famous | brands
you're in good company

Unaudited condensed consolidated interim financial results

for the six months ended 31 August

2019

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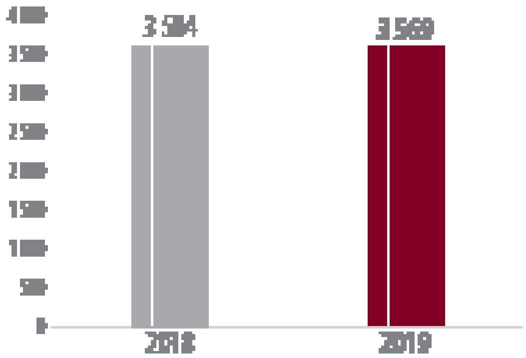
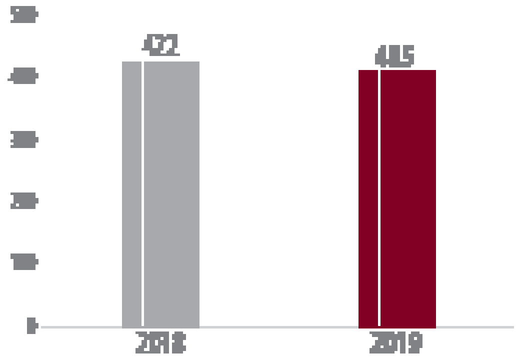
Financial highlights



Revenue

R3.6 billion

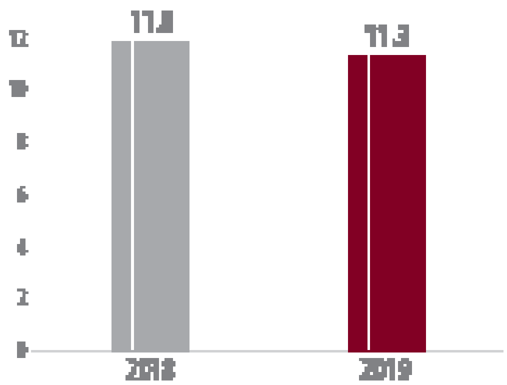


Operating profit

R405 million

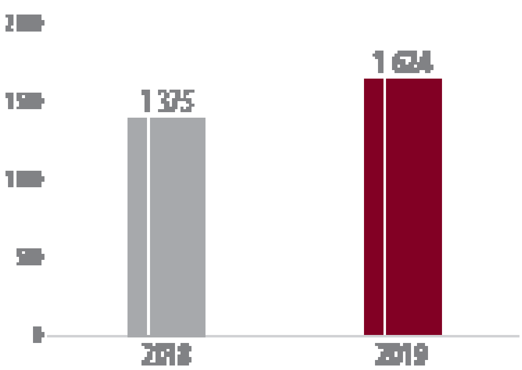
down by

4%



Operating profit margin

11.3%



Net asset value

1 624 cents per share

up by

18.1%

Commentary

OVERVIEW

Famous Brands is Africa's leading food services franchisor. The Group's vertically integrated business model comprises a portfolio of 20 restaurant brands, represented by 2 879 restaurants across South Africa (SA), the rest of Africa and the Middle East (AME), and the United Kingdom (UK). The Brands division is underpinned by substantial Logistics and Manufacturing operations.

OPERATING ENVIRONMENT

Across our trading markets, consumer behaviour continued to be driven by the demand for convenience, value and enhanced brand experiences. This was represented by the following growing trends:

- outperformance of take-away and fast food outlets at the expense of restaurants and coffee shops, reflecting their perceived convenience and value propositions;
- the sustained strong move to online and home delivery (with a related decline in footfall in shopping malls, specifically major centres);
- a heightened focus on differentiated in-store experiences (including enhanced technology aimed at improving service);
- proliferation of bespoke Customer Relationship Management programmes recognising and rewarding individual customers; and
- new store openings targeted at previously underserviced customers (including entry into outlying markets and diversification of convenience-centred formats ranging from drive-through to mobile carts and containers).

SA

Locally, consumer and business confidence remained at low levels throughout the review period. Sustained financial hardship and subdued economic growth were exacerbated by country-specific risk factors which continued to cause general socio-political uncertainty and discontent.

While competition in the market remained intense, the aggressive and unrealistic pricing evident in recent years has settled to a more rational level, as international newcomers have become part of the established landscape or exited, and independent operators trading on unsustainable margins were rationalised.

The impact of deteriorating economic conditions in certain provinces resulted in stark differences in regional performance. Worst affected areas were Limpopo and the North West, while the Western and Eastern Cape were less buoyant than recent trends. Stronger results were reported by Gauteng.

Significantly, low food inflation remained a major factor during the review period, restricting opportunities to increase menu pricing in the context of constrained consumer disposable income.

UK

Uncertainty arising from the recent change in political leadership as well as progress regarding Brexit weighed heavily on consumer sentiment during the review period.

GROUP PERFORMANCE

The business delivered solid results in a challenging environment. Particularly pleasing was the good performance reported in the Brands division. Disappointingly, this improved performance did not pull through to the Supply Chain, which experienced weaker sales and significant margin pressure.

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 for GBK Restaurants Limited (GBK); and
- optimise allocation of capital in the business.

Good progress was achieved across these focus areas:

- the franchise network is stable, and we continue to monitor and support our partners in a tough environment. To ensure that the total value chain delivers franchisee profitability, we implemented a range of initiatives including re-engineering and optimising menus, reducing costs and improving operational efficiencies, and absorbing margins in the Supply Chain to enable it to remain competitive against peer offerings;
- our strategy to entrench the gold standard in the GBK business continued to deliver benefits, resulting in a more focused and relevant offering and an improvement in costs and efficiencies. Activities included product innovation and renovation and menu design and rationalisation; and
- the goal to ensure investment in areas providing the best returns and exit non-core business was advanced through improved allocation of capital to the appropriate business units in our operations and rationalisation of underperforming brands and stores. Working capital management continues to be a keen focus area to ensure that cash from operations is optimised for future investment.

Commentary continued

GROUP FINANCIAL RESULTS

		Six months ended 31 August 2019	Six months ended 31 August 2018	% change
Statement of profit or loss and other comprehensive income				
Revenue	Rm	**3 569.1**	3 583.6	0
Operating profit before non-operational items	Rm	**405.0**	421.8	(4)
Operating profit margin	%	**11.3**	11.8	(0.5)
Non-operational items◊	Rm	**–**	(873.9)	100
EBITDA before impairment losses	Rm	**559.0**	526.4	6
Basic earnings/(loss) per share	Cents	**159**	(572)	128
Headline earnings per share (HEPS)	Cents	**159**	188	(15)
Statement of cash flows				
Cash generated before working capital changes	Rm	**583.8**	528.8	10
Working capital changes	Rm	**(10.6)**	11.6	
Net cash outflow utilised in investing activities	Rm	**(82.0)**	(47.6)	
Net cash outflow from financing activities	Rm	**(232.7)**	(102.1)	
Cash realisation rate*	%	**102.5**	102.7	
Statement of financial position				
Cash and cash equivalents	Rm	**428.7**	924.7	
Net assets#	Rm	**3 119.6**	3 200.6	
Net debt^	Rm	**2 688.6**	1 952.8	
Net debt/equity (gearing)	%	**165.5**	142.0	
Total equity	Rm	**1 625.0**	1 374.9	

◊ *No impairment was recognised for the review period. An impairment of R873.9 million was recognised in the GBK business in the prior comparable period.*
* *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 (including lease liabilities) less cash.*

Commentary continued

Gearing

The Group is pleased with the reduction of borrowings (excluding lease liabilities), and continues to comply with its financial covenants and meet its debt repayment obligations in line with agreed financing commitments. The medium-term target range for net debt remains between R1.0 billion and R1.5 billion, excluding lease liabilities.

OPERATIONAL REVIEWS

Brands

The Group's Brands portfolio 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.

Our store network+ comprises 2 778 franchised and 101 Company-owned operations. During the review period, new store growth was notably lower than in prior years: the Group opened a total of 50 restaurants (2018: 79), comprising 40 (2018: 59) Leading brands stores, six (2018: 16) Signature brands, two Wimpy UK restaurants and two Mr Biggs restaurants in Nigeria. In light of the weak economy, the roll out of the brand footprint will remain measured and conservative to ensure the sustainable health and viability of the network.

Revenue reported for the review period increased by 11% to R481.1 million (2018: R432.2 million), with Leading brands contributing R386.4 million (2018: R366.5 million), up 5%. Signature brands' revenue rose 44% to R94.7 million (2018: R65.7 million), primarily due to the higher number of Company-owned stores which generate higher revenue than royalty-only income from franchised stores.

Operating profit rose 6% to R235.2 million (2018: R222.5 million), of which Leading brands contributed R220.1 million and Signature brands' the balance.

The division's operating margin declined to 48.9% (2018: 51.5%), reflecting a significant investment in technology capability in the Leading brands portfolio, sub-inflationary menu price increases, and higher operating costs.

SA

Industry data confirms that while the total number of customer visits in the category remained unchanged from the prior year, middle-income consumers grew their number of visits relative to upper and lower living standards measure (LSM) consumers. This phenomenon is aligned to the upward social mobility of the population, specifically in the younger market segment.

Across our Leading and Signature brands, combined system-wide sales* grew 7.1% and like-for-like sales** rose by 3.6%. Independently, Leading brands'# system-wide sales increased 6.0% and like-for-like sales improved 4.0%.

Signature brands'^ system-wide sales grew 14.0% reflecting the increase in new stores, while like-for-like sales rose 1.4%.

Leading brands portfolio

This portfolio comprises our mainstream brands, segmented into quick service and casual dining offerings. Across the repertoire, our brands continue to enjoy strong loyal support, evidenced by the numerous consumer awards received over the decades and their growth or retention of market share in the extremely competitive operating environment. In the six months under review, Debonairs Pizza, Steers and Fishaways increased their share of the market, while Wimpy, Mugg & Bean, Fego Caffé and Milky Lane did well to stabilise share in a subdued trading segment.

+ *Excludes Frozen for You.*
* *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 crossborder – only where the brand is a joint venture partnership and the brand is not managed by the AME management team.*

Commentary continued

Despite sub-inflationary menu increases, all of the brands in this portfolio reported pleasing like-for-like growth. In line with global industry trends, the take-out offerings delivered stronger same-store sales than the dine-in occasions.

Ongoing innovation and calculated investment in this portfolio positioned our brands to compete more effectively and enhance their leadership status in their specific categories. During the review period, key focus remained on:

- prioritising resources to support the brands;
- improving the total customer experience through optimising opportunities in the online ordering and home delivery space, and enhancing consumer-facing technology;
- improving accessibility to customers through new flexible, convenience-centred trading formats; and
- driving cost leadership to entrench the sustainability of the franchise model for our partners.

Signature brands portfolio

This portfolio comprises a wide range of bespoke niche casual dining offerings.

During the review period, management's priority focus was to:

- drive margin growth: good progress was achieved in improving margins, although there are still opportunities to be leveraged in this regard;
- expand the footprint of those brands that are scalable: in light of subdued trading conditions, the roll out of new restaurants was in line with management's targets. A strategic decision has been taken to cautiously open more Company-owned stores in the short term to establish brand footprints, and then franchise the restaurants in time, once suitable partners are identified; and
- rationalise underperforming brands and restaurants to improve the returns on this portfolio: aligned with this brand consolidation strategy, further store closures were implemented in non-core brands including The Bread Basket and Catch.

While strong system-wide sales were largely derived from the expanded network, good like-for-like sales growth was reported by certain of the brands, including Lupa Osteria, Coffee Couture and Vovo Telo, which traded ahead of the industry in a lacklustre market segment.

With effect from 1 July 2019, a joint venture partnership was concluded with an experienced restaurateur, to manage the profitability of the existing Paul restaurant and drive the roll out of the brand's footprint. In this regard, good progress has been achieved, reflected by the double-digit sales growth reported for the period, and the scheduled opening of a second restaurant in Gauteng in December 2019.

AME

The Group is represented in 16 countries in this region.

Revenue for the combined region grew by 13% in Rand terms to R152.6 million (2018: R135.2 million). Operating profit decreased by 15% to R20.6 million (2018: R24.3 million), while the operating margin declined to 13.5% (2018: 18.0%), primarily due to foreign currency translation.

System-wide sales improved by 10.3% (2018: 12.8%). Ten of our 15 markets delivered good system-wide sales, with five recording double-digit growth.

The region contributed 8.3% (2018: 10.8%) to total system-wide Brands division sales. In line with the narrow and deep strategy which we implement in the rest of Africa, management's core focus was on driving the contribution of our major Leading brands in the territory, Debonairs Pizza, Steers, Wimpy and Mugg & Bean.

Several pleasing developments were recorded during the period:

- tashas reported very strong growth in the United Arab Emirates (UAE), and opened another restaurant in Dubai, bringing the store network to six in the country.

Commentary continued

- Debonairs Pizza signed a Master License agreement to further develop the brand in the UAE and also concluded a Master License agreement with Oman Oil to establish the brand in Oman;
- Mugg & Bean acquired the intellectual property rights for the brand in the Middle East and signed a Master License agreement in the UAE; and
- Steers signed a Master License agreement with Oman Oil to develop the brand in Oman.

In total, 11 new restaurants were opened in the AME region during the review period. Revamps and new store openings are likely to gain pace over the balance of the current financial year as delayed projects come on stream.

UK

Our UK operation comprises GBK (UK and Ireland) and Wimpy UK, which are managed and report independently of each other.

During the review period, the average GBP:ZAR exchange rate was GBP1:ZAR18.37 versus GBP1:ZAR17.29 in the prior comparable period.

Wimpy UK

Capitalising on consumers' growing demand for home delivery, the business expanded its multi-partner offering across the restaurant network, contributing to the positive like-for-like sales growth recorded.

Revenue in Rands improved by 6% to R60.8 million (2018: R57.4 million), while revenue in Sterling was 1% lower. In Rand terms, operating profit increased 57% to R13.4 million (2018: R8.5 million), while the operating margin rose to 22.0% (2018: 14.9%), underpinned by foreign currency translation gains.

Continued collaboration with GBK to leverage purchase volumes of core products enabled the business to extract cost efficiencies and contain price increases.

In the six months under review, two restaurants were opened in Portslade and Huddersfield, and two others were refurbished to the new store design, which continues to deliver good post-revamp sales growth. There were no store closures. At the end of the reporting period, the footprint comprised 69 restaurants.

GBK (UK and Ireland)

In line with management's projections, the business made good progress, benefiting from the extensive range of operational improvements implemented, together with the Company Voluntary Arrangement (CVA) restructuring programme completed over the past year.

Despite the subdued economy and general pressure experienced by the industry, GBK's like-for-like sales grew, attributable to intensified focus on the quality of the offering (product and experience); a targeted reinvestment in refurbishments; an intensified campaign to upweight online sales; and improved management of efficiencies and costs.

Revenue in Rand terms decreased by 7% to R640.7 million (2018: R691.6 million), while revenue in Sterling was 13% lower. Notably, the business reduced its operating loss by 76% from (R45.4 million) in the prior corresponding period to (R10.7 million). The operating margin improved from (6.6%) in the prior comparable period to (1.7%). The operating loss improvement includes R16.2 million related to the adoption of IFRS 16, which has an impact of 2.5% on the operating margin improvement.

System-wide UK sales (Sterling) declined by 12.5% (2018: decrease of 6.8%), due to the closure of 24 stores as part of the CVA process, seven of which were closed during the review period. Significantly, like-for-like sales increased by 8.6% (2018: decrease of 9.7%). While dine-in sales declined in line with sector trends, online and delivery sales grew strongly, supported by promotional activity.

External benchmarks confirm that the business tracked ahead of the market during the six months, building on the momentum evident in the second half of the prior financial year.

Notably, like-for-like sales post the end of the review period have remained positive.

Three restaurants underwent full revamps, while 30 other sites received kerbside makeovers in the six months under review. At the close of the reporting period, GBK's footprint comprised 73 stores.

Commentary continued

Supply Chain

The integrated strategic Supply Chain comprises the Group's Logistics and Manufacturing operations in SA. Combined revenue for the review period decreased by 1% to R2.22 billion (2018: R2.25 billion). Operating profit declined by 19% to R207.7 million (2018: R256.0 million), while the operating margin reduced to 9.3% from 11.4% in the prior comparable period. This disappointing performance is a reflection of weaker sales, sustained low food inflation which restricted opportunities to increase pricing, and the marked deterioration in the Logistics division's margin as outlined below.

Logistics

Revenue grew by 3.0% to R2.01 billion (2018: R1.96 billion), while operating profit decreased 52% to R25.3 million (2018: R53.0 million), and the operating margin declined to 1.3% (2018: 2.7%).

While management cautioned in the prior comparable period that reallocation of costs to this division would change the margin model permanently, resulting in a more realistic target margin of 3.0%, the results were further impacted by several other internal and external factors.

In the domestic market, case sales were flat, while export sales declined. Costs increased due to consistently higher fuel prices. Planned once-off expenditure related to the relocation of the Free State facility also negatively impacted on this division's results. In addition, sustained low food inflation and subdued consumer spend contained menu price inflation, while the strategy to support our franchisees through absorbing margin pressure in the supply chain further eroded profit.

In terms of the factors contributing to the margin deterioration from 2.7% to 1.3%, of the 1.4% decline, 0.4% is attributable to permanent margin reduction; 0.6% to temporary margin reduction and expenses and 0.4% to once-off expenses. Management is satisfied that the margin will improve to acceptable levels when the once-off and temporary expenses have been addressed.

Capital expenditure of R9.3 million (2018: R2.7 million) was incurred, primarily on the relocation of the Free State facility.

Manufacturing

Revenue for the period declined 0.4% to R1.46 billion (2018: R1.47 billion), reflecting the 39% decrease in sales at Lamberts Bay Foods (LBF) arising from the loss of a major client in August 2018. Operating profit reduced 9% to R183.8 million (2018: R203.0 million). The operating margin was 12.6% (2018: 13.8%).

Solid turnover growth was reported by the cheese and meat plants, while softer sales were recorded by the coffee and sauce and spice plants. Although operations had terminated at the Coega Concentrate tomato paste facility (Coega Concentrate), ongoing plant maintenance was required, amounting to R6.5 million for the six months. A transfer of ownership has recently been concluded for the business as discussed in the subsequent events commentary.

Implementation of the Manufacturing Way, a standardised blueprint for plant performance and management continued to positively impact on the business. Yields, disciplines and plant reliability improved across the operation. Cost management and enhancement of efficiencies were a key focus during the period, aimed at improving the competitiveness of the Supply Chain to support franchisees.

The division incurred capital expenditure of R25.0 million (2018: R16.4 million).

Group associates

UAC Restaurants Limited, Nigeria

Trading conditions remained difficult in Nigeria, featuring political instability, subdued economic growth, high inflation, and significant infrastructural and security challenges.

During the review period, management's core focus areas were on further consolidation of the store network, cost containment, improvement of operational standards and marketing interventions to boost sales.

Despite intense competition in the category, management is confident that Debonairs Pizza has opportunities for growth, and accordingly, measures have been implemented to attain the brand's potential.

Three restaurants were opened during the six months, including the combined Mr Bigg's and Debonairs Pizza corporate store in Lagos. Two new Company-owned Mr Bigg's restaurants are scheduled to open in the third quarter of the current financial year. The Group has resolved to cautiously deepen the corporate store model given the dearth of suitable franchise partners, and the constraints faced by prospective franchisees to access investment capital.

By Word of Mouth

The business's home meal replacement offering, Frozen For You, continued to build momentum in the upper LSM target market. Initial results demonstrate that the recently launched store-within-store concept, designed to offer a high-end convenience offering, is successful and will gain traction in time. The footprint currently comprises five stores in Gauteng, with further new stores scheduled to open in Senderwood (Gauteng) and in Constantia (Western Cape) in the forthcoming six months.

CHANGES TO THE COMPOSITION OF THE BOARD OF DIRECTORS (BOARD)

Appointment of independent non-executive director

With effect from 1 August 2019, Alexander (Alex) Maditse was appointed as an independent non-executive director to the Board. Alex is an admitted attorney. He serves as a director on several boards and committees of listed companies. He previously held the positions of Country Manager Coca-Cola East and Central Africa and Franchise Operations Director of Coca-Cola South Africa.

The Board welcomes Alex and looks forward to his contribution.

Appointment of Company Secretary

With effect from 1 August 2019, Celeste Appollis was appointed as Company Secretary. The Board is satisfied that Celeste possesses the competence and experience to fulfil the role.

SUBSEQUENT EVENTS

Coega Concentrate

In our year-end results announcement, shareholders were advised that pending fulfilment of suspensive conditions, the sale of Coega Concentrate had been concluded, effective 1 June 2019. While this specific transaction failed to materialise, the business has subsequently been sold, effective 1 October 2019. The disposal of Coega Concentrate is in line with management's stated strategy to focus on core competencies and leverage those initiatives which ensure optimal allocation of resources and deliver the best return on investment.

LOOKING FORWARD

While trading conditions are likely to remain challenging across our markets, the Board and management are satisfied that good progress has been made in positioning the business for growth. Across the operations, focus will remain on driving profitability by capitalising on opportunities internally and in the market. Management is cautiously optimistic that the Group's unwavering focus to continue winning over customers with quality offerings will deliver the anticipated rewards.

Commentary continued

PROSPECTS

In the prior comparable period, the strong performance anticipated from our peak trading period failed to materialise in the context of weak consumer sentiment and spend. Management is cautiously optimistic that wide ranging initiatives to provide consumers with ease of access to our brands and to deliver unique customer experiences at every touchpoint will provide the Group with a competitive advantage during the forthcoming holiday season. Notwithstanding macro-economic challenges faced in the Supply Chain, an improved performance in the Brands division should filter through and positively impact on the Manufacturing and Logistics divisions.

Brands

In line with previous years, it is anticipated that Black Friday sales will produce lumpy results leading up to and following what is now one of the biggest trading weekends on the annual calendar.

In terms of the holiday season, preparations are well advanced to capture disposable income over the peak December period and into the slower trading environment traditionally experienced in January.

Across our markets, the major shift to "remote convenience" via online ordering and home delivery will afford challenges and opportunities in equal measure for the Group. Our priority will be to make optimal use of technology to improve the experience and service for our customers.

SA and AME

In the forthcoming period, we will continue to strengthen our marketing capability across all channels and leverage our online ordering and home delivery across all the brands; expand our strategic alliance partnerships and roll out new trading formats; and ensure our supply chain and cost drivers provide support for our brands and franchise partners.

UK

In the GBK operation, our focus will remain on leveraging efficiencies achieved over the period and driving profitability and margin growth across the operation. The trading environment is expected to remain challenging for at least the medium term, with a return to profitability anticipated by the end of the 2022 financial year.

Supply Chain

In light of muted demand and anticipated sustained low food inflation, the focus will be on adapting to the competitive landscape and leveraging efficiencies in the business. Cost optimisation across the operation will continue to be prioritised.

Logistics

We will progress the upgrade programme designed to improve capability and capacity of our Logistics operation to accommodate growth over the next decade. The commissioning of the new Free State facility during the review period will substantially improve efficiencies and enhance the service to our franchise partners. The next phase of the programme, comprising the opening of the Western Cape facility, is scheduled for October 2019.

Manufacturing

Restoring the profitability of the LBF business will remain a priority, and opportunities to unlock further capacity across all our plants will continue to be explored.

The Group's distribution of licensed retail products to third-party customers has traditionally been outsourced. With effect from 1 October 2019, this business was brought in-house, providing both the Logistics division and the retail Manufacturing businesses with important opportunities to grow capacity.

DIVIDEND

The Board is pleased to declare a dividend payment of 90 cents for the review period. No dividend was declared for the period ended 31 August 2018. 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 45 AND SALIENT FEATURES

Notice is hereby given that a gross dividend of 90 cents (2018: nil) per ordinary share, payable out of income, has been declared in respect of the six months ended 31 August 2019.

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

Dividend declaration date	Monday, 28 October 2019
Last day to trade cum-dividend	Tuesday, 3 December 2019
Shares commence trading ex-dividend	Wednesday, 4 December 2019
Record date	Friday, 6 December 2019
Payment of dividend	Monday, 9 December 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 December 2019 and Friday, 6 December 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 72 cents (2018: nil) per share for shareholders liable to pay the dividends tax and 90 cents (2018: nil) per share for shareholders exempt from paying the dividends tax;
- the issued share capital of Famous Brands is 100 083 547 (2018: 99 977 435) ordinary shares; and
- Famous Brands' tax reference number is 9208085846.

AUDIO WEBCAST

A live audio webcast of the Group's results presentation will be held at 10:00 (SAST) on 28 October 2019. To pre-register link to: www.corpcam.com/FamousBrandsOctober2019

On behalf of the Board

SL Botha
Chairman

DP Hele
Chief Executive Officer

Midrand
28 October 2019

Condensed consolidated statement of financial position

as at 31 August 2019

	Note	**Unaudited 31 August 2019 R000**	Unaudited 31 August 2018 R000	Audited 28 February 2019 R000
ASSETS				
Non-current assets		**4 326 656**	3 498 055	3 297 136
Property, plant and equipment*	4	**2 076 674**	1 166 729	1 048 537
Intangible assets	5	**2 172 886**	2 236 718	2 179 770
Investments in associates		**61 752**	79 894	57 199
Deferred tax		**15 344**	14 714	11 630
Current assets		**1 685 975**	2 309 533	1 636 714
Inventories		**475 431**	483 746	455 817
Current tax assets		**12 001**	110 591	59 060
Derivative financial instruments		**652**	2 212	–
Trade and other receivables		**770 268**	788 310	668 072
Cash and cash equivalents		**427 623**	924 674	453 765
Assets held for sale	6	**34 983**	–	35 350
Total assets		**6 047 614**	5 807 588	4 969 200
EQUITY AND LIABILITIES				
Equity attributable to owners of Famous Brands Limited		**1 501 715**	1 237 383	1 421 594
Non-controlling interests		**123 212**	137 510	115 202
Total equity		**1 624 927**	1 374 893	1 536 796
Non-current liabilities		**3 345 034**	2 983 133	2 467 885
Borrowings	13	**1 905 155**	2 533 354	2 088 098
Derivative financial instruments		**–**	18 396	21 133
Lease liabilities*		**1 138 234**	99 317	54 952
Deferred tax		**301 645**	332 066	303 702
Current liabilities		**1 073 913**	1 449 562	962 814
Non-controlling shareholder loans		**–**	7 500	2 500
Derivative financial instruments		**121 453**	165 367	97 060
Lease liabilities*		**45 048**	13 018	14 025
Trade and other payables		**850 999**	970 923	803 176
Provision	7	**–**	32 464	–
Shareholders for dividends		**2 195**	3 215	2 195
Current tax liabilities		**25 444**	25 329	18 254
Borrowings	13	**28 774**	231 746	25 604
Liabilities held for sale	6	**3 740**	–	1 705
Total liabilities		**4 422 687**	4 432 695	3 432 404
Total equity and liabilities		**6 047 614**	5 807 588	4 969 200

* *The increase in property, plant and equipment and lease liabilities relates to the implementation of IFRS 16. Refer to Note 3 on the impact of adoption of IFRS 16.*

Condensed consolidated statement of profit or loss and other comprehensive income

for the six months ended 31 August 2019

	Note	**Unaudited six months ended 31 August 2019 R000**	Unaudited six months ended 31 August 2018 R000	% change	Audited year ended 28 February 2019 R000
Revenue	8	**3 569 137**	3 583 615	0	7 179 536
Cost of sales		**(1 809 149)**	(1 667 424)		(3 592 399)
Gross profit		**1 759 988**	1 916 191	(8)	3 587 137
Selling and administrative expenses		**(1 354 948)**	(1 494 397)		(2 737 463)
Operating profit before non-operational items		**405 040**	421 794	(4)	849 674
Non-operational items	10	**–**	(873 925)		(916 648)
Operating profit/(loss) including non-operational items		**405 040**	(452 131)	190	(66 974)
Net finance costs		**(115 005)**	(105 783)		(225 634)
Finance costs		**(104 728)**	(140 025)		(285 008)
Finance costs related to lease liabilities*		**(36 046)**	–		–
Finance income related to lease receivables*		**2 375**	–		–
Finance income		**23 394**	34 242		59 374
Share of profit of associates		**1 394**	157		4 479
Profit/(loss) before tax		**291 429**	(557 757)	152	(288 129)
Tax		**(99 068)**	14 119		(134 414)
Profit/(loss) for the period		**192 361**	(543 638)	135	(422 543)
Other comprehensive income, net of tax:					
Exchange differences on translating foreign operations**		**(1 705)**	278 174		281 672
Movement in hedge accounting reserve**		**(3 337)**	7 279		155
Effective portion of fair value changes of cash flow hedges		**(5 460)**	10 109		215
Tax on movement in hedge accounting reserve		**2 123**	(2 830)		(60)
Total comprehensive income/(loss) for the period		**187 319**	(258 185)		(140 716)
Profit/(loss) for the period attributable to:					
Owners of Famous Brands Limited		**159 566**	(572 099)	128	(480 400)
Non-controlling interests		**32 795**	28 461		57 857
		192 361	(543 638)		(422 543)
Total comprehensive (loss)/income attributable to:					
Owners of Famous Brands Limited		**154 524**	(286 646)		(198 573)
Non-controlling interests		**32 795**	28 461		57 857
		187 319	(258 185)		(140 716)
Basic earnings/(loss) per share (cents)					
Basic	9.1	**159**	(572)	128	(480)
Diluted	9.1	**159**	(570)	128	(479)

* *Finance costs and income relate to implementation of IFRS 16. Refer to Note 3 on the impact of adoption of IFRS 16.*
** *This item may be reclassified subsequently to profit or loss.*

Condensed consolidated statement of changes in equity

for the six months ended 31 August 2019

	Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
Balance at the beginning of the period	**1 536 796**	1 632 027	1 632 027
Other reserve – IFRS 16 application	**2 663**	–	–
Movement in capital and share premium	**1 451**	–	9 234
Recognition of share-based payments	**17 450**	18 434	29 357
Put options over non-controlling interests*	**7 178**	–	76 974
Total comprehensive income/(loss) for the period	**187 319**	(258 185)	(140 716)
Payment of dividends	**(128 134)**	(18 870)	(73 367)
Change in ownership interests in subsidiaries	**204**	1 487	3 287
Balance at the end of the period	**1 624 927**	1 374 893	1 536 796

* *F2020 movement relates to expiry of a put option. F2019 movement relates to the exercise and expiry of put options.*

Condensed consolidated statement of cash flows

for the six months ended 31 August 2019

	Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
CASH GENERATED BEFORE WORKING CAPITAL CHANGES	**583 778**	528 767	1 055 882
Working capital changes	**(10 587)**	11 601	(22 298)
Increase in inventories	**(18 225)**	(46 529)	(18 352)
(Increase)/decrease in receivables	**(65 612)**	(60 749)	11 651
Increase/(decrease) in payables	**73 250**	118 879	(15 597)
CASH GENERATED FROM OPERATIONS	**573 191**	540 368	1 033 584
Interest received	**25 768**	34 242	59 374
Interest paid	**(135 469)**	(134 286)	(255 231)
Tax paid	**(38 987)**	(98 365)	(197 209)
Cash available from operating activities	**424 503**	341 959	640 518
Dividends paid to owners of Famous Brands Limited	**(100 103)**	–	(26)
Dividends paid to non-controlling interest	**(28 031)**	(18 870)	(73 367)
Net cash inflow from operating activities	**296 369**	323 089	567 125
CASH UTILISED IN INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(84 380)**	(48 241)	(119 046)
Intangible assets acquired	**(7 125)**	(8 784)	(18 144)
Proceeds from disposal of property, plant and equipment and intangible assets	**12 697**	8 263	43 663
Dividends received from associate	**–**	1 190	4 340
Additional investment in associate	**(3 161)**	–	–
Net cash outflow utilised in investing activities	**(81 969)**	(47 572)	(89 187)
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowings raised	**–**	–	2 187 000
Borrowings repaid	**(180 000)**	(106 667)	(2 919 759)
Cash paid to non-controlling shareholders	**(2 500)**	–	(5 000)
Disposal of non-controlling interests in subsidiaries	**–**	4 559	–
Settlement of put option over non-controlling interest in subsidiary	**–**	–	(23 374)
Proceeds from disposal of non-controlling interest in subsidiary	**1 450**	–	4 559
Structuring fees paid on debt raised	**–**	–	(3 630)
Repayment of lease obligations*	**(51 605)**	–	–
Net cash outflow from financing activities	**(232 655)**	(102 108)	(760 204)
Net (decrease)/increase in cash and cash equivalents	**(18 255)**	173 409	(282 266)
Foreign currency effect	**(7 812)**	34 470	20 195
Cash and cash equivalents at the beginning of the period	**454 724**	716 795	716 795
Cash and cash equivalents at the end of the period**	**428 657**	924 674	454 724

* *Relates to the implementation of IFRS 16. Refer to Note 3 on the impact of adoption of IFRS 16.*
** *Comprises cash and cash equivalents of R427 million (2018: R925 million). R1 million is included in assets held for sale. Refer to Note 6.*

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

for the six months ended 31 August 2019

	Note	**Unaudited six months ended 31 August 2019 R000**	Unaudited six months ended 31 August 2018 R000	% change	Audited year ended 28 February 2019 R000
REVENUE					
Brands		**481 106**	432 172	11	894 700
Leading brands		**386 386**	366 502	5	748 889
Signature brands		**94 720**	65 670	44	145 811
Supply Chain		**2 221 328**	2 253 880	(1)	4 446 514
Manufacturing		**1 461 033**	1 466 108	0	2 911 916
Logistics		**2 014 321**	1 955 194	3	3 942 223
Eliminations		**(1 254 026)**	(1 167 422)	7	(2 407 625)
Corporate		**12 672**	13 276		24 305
South Africa (SA)		**2 715 106**	2 699 328	1	5 365 519
United Kingdom (UK)		**701 455**	749 055	(6)	1 544 229
Gourmet Burger Kitchen (GBK)		**640 692**	691 608	(7)	1 431 723
Wimpy		**60 763**	57 447	6	112 506
Rest of Africa and Middle East (AME)		**152 576**	135 232	13	269 788
Total		**3 569 137**	3 583 615	0	7 179 536
OPERATING PROFIT BEFORE NON-OPERATIONAL ITEMS					
Brands		**235 157**	222 476	6	475 924
Leading brands		**220 186**	218 605	1	457 237
Signature brands		**14 971**	3 871	287	18 687
Supply Chain		**209 065**	256 036	(18)	513 341
Manufacturing		**183 796**	203 008	(9)	429 250
Logistics		**25 269**	53 028	(52)	84 091
Corporate		**(62 456)**	(44 173)	(41)	(96 769)
Share-based payment charge		**(18 901)**	(18 434)	(3)	(39 770)
Foreign exchange movement		**(3 220)**	10 297	(131)	7 086
Consolidation entries*		**(8 002)**	(7 578)	(6)	(16 382)
Corporate administration charges**		**(32 333)**	(28 458)	(14)	(47 703)
SA		**381 766**	434 339	(12)	892 496
UK		**2 686**	(36 853)	107	(64 390)
GBK		**(10 675)**	(45 384)	76	(82 102)
Wimpy		**13 361**	8 531	57	17 712
AME***		**20 588**	24 308	(15)	21 568
Total		**405 040**	421 794	(4)	849 674
UK		**–**	–		(318 016)
Impairment	10	**–**	–		(300 793)
Once-off CVA-related costs****	10	**–**	–		(17 223)
Corporate		**(212 679)**	(965 432)		(954 201)
Impairment	10	**–**	(873 925)		(598 632)
Net finance costs		**(115 005)**	(105 783)		(225 634)
Share of profit of associates		**1 394**	157		4 479
Tax		**(99 068)**	14 119		(134 414)
Profit/(loss) for the period		**192 361**	(543 638)	135	(422 543)

* *Consolidated 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.*

*** *February 2019 AME includes put option remeasurement of R27 million. No remeasurement adjustment was required for the period ended 31 August 2019.*

**** *CVA costs relate to the once-off costs incurred as part of the CVA process undertaken in the UK for GBK in F2019.*

Segment operating margins

for the six months ended 31 August 2019

	Unaudited six months ended 31 August 2019 %	Unaudited six months ended 31 August 2018 %	% change	Audited year ended 28 February 2019 %
Operating margins				
Brands	**48.9**	51.5	(2.6)	53.2
Leading brands	**57.0**	59.6	(2.6)	61.1
Signature brands	**15.8**	5.9	9.9	12.8
Supply Chain	**9.4**	11.4	(2.0)	11.5
Manufacturing	**12.6**	13.8	(1.2)	14.7
Logistics	**1.3**	2.7	(1.4)	2.1
SA	**14.1**	16.1	(2.0)	16.6
UK	**0.4**	(4.9)	5.3	(4.2)
GBK	**(1.7)**	(6.6)	4.9	(5.7)
Wimpy	**22.0**	14.9	7.1	15.7
AME*	**13.5**	18.0	(4.5)	8.0
Total	**11.3**	11.8	(0.5)	11.8

* *February 2019 AME includes put option remeasurement of R27 million. No remeasurement adjustment was required for the period ended 31 August 2019.*

Statistics and ratios

for the six months ended 31 August 2019

	Unaudited six months ended 31 August 2019	Unaudited six months ended 31 August 2018	% change	Audited year ended 28 February 2019
Basic earnings/(loss) per share (cents)				
Basic	**159**	(572)	128	(480)
Diluted	**159**	(570)	128	(479)
Headline earnings per share (cents)				
Basic	**159**	188	(15)	319
Diluted	**159**	187	(15)	318
Dividends per share (cents)	**90**	–	100	100
Interim	**90**	–	100	
Final				100
Ordinary shares (000)				
in issue	**100 084**	99 977		100 066
weighted average	**100 072**	99 977		100 066
diluted weighted average	**100 356**	100 325		100 230
Operating profit margin (%)	**11.3**	11.8		11.8
Net debt/equity (%)	**165.5**	142.0		112.4
Net asset value per share (cents)	**1 624**	1 375		1 536

Notes to the condensed consolidated financial statements

for the six months ended 31 August 2019

Famous Brands Limited (the Company) is a South African registered company. The condensed 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 unaudited condensed consolidated interim 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 in issue and effective for the Group at 31 August 2019, and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, and as a minimum contains the information required by IAS 34 *Interim Financial Reporting*, the JSE Listings Requirements, and the Companies Act of South Africa No 71 of 2008, as amended (the Companies Act).

2 BASIS OF PREPARATION

The Group's unaudited condensed consolidated interim financial statements as at and for the period ended 31 August 2019 have been prepared on the going concern basis. The accounting policies applied in the presentation of the condensed consolidated interim financial statements are consistent with those applied for the year ended 28 February 2019, except for the new standards that became effective for the Group's financial period beginning 1 March 2019. Refer to Note 3.

The condensed consolidated Interim financial statements have not been audited or reviewed.

The condensed consolidated Interim financial statements were prepared on the historical cost basis, under the supervision of Kelebogile (Lebo) Ntlha CA(SA), 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 2019, including:

- IAS 12 *Income Taxes* (amendment, effective for financial years beginning on or after 1 January 2019); and
- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019).

These do not have a significant impact on the Group's financial results or position.

IFRS 16 *Leases*

IFRS 16 *Leases* was introduced by IASB in place of IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases-Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The standard is mandatory for accounting periods beginning on or after 1 January 2019. The Group has adopted it as from 1 March 2019.

The Group has elected not to reassess the definition of a lease as all the leases identified as a lease in terms of IAS 17 will still be leases under IFRS 16.

The Group has adopted IFRS 16 using the cumulative catch up approach, by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 March 2019.

IFRS 16 has one model for lessees, which results in leases previously classified as operating leases and recorded off-balance sheet being capitalised on the statement of financial position, requiring a lessee to recognise a right-of-use asset and a lease liability.

Notes to the condensed consolidated financial statements continued

for the six months ended 31 August 2019

3 CHANGES IN ACCOUNTING POLICIES CONTINUED

As prescribed by IFRS 16, lease liabilities are measured at the present value of remaining lease rentals discounted at the incremental borrowing rate at the date of initial application. The Group elected to measure right-of-use assets on transition date at the amount of the initial measurement of the lease liability. Right-of-use assets relating to new leases are measured at the amount of initial measurement of the lease liability plus initial direct costs, prepaid lease payments (less lease incentives) and estimated costs of dismantling and removing the underlying asset.

As part of the modified retrospective transition approach, The Group has elected to determine the incremental borrowing rate using the Group observable rate adjusted for lease-specific factors based on geographical location of each individual subsidiary.

As an accounting policy election, the Group has applied the following expedients allowed by the standard:

- Short-term leases – these are leases with a lease term of 12 months or less;
- Leases of low value assets – these are leases where the underlying asset is of low value;
- Incremental borrowing rate determined based on the remaining lease term at transition date; and
- Right-of-use asset has been measured based on the lease liability recognised at transition date.

As part of the transition, the Group has elected to determine the incremental borrowing rate at transition date. The incremental borrowing rate ranges from 3.5% to 11% across the Group leases.

The Group enters into head lease arrangements which are sub-let to franchisees. The adoption of the standard has resulted in the recognition of the lease liability and lease receivable for these head leases and finance costs and finance income respectively related to these arrangements.

Overall financial impact

The adoption of IFRS 16 resulted in the recognition of right-of-use assets to the value of R1.0 billion, lease liabilities of R1.2 billion and lease receivables of R53 million. Derecognition of operating lease straight-line liabilities of R3 million was taken to equity.

As a result of adopting IFRS 16, operating profit for the period ended 31 August 2019 has increased by R18 million due to the replacement of operating lease expenses with depreciation on right-of-use assets. This increase is offset by a net interest expense on lease liabilities of R34 million, resulting in a before-tax gain decreasing by R16 million. On the statement of cash flows, lease payments of R85 million, previously included in cash generated by operations, have been disclosed under financing activities (R51 million relating to the principal portion of lease payments) and interest paid (R34 million).

Notes to the condensed consolidated financial statements continued

for the six months ended 31 August 2019

		Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
4	**PROPERTY, PLANT AND EQUIPMENT**			
	Opening balance	**1 048 537**	1 339 789	1 339 789
	Additions due to IFRS 16 application*	**1 093 688**	–	–
	Additions	**84 380**	48 241	119 046
	Foreign currency translation	**5 376**	164 550	127 461
	Disposals	**(12 697)**	(5 769)	(36 828)
	Depreciation	**(142 610)**	(90 605)	(195 971)
	Transfers	**–**	–	26 985
	Transfers to held for sale	**–**	–	(31 152)
	Impairment	**–**	(289 477)	(300 793)
	Closing balance	**2 076 674**	1 166 729	1 048 537

* *The increase in property, plant and equipment relates to the implementation of IFRS 16. Refer to Note 3 on the impact of adoption of IFRS 16.*

Impairment

No impairment (August 2018: R289 million and February 2019: R301 million) was recognised during the period under review.

Notes to the condensed consolidated financial statements continued

for the six months ended 31 August 2019

	Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
5 INTANGIBLE ASSETS			
Opening balance	**2 179 770**	2 547 845	2 547 845
Additions	**7 125**	8 784	18 144
Foreign currency translation	**(2 658)**	280 934	247 506
Disposals	**–**	(2 389)	(7 032)
Transfers	**–**	–	(26 985)
Amortisation	**(11 351)**	(14 008)	(26 576)
Impairment	**–**	(584 448)	(573 132)
Closing balance	**2 172 886**	2 236 718	2 179 770

5 INTANGIBLE ASSETS CONTINUED

Impairment

The GBK business continued to be assessed as a cash-generating unit for the period under review. The brand name asset 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 R1.6 billion (August 2018: R1.5 billion and February 2019: R1.4 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 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 which start at 0% increasing to 3% over the 10-year period. A long-term growth rate of 2% (August 2018: 2.2% and February 2019: 2%) per annum was set for the years subsequent to the forecast.

A discount rate of 10.2% (August 2018: 7.9% and February 2019: 10.1%) was applied.

No impairment is determined based on the inputs above for the period under review (August 2018: R584 million and February 2019: R573 million). The difference in the impairment for August 2018 and February 2019 is due to exchange rate fluctuations.

Sensitivity analysis on fair value less costs to sell

For the period under review, an increase/(decrease) of 1% in the discount rate would result in an impairment charge of R108 million (no impairment). A (decrease)/increase in the like-for-like growth rate of 1% in the forecast profits will result in an impairment charge of R423 million (no impairment). An increase/(decrease) of one store per year in the roll-out plan would not result in an impairment.

Changes in key assumptions, as well as the actual cash flows achieved compared to those forecast can result in an impairment 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 condensed consolidated financial statements continued

for the six months ended 31 August 2019

		Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
6	**ASSETS AND LIABILITIES HELD FOR SALE**			
	Property, plant and equipment	**30 438**	–	31 152
	Trade and other receivables	**3 511**	–	3 239
	Cash and cash equivalents	**1 034**	–	959
	Assets held for sale	**34 983**	–	35 350
	Lease liabilities	**(1 020)**	–	(1 014)
	Trade and other payables	**(2 720)**	–	(691)
	Liabilities held for sale	**(3 740)**	–	(1 705)

The assets and liabilities held for sale relate to the Coega Concentrate (Pty) Ltd tomato paste plant.

The sale of Coega Concentrate has been concluded effective 1 October 2019 at a price of R32.5 million.

		Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
7	**PROVISION**			
	Opening balance	**–**	32 851	32 851
	Amounts utilised	**–**	(5 512)	(35 991)
	Foreign currency translation	**–**	5 125	3 140
	Closing balance	**–**	32 464	–

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

		Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
8	**REVENUE**			
	Sale of goods	**2 221 328**	2 253 880	4 446 514
	Services rendered and franchise revenue	**1 347 809**	1 329 735	2 733 022
		3 569 137	3 583 615	7 179 536

Notes to the condensed consolidated financial statements continued

for the six months ended 31 August 2019

		Note	Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
9	**BASIC AND HEADLINE EARNINGS PER SHARE**				
9.1	**Basic earnings/(loss) per share**				
	Profit/(loss) attributable to equity holders of Famous Brands Limited		**159 566**	(572 099)	(480 400)
	Basic earnings/(loss)		**159 566**	(572 099)	(480 400)
	Diluted basic earnings/(loss)		**159 566**	(572 099)	(480 400)
	Basic earnings/(loss) per share (cents)				
	Basic		**159**	(572)	(480)
	Diluted		**159**	(570)	(479)
9.2	**Headline earnings per share**				
	Basic earnings/(loss)	9.1	**159 566**	(572 099)	(480 400)
	Adjustments (net of tax):				
	(Profit)/loss on disposal of property, plant and equipment		**(40)**	(76)	143
	Gross		**(55)**	(106)	198
	Tax		**15**	30	(55)
	Impairment		**–**	759 709	799 460
	Gross		**–**	873 925	899 425
	Tax		**–**	(114 216)	(99 965)
	Headline earnings		**159 526**	187 534	319 203
	Diluted headline earnings		**159 526**	187 534	319 203
	Headline earnings per share (cents)				
	Basic		**159**	188	319
	Diluted		**159**	187	318
10	**NON-OPERATIONAL ITEMS***				
	Impairment		**–**	873 925	899 425
	Once-off CVA-related costs		**–**	–	17 223
			–	873 925	916 648

* *Represents non-operational items that are not expected to recur in the future. These costs have an impact on the Group's effective tax rate.*

11 RELATED PARTY TRANSACTIONS

The Group entered into various 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 condensed consolidated financial statements continued

for the six months ended 31 August 2019

12 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.

	Level	**Unaudited six months ended 31 August 2019 Carrying amount R000**	Unaudited six months ended 31 August 2018 Carrying amount R000	Audited year ended 28 February 2019 Carrying amount R000
Financial assets				
Measured at amortised cost				
Trade and other receivables		**739 521**	760 133	631 726
Cash and cash equivalents		**427 623**	924 674	453 765
Fair value through profit or loss:				
Derivative financial instruments (foreign currency options)	2	**652**	2 212	–
		1 167 796	1 687 019	1 085 491
Financial liabilities				
Measured at amortised cost:				
Trade and other payables		**725 733**	832 155	649 220
Shareholders for dividends		**2 195**	3 215	2 195
Lease liabilities		**1 182 838**	8 027	5 785
Non-controlling shareholder loans		**–**	7 500	2 500
Borrowings		**1 933 929**	2 765 100	2 113 702
Fair value through profit or loss:				
Derivative financial instruments (put options over non-controlling interests)	3	**101 368**	179 420	105 783
Derivative financial instruments (foreign exchange contracts)	2	**–**	103	613
Fair value through other comprehensive income:				
Derivative financial instruments (interest-rate swaps)	2	**20 085**	4 240	11 797
		3 966 148	3 799 760	2 891 595

12 FINANCIAL INSTRUMENTS CONTINUED

Level 3 sensitivity information

The fair values of the level 3 financial liabilities of R101 million (2018: R179 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 profits targets and the discount rates. An increase/(decrease) of 1% in the discount rate would result in a decrease/(increase) of R3.8 million (2018: R3.1 million). An increase/(decrease) of 10% in the profit targets would result in an increase/(decrease) of R10.1 million (2018: R7.4 million).

Movements in level 3 financial instruments carried at fair value

The following table illustrates the movements during the year of level 3 financial instruments carried at fair value:

	Unaudited six months ended 31 August 2019 Carrying amount R000	Unaudited six months ended 31 August 2018 Carrying amount R000	Audited year ended 28 February 2019 Carrying amount R000
Put options over non-controlling interests:			
Carrying value at the beginning of the period	**105 783**	176 186	176 186
Unwinding of discount	**4 748**	3 234	6 230
Settlement of put option	**–**	–	(23 374)
Derecognition of put option	**(9 163)**	–	(89 168)
Remeasurement	**–**	–	35 909
Carrying value at the end of the period	**101 368**	179 420	105 783

Notes to the condensed consolidated financial statements continued

for the six months ended 31 August 2019

	Currency	Maturity date	Interest rate		
			Nature	Margin %	Rate
13 BORROWINGS					
Unsecured					
Long-term borrowings					
Short-term borrowings					
Interest is paid quarterly in arrears.					
The Company has unlimited borrowing powers in terms of its Memorandum of Incorporation.					
Terms of repayment					
F2019 facilities					
Syndicated facility: 3-year bullet	ZAR	Sep 19	Variable	2.35	3-month JIBAR
Syndicated facility: 4-year bullet	ZAR	Sep 20	Variable	2.55	3-month JIBAR
Syndicated facility: 5-year amortising	ZAR	Sep 21	Variable	2.45	3-month JIBAR
F2020 facilities					
Loan facility: 3-year bullet	ZAR	Dec 21	Variable	1.60	3-month JIBAR
Loan facility: 4-year bullet	ZAR	Dec 22	Variable	1.70	3-month JIBAR
Loan facility: 5-year revolving facility	ZAR	Dec 23	Variable	1.70	3-month JIBAR
Syndicated facility: revolving credit*	GBP	11 Oct 19	Variable	2.15	3-month LIBOR
Syndicated facility: revolving credit*	GBP	11 Oct 19	Variable	2.15	1-month LIBOR
Transaction costs capitalised					
Interest accrued					

* *Relates to GBP30 million facility referred to below.*

Maturity analysis – capital

Payable within 1 year

Payable between 2 and 5 years

Notes to the condensed consolidated financial statements continued

for the six months ended 31 August 2019

Unaudited six months ended 31 August 2019 %	Unaudited six months ended 31 August 2018 %	Audited year ended 28 February 2019 %	**Unaudited six months ended 31 August 2019 R000**	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
			1 905 155	2 533 354	2 088 098
			28 774	231 746	25 604
			1 933 929	2 765 100	2 113 702
–	6.96	–	**–**	720 000	–
–	6.96	–	**–**	720 000	–
–	6.96	–	**–**	746 667	–
7.03	–	7.15	**600 000**	–	600 000
7.03	–	7.15	**850 000**	–	850 000
7.03	–	7.15	**457 169**	–	637 169
			1 907 169	2 186 667	2 087 169
–	0.67	–	**–**	496 483	–
–	0.72	–	**–**	76 382	–
			(2 943)	(30 213)	(3 398)
			29 703	35 781	29 931
			1 933 929	2 765 100	2 113 702
			28 774	231 746	25 604
			1 905 155	2 533 354	2 088 098
			1 933 929	2 765 100	2 113 702

Notes to the condensed consolidated financial statements continued

for the six months ended 31 August 2019

13 BORROWINGS CONTINUED

Sensitivity analysis

A change of 1% in interest rates at the reporting date would have increased/(decreased) profit or loss by R10 million (August 2018: R14 million and February 2019: R21 million).

Interest risk management

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

Facilities

Total ZAR overdraft facility in place: R180 million (August 2018: R80 million and February 2019: R380 million). Unutilised portion at period-end is R180 million (August 2018: R80 million and February 2019: R380 million).

The Group has a five-year revolving loan facility of R970 million (August 2018: Rnil and February 2019: R970 million). Unutilised portion at period-end is R513 million (August 2018: Rnil and February 2019: R333 million).

Total GBP borrowings facility in place: GBPnil (August 2018: GBP30 million and February 2019: GBPnil).

Guarantees

Famous Brands Limited, Famous Brands Management Company (Pty) Ltd, Mugg & 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; and
- 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 transaction costs relate to the refinanced loan facility amount to R3 million (2018: R30 million) as at 31 August 2019.

14 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 13) and equity as disclosed in the statement of financial position. There are no externally imposed capital requirements.

Financial covenants

The Group's borrowings (refer to Note 13) are subject to the following financial covenants, which the Group is in compliance with:

	31 August 2019	31 August 2018	28 February 2019
Debt to EBITDA*	**<2.50**	<2.75	<2.50
Interest cover	**>3.00**	>3.50	>3.00
Free cash flow to debt service**	**N/a**	>1.20	N/a

* *The debt is net debt for August 2019 and February 2019 compared to gross debt for August 2018.*
** *The funding structure does not include free cash flow to debt service ratio as a financial covenant.*

14 CAPITAL MANAGEMENT CONTINUED

Gearing

The Group's gearing ratio is set out below:

	Unaudited six months ended 31 August 2019 R000	Unaudited six months ended 31 August 2018 R000	Audited year ended 28 February 2019 R000
Borrowings	**1 933 929**	2 765 100	2 113 702
Lease liabilities	**1 183 282**	112 334	68 977
Cash and cash equivalents***	**(428 657)**	(924 674)	(454 724)
Net debt	**2 688 554**	1 952 760	1 727 955
Equity	**1 624 927**	1 374 893	1 536 796
Gearing ratio****	**165.5%**	142.0%	112.4%

*** *Cash and cash equivalents include R1 million (August 2018: Rnil) in assets held for sale. Refer to Note 6.*
**** *Calculated as net debt divided by equity.*

15 SUBSEQUENT EVENTS

Coega Concentrate

In our year-end results announcement, shareholders were advised that pending fulfilment of suspensive conditions, the sale of Coega Concentrate, had been concluded, effective 1 June 2019. While this specific transaction failed to materialise, the business has subsequently been sold, effective 1 October 2019. The disposal of Coega Concentrate is in line with management's stated strategy to focus on core competencies and leverage those initiatives which ensure optimal allocation of resources and deliver the best return on investment.

Corporate information

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)*, AK Maditse, ET Mashilwane, K Ntlha (Group Financial Director)*.

** Executive.*

COMPANY SECRETARY
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SPONSOR
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