remain the subject of critical review. System-wide sales growth was derived primarily from new restaurants, while like-for-like sales declined. Additionally, the appropriate allocation of a higher proportion of central costs not previously allocated to this business unit resulted in a disappointing, but realistic, margin.

In line with our strategy to apply a brutal filter to unclutter the business, we continued to aggressively rationalise this portfolio to position it for growth. We exited the following brands: 14 on Chartwell (one restaurant); Thrupps (five outlets closed due to a strategy review by partner Total); O'Hagan's (two restaurants); The Bread Basket; and the Made pilot project trialled with Edgars. The key goal for this division is to ensure it is optimally structured to deliver returns which are proportionally aligned with our investment.

A total of 32 new restaurants were opened across the portfolio and four were revamped.

During the review period, we acquired the balance of the 49% shareholding in the Mythos joint venture partnership, in which the Group already owned a controlling stake.

Commentary continued

Rest of Africa and the Middle East

The Group is represented in 15 countries in this region.

A significant increase in competitor activity took place in the pizza and burger categories across a number of our markets in the region.

Notwithstanding this development and despite the closure of under-performing stores, combined revenue reported for the region grew 7% to R270 million (2018: R253 million). Operating profit decreased by 52% to R22 million (2018: R45 million), primarily due to the re-measurement of put options entered into with our JV partners in relation to the acquisition of Retail Group in Botswana effective 1 August 2015. The re-measurement was previously included in corporate costs. The operating margin declined to 8.0% (2018: 17.6%). The region contributed 10.2% (2018: 9.3%) to the Group's total system-wide Brands division sales.

Like-for-like sales in the region also improved, underpinned by the continued deepening and strengthening of our strategic alliance partnerships. Five brands accounted for 93% of turnover across the region, namely, Debonairs Pizza, Steers, Mr Bigg's, Wimpy and Mugg & Bean. Debonairs Pizza and Steers grew like-for-like sales (in local currency) in most of their markets, while Wimpy and Mugg & Bean delivered mixed like-for-like sales results.

New store openings were higher than the previous year, and ahead of our target; 25 restaurants were opened and 12 were revamped.

United Kingdom

Overview

The shift to online retail and the sustained pressure on traditional bricks-and-mortar retailers continued to escalate, illustrated by the sector reporting its 15th consecutive month of retail footfall decline in February 2019 – the weakest performance since 2009. Footfall in high streets decreased for the seventh consecutive month, while shopping centre footfall declined by 3.4% in February 2019. In the restaurant sector, insolvencies rose 24% in 2018, affecting 1 200 restaurants.

Wimpy UK

We continued consolidating the estate to ensure optimum health of this portfolio. Twelve stores were closed due to centre redevelopments, franchisee liquidations and inferior standards or non-performance. The network now comprises 67 restaurants. Notwithstanding the closure programme, positive like-for-like sales growth of 5.5% was recorded. Revenue in Rand terms rose to R113 million (2018: R104 million). Revenue in Sterling was 4% higher.

Operating profit increased by 16% to R18 million (2018: R15 million), while the operating margin grew to 15.7% (2018: 14.7%). Where appropriate, we collaborated with GBK to leverage purchase volumes to extract favourable procurement pricing on core products.

During the period, Wimpy's delivery capability was expanded to fifty percent of the network. Customer response has been favourable and we will continue to roll out the offering with our multi-partner model across the rest of the estate.

The roll out of revamps to the new store design progressed positively, with sales in these post-revamp sites up to 20% higher.

GBK (UK and Ireland)

In the review period, being the 52 weeks ended 24 February 2019, the business recorded an operating loss before non-operational items of GBP4.6 million (2018: GBP3.6 million). The operating margin declined to (5.7%) (2018: (4.1%)).

GBK (UK) system-wide sales (Sterling) for the period declined by 7.0%, while like-for-like sales decreased by 4.2% (2018: (6.8%)). Despite the constrained consumer spend environment, GBK started to perform better as remedial measures implemented during the year gained momentum. GBK (UK) like-for-like sales in the first six months were -9.7%, improving to positive like-for like-sales of 1.4% in the second six months. In the 12 weeks subsequent to year-end, the brand recorded like-for-like sales growth of 8.1%, trading ahead of the market.

Commentary continued

These results are largely based on our intensified focus on re-establishing the gold standard across the product and customer experience; streamlining the operation to deliver improved efficiencies, enabling management to prioritise its relationships with staff and customers; targeted investment in refurbishments and a high street storefront facelift programme; and growing online sales through a multi-vendor delivery platform.

Under new leadership, the restructured operations team implemented a range of key interventions which benefited the business. A focused menu design, rationalisation, product innovation and renovation has resulted in a more relevant offering and a reduction in stockholding. A new corporate identity was also rolled out across all branded customer touch points. In line with the brand's premium positioning, we implemented order and pay-at-table functionality in all of the restaurants, complementing the at-counter system; this innovation has delivered encouraging uptake rates, improved the customer experience and increased per-head spend and table turns.

In addition to these operational improvements, the CVA programme completed during the period is expected to have a positive impact on the long term sustainability of the business.

GBK's network was reduced from 106 restaurants to 80, with the closure of twenty four stores in the UK during the period, including closures which took place prior to the CVA.

Supply chain

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

Logistics

Revenue for the period rose 4% to R3.9 billion (2018: R3.8 billion). Operating profit declined 19% to R84 million (2018: R104 million), while the operating margin decreased to 2.1% (2018: 2.7%).

The profitability of our franchise partners is of primary importance, and in light of low food inflation and higher fuel costs, we renewed our efforts to improve cost savings and efficiencies, and where possible, absorbed margin pressure to support them.

During the period, Project Decade, designed to address capacity constraints and manage the related planned investment programme over the next decade, commenced with ten-year lease agreements signed for new facilities in the Free State and Western Cape. The facilities will open in the second and fourth quarter of FY2020 respectively and will add substantial perishable product capacity, improve service levels to franchise partners and reduce handling costs.

Capital expenditure of R7 million (2018: R10 million) was incurred, primarily on fleet upgrades.

Manufacturing

This division grew revenue by 2% to R2.9 billion (2018: R2.9 billion). Operating profit increased by 6% to R429 million (2018: R405 million), while the operating margin improved to 14.7% (2018: 14.2%).

Production volumes were down 0.4% on the prior year, while sales volumes declined by 1.0%, largely due to the loss of a major client at Lamberts Bay Foods.

During the review period, we implemented our Manufacturing Way programme – a standardised blueprint for plant management, problem solving and daily performance tracking. More scientific analysis of data has been achieved and operational efficiencies have already started to filter through.

We achieved rewarding improvements against our KPIs including a 32% reduction in injuries; 13% reduction in water usage and 17% in electricity consumption; and the National Occupational Safety Association, (NOSA), certified our occupational health and safety systems across all plants as 'good or great'.

Capital expenditure of R40 million (2018: R31 million) was employed on plant upgrades, machinery and equipment.

Commentary continued

GROUP ASSOCIATES

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

UAC Restaurants Limited, Nigeria

The new management team played an important role in stabilising the business. Key focus areas were on improving operating standards, further consolidation of the network, and building a strong local presence to regain market share for the Mr Bigg's brand.

While turnover growth was under pressure due to adverse trading conditions, prudent cost management and improved margins in the manufacturing business resulted in operating profit exceeding target.

Heightened activity from competitors and aggressive investment in the competitor network, particularly in Lagos, eroded Debonairs Pizza's like-for-like sales, which declined year-on-year. However, management remains confident that the brand continues to offer opportunity for growth, and robust efforts will be made to gain back lost market share and expand the brand's presence.

A smaller format Mr Bigg's container unit (with significantly lower set-up costs) was trialled, designed to unlock growth in new trading environments. The success of this pilot venture will be closely monitored.

New store openings and investment in revamps by franchisees remained constrained by unfavourable trading conditions, limited access to funding and high interest rates.

By Word of Mouth

In line with our goal to enter the premium home meal replacement retail environment, we launched four Frozen for You stores in Gauteng, which have been favourably received by customers. A pilot store-within-store concept has also been launched. The trial store, situated on a petroleum station forecourt in Gauteng, is designed to offer a high-end convenience offering to customers.

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

FoodConnect

With effect from 1 June 2018, a joint venture partnership was concluded with FoodConnect, a sales and distribution business in the food and beverage sector. In terms of the agreement, FoodConnect acquired the rights to the Group's Baltimore ice-cream brand and distributes and sells the product on to third parties. The business has also recently been appointed as the distributor for a large syrup manufacturer. FoodConnect has traded profitably since the formation of the partnership.

CHANGES TO THE COMPOSITION OF THE BOARD OF DIRECTORS

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

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

- effective 8 March 2019, Ms Thembisa Skweyiya resigned as an independent non-executive director. The Board is appreciative of the contribution made by Thembisa during her tenure.
- Mr Bhekokuhle (Bheki) Sibiya, a long-standing member of the Board advised that he would be retiring at the AGM on 26 July 2019. We would like to express our gratitude to Bheki for his significant contribution since his appointment to the Board in 2004.

Commentary continued

SUBSEQUENT EVENTS

Coega Concentrate

In our interim results announcement, shareholders were advised that in anticipation of ongoing losses at the Coega Concentrate tomato paste plant, management had elected to cease operations at the facility with effect from 5 June 2018. Shareholders were further advised that a prospective buyer for the business had been identified and negotiations regarding the sale were in progress. It is pleasing to report that the sale of Coega Concentrate's entire business has been concluded, effective 1 June 2019, pending fulfilment of suspensive conditions.

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

PAUL

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

tashas

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

LOOKING FORWARD

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

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

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

Brands

The goal is to open 187 restaurants in the new financial year and 308 revamps are planned. This programme will however be determined by an improvement in trading conditions.

SA

The work undertaken this year has positioned our Leading brands to compete more effectively and enhance their leadership status in the categories we compete in. We will continue to align our supply chain and cost drivers to provide better support to enable them to deliver sustainable growth. Our key focus areas in the year ahead will be on improving the total customer experience through optimising opportunities in the home delivery and consumer-facing technology arenas.

Our Signature brands portfolio has been better structured for growth. Significant work, however, remains to be done to realise this business unit's full potential. We have clear strategies and competent management teams and joint venture partners in place to deliver on our growth agenda. We will continue to optimise the portfolio through rationalising under-performing brands and restaurants, driving our own margin growth and growing the footprint of brands which are scalable.

In terms of our brand pipeline, we will continue to develop and incubate innovative ready to launch concepts which have the potential to be substantial brands.

Commentary continued

AME
In the period ahead, national government elections will be held in five of the 15 markets we trade in; thus, we anticipate that trading conditions may deteriorate in the short-term, and investment by existing and prospective franchisees will be restrained.

Notwithstanding uncertain political and economic trading conditions in some of our AME markets, we are confident that recent investments will continue to pay off. We will continue to expand our strategic alliance partnerships, trial new trading formats, strengthen our marketing capability and leverage delivery offerings where appropriate.

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

Logistics
We plan to open our new distribution centres in the Free State and Western Cape within our capital expenditure budget of R31 million and on time in the year ahead. We will also continue to plan for growth in the business and will review capacity requirements across our ten DCs on an ongoing basis.

Manufacturing
We will intensify focus on efficiencies, reducing costs and increasing production volumes to drive profitability across all plants. Further reduction in the cost base at Lamberts Bay Foods, specifically, is targeted. Our FY2020 capital expenditure approach is conservative and phased, aimed at unlocking capacity, at amongst others, our Cheese Company.

We will continue to drive environmental awareness, and monitoring and management of consumption of fuel, water and electricity will be prioritised, aimed at reducing the carbon footprint across our supply chain operations.

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

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

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

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

Commentary continued

NOTICE OF DIVIDEND DECLARATION NUMBER 44 AND SALIENT FEATURES

Notice is hereby given that a gross dividend of 100 cents (2018: nil) per ordinary share, payable out of income, has been declared in respect of the financial year ended 28 February 2019.

The salient dates for the payment of the dividend are detailed below:

Dividend declaration date	Wednesday, 29 May 2019
Last day to trade cum-dividend	Tuesday, 2 July 2019
Shares commence trading ex-dividend	Wednesday, 3 July 2019
Record date	Friday, 5 July 2019
Payment of dividend	Monday, 8 July 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 3 July 2019 and Friday, 5 July 2019, both dates inclusive.

In terms of dividends tax legislation, the following additional information is disclosed:

- The local dividend tax rate is 20%.
- The net local dividend amount is 80 cents (2018: nil) per share for shareholders liable to pay the dividends tax and 100 cents (2018: nil) per share for shareholders exempt from paying the dividends tax.
- The issued share capital of Famous Brands is 100 066 219 (2018: 99 977 435) ordinary shares.
- Famous Brands' tax reference number is 9208085846.

A live webcast of the Group's results presentation will be held at 11:30 (SAST) on 29 May 2019.

To pre-register link to: https://www.corpcam.com/FamousBrandsMay2019

On behalf of the Board

SL Botha	**DP Hele**
Chairman	Chief Executive Officer

Midrand
29 May 2019

Audit opinion

These summarised consolidated financial statements for the year ended 28 February 2019 have been derived from the consolidated annual audited financial statements of Famous Brands Limited for the year ended 28 February 2019, on which the auditors, Deloitte & Touche, have expressed an unmodified audit opinion.

A copy of the auditor's report, together with the accompanying financial information, can be obtained from the company's registered office. The auditor's report and the consolidated annual audited financial statements will be available on the company's website *www.famousbrands.co.za* by the end of June 2019.

The information as set out in this announcement has not been audited.

The Board of Directors of Famous Brands takes full responsibility for the preparation of these summarised consolidated financial statements and for ensuring that the financial information has been correctly extracted from the underlying financial statements.

Summarised consolidated statement of financial position

as at 28 February 2019

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

Summarised consolidated statement of profit or loss and other comprehensive income

for the year ended 28 February 2019

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

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

Summarised consolidated statement of changes in equity

for the year ended 28 February 2019

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

* *F2018 movement relates to forfeiture of a put option. F2019 movement relates to the exercise and expiry of put options.*

Summarised consolidated statement of cash flows

for the year ended 28 February 2019

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

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

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

for the year ended 28 February 2019

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

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

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

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

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

^ *The prior Corporate administration costs have not been allocated on the same basis as current year. Had the allocation been done on a similar basis, the Corporate administrations costs for F2018 would have been R42 million.*

Segment operating margins

for the year ended 28 February 2019

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

Statistics and ratios

for the year ended 28 February 2019

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

Notes to the summarised consolidated financial statements

for the year ended 28 February 2019

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

1 STATEMENT OF COMPLIANCE

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

2 BASIS OF PREPARATION

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

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

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

3 CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 *Financial Instruments*

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

Overall financial impact

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

Overall effect on disclosures

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

Overall effect on impairment of financial assets

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

Overall effect on hedge accounting

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

3 CHANGES IN ACCOUNTING POLICIES CONTINUED

IFRS 15 *Revenue from Contracts with Customers*

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.

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

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

Overall financial impact

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

Overall effect on disclosures

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

4 ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

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

IFRS 16 *Leases*

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

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

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

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

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

4 ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED CONTINUED

Other standards

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

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

Impairment

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

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

Sensitivity

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

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

Impairment

The GBK business, acquired in 2017, was assessed as a cash-generating unit. The goodwill and brand value which arose on the acquisition of the business was allocated to this cash-generating unit's carrying amount for the purpose of the impairment assessment.

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

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

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

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

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

Sensitivity analysis on fair value less costs to sell

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

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

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

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

The sale of Coega Concentrate has been concluded effective 1 June 2019, pending fulfilment of suspensive conditions.

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

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

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

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

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

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

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

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

13 RELATED PARTY TRANSACTIONS

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

14 FINANCIAL INSTRUMENTS

Accounting classifications and fair values

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

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

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

Level 3: unobservable inputs for the asset or liability.

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

14 FINANCIAL INSTRUMENTS CONTINUED

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

Level 3 sensitivity information

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

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

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

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

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

16 UK BUSINESS SEGMENT RESULTS

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

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

17 BORROWINGS

	Currency	Maturity date	Nature	Interest rate Margin %	Interest rate Rate	**2019 %**	2018 %	**2019 R000**	2018 R000
Unsecured									
Long-term borrowings								**2 088 098**	2 513 489
Short-term portion of borrowings								**25 604**	267 071
								2 113 702	2 780 560
Interest is paid quarterly in arrears. The company has unlimited borrowing powers in terms of its Memorandum of Incorporation.									
Terms of repayment									
F2018 facilities									
Syndicated facility: 3-year bullet	ZAR	Sep 19	variable	2.35	3-month JIBAR		7.16		720 000
Syndicated facility: 4-year bullet	ZAR	Sep 20	variable	2.55	3-month JIBAR		7.16		720 000
Syndicated facility: 5-year amortising	ZAR	Sep 21	variable	2.45	3-month JIBAR		7.16		853 333
F2019 facilities									
Loan facility: 3-year bullet	ZAR	Dec 21	variable	1.60	3-month JIBAR	**7.15**		**600 000**	
Loan facility: 4-year bullet	ZAR	Dec 22	variable	1.70	3-month JIBAR	**7.15**		**850 000**	
Loan facility: 5-year revolving facility	ZAR	Dec 23	variable	1.70	3-month JIBAR	**7.15**		**637 169**	
								2 087 169	2 293 333
Syndicated facility: revolving credit	GBP	11 Oct 19	variable	2.15	3-month LIBOR		0.52		422 799
Syndicated facility: revolving credit	GBP	11 Oct 19	variable	2.15	1-month LIBOR		0.49		65 046
Transaction costs								**(3 398)**	(37 727)
Interest accrued								**29 931**	37 109
								2 113 702	2 780 560
Maturity analysis									
Payable within 1 year								**25 604**	267 071
Payable between 2 and 5 years								**2 088 098**	2 513 489
								2 113 702	2 780 560

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

17 BORROWINGS CONTINUED

Sensitivity analysis

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

Interest risk management

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

Facilities

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

Refinancing

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

Guarantees

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

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

Transaction costs

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

18 CAPITAL MANAGEMENT

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

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

Financial Covenants

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

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

** Debt for 2019 is net debt in comparison to gross debt in 2018.*

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

Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2019

18 CAPITAL MANAGEMENT CONTINUED

Gearing

The Group's gearing ratio is set out below:

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

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

19 CONTINGENT LIABILITIES

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

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

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

Refer to Note 17 for other guarantees and facilities in the Group.

20 SUBSEQUENT EVENTS

Coega Concentrate

In our interim results announcement, shareholders were advised that in anticipation of ongoing losses at the Coega Concentrate tomato paste plant, management had elected to cease operations at the facility with effect from 5 June 2018. Shareholders were further advised that a prospective buyer for the business had been identified and negotiations regarding the sale were in progress. It is pleasing to report that the sale of Coega Concentrate's entire business has been concluded, effective 1 June 2019, pending fulfilment of suspensive conditions.

Paul

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

tashas

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

Shareholder spread

	2019				2018			
	Number of share-holders	**% of total share-holdings**	**Number of shares**	**% of issued capital**	Number of share-holders	% of total share-holdings	Number of shares	% of issued capital
1 – 10 000	**5 126**	**93.08**	**1 843 807**	**1.84**	6 690	94.17	3 826 686	3.83
10 001 – 50 000	**232**	**4.21**	**5 080 000**	**5.08**	270	3.80	6 095 321	6.10
50 001 – 100 000	**38**	**0.69**	**2 689 469**	**2.69**	42	0.59	3 003 218	3.00
100 001 – 1 000 000	**89**	**1.62**	**31 008 953**	**30.99**	82	1.16	26 744 202	26.75
Over 1 000 000	**22**	**0.40**	**59 443 990**	**59.40**	20	0.28	60 308 008	60.32
Total	**5 507**	**100.00**	**100 066 219**	**100.00**	7 104	100.00	99 977 435	100.00
Distribution of shareholders								
Individuals	**4 470**	**81.17**	**22 459 998**	**22.45**	5 816	81.87	24 716 778	24.72
Insurance Companies	**10**	**0.18**	**428 555**	**0.43**	10	0.14	328 100	0.33
Investment Trusts	**371**	**6.74**	**8 835 101**	**8.83**	555	7.81	9 259 598	9.26
Other Companies & Corporate Bodies	**654**	**11.87**	**67 752 789**	**67.71**	723	10.18	65 672 959	65.69
Sovereign Funds	**2**	**0.04**	**589 776**	**0.59**	–	–	–	–
Total	**5 507**	**100.00**	**100 066 219**	**100.00**	7 104	100.00	99 977 435	100.00
Shareholder type								
Non-public shareholders	**18**	**0.33**	**24 777 246**	**24.76**	9	0.13	10 908 120	10.91
Directors and Associates (Direct)	**6**	**0.11**	**14 613 863**	**14.60**	9	0.13	10 908 120	10.91
Directors and Associates (Indirect)	**12**	**0.22**	**10 163 383**	**10.16**	–	–	–	–
Public shareholders	**5 489**	**99.67**	**75 288 973**	**75.24**	7 095	99.87	89 069 315	89.09
Total	**5 507**	**100.00**	**100 066 219**	**100.00**	7 104	100.00	99 977 435	100.00
Fund managers greater than 5% of the issued shares								
Coronation Fund Managers			**17 357 866**	**17.35**			14 448 186	14.45
Public Investment Corporation			**9 053 910**	**9.05**			9 022 596	9.02
BMO LGM Asset Management Group			**9 956 335**	**9.95**			8 367 790	8.37
Total			**36 368 111**	**36.35**			31 838 572	31.84
Direct and indirect beneficial interest of 5% or more of the issued shares (excluding directors)								
Government Employees Pension Fund			**10 677 270**	**10.67**			10 230 408	10.23
Coronation Fund Managers			**10 445 681**	**10.44**			8 492 531	8.49
BMO LGM Asset Management Group			**9 956 335**	**9.95**			7 755 676	7.76
Halamandaris Theofanis Mr			**7 017 598**	**7.01**			7 017 598	7.02
Panis Trust			**6 828 955**	**6.82**			7 350 000	7.35
Total			**44 925 839**	**44.89**			40 846 213	40.86

Administration

FAMOUS BRANDS LIMITED

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

DIRECTORS

NJ Adami, SL Botha (Independent Chairman), CH Boulle, DJ Fredericks, N Halamandaris, JL Halamandres, DP Hele (Chief Executive Officer)*, TE Mashilwane, K Ntlha (Group Financial Director)* and BL Sibiya.

** Executive*

COMPANY SECRETARY

IWM Isdale

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PO Box 61051, Marshalltown, 2107

SPONSOR

The Standard Bank of South Africa Limited
Registration number: 1969/017128/06
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