www.famousbrands.co.za

famous brands LIMITED

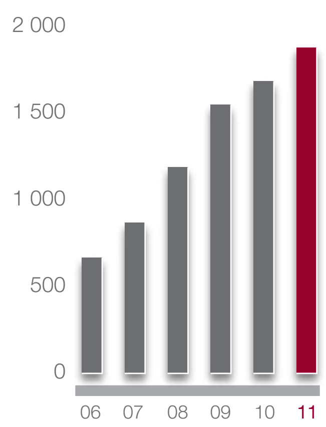
*You're in good company*

Incorporated in the Republic of South Africa   Registration number 1969/004875/06
JSE Share code: FBR   ISIN: ZAE000053328
"Famous Brands" or "the Group"

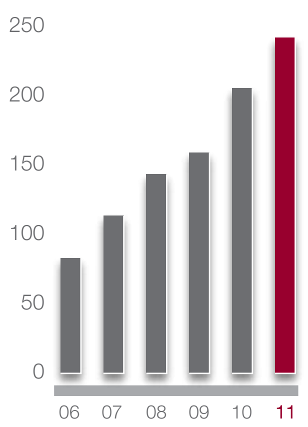
# Audited results for the year ended 28 February 2011

| Revenue | Operating profit | Cash generated by operations | Net borrowings to equity | Headline earnings per share | Dividends per share |
|---|---|---|---|---|---|
| • Up 11% to R1 878 million | • Up 16% to R358 million | • Up 13% to R397 million | • Improves to 14% | • Up 17% to 242 cents | • Up 36% to 155 cents |

Revenue *(R million)*




Headline earnings per share *(cents)*




## Commentary

**Overview** The year under review proved to be an exceptional one for Famous Brands, both in terms of organic and acquisitive growth.

Notwithstanding the subdued economic climate, the Group has delivered another outstanding performance. Famous Brands benefited from strong sales during the 2010 FIFA World Cup™ and, despite fears to the contrary, our traditional peak trading period in December was also extremely robust. Our high profile brand portfolio continued to ensure that we remained top of mind amongst consumers seeking tried-and-tested quality offerings.

Whilst there was no significant improvement in the economy, limited food inflation and reduced interest rates assisted in improving disposable income levels among our target consumers.

**Financial results** Group revenue increased by 11% to R1.9 billion from R1.7 billion. Operating profit improved 16% to R358 million (2010: R308 million), while the operating margin grew to 19.1% from 18.3% in the prior year. This robust margin improvement is based primarily on best operating practices achieved in the Manufacturing and Logistics divisions. Net interest paid declined 28% to R14.9 million (2010: R20.6 million) due to the sustained low interest rate environment and reduced net borrowings arising from strong cash flows.

After a slightly increased effective tax rate, headline earnings per share and earnings per share rose by 17% and 20% respectively to 242 cents per share.

Cash generated from operations increased by a robust 13% reflecting the Group's sound cash-generating nature and tight management of working capital. Despite sharply higher taxation and dividend payments, net cash retained for the year of R130 million (2010: R132 million) was in line with last year's record level.

Total investing activities absorbed R87 million comprising R44 million in acquisitions and a net R43 million on replacement and expansion capital expenditure. Over and above routine replacement activities, expansion included new capacity for the take-on of acquisitions, relocation of the Meat Processing and Bakery plants to the new Western Cape Logistics centre, fleet expansion and bolstering the Group's Information Technology support service. These outflows were accommodated from cash funds leaving a healthy R43 million to pay down net debt.

After proceeds from share incentive scheme issues, borrowings net of cash reduced by R59 million to R101 million (2010: R160 million). Net borrowings as a percentage of equity improved to 14% (2010: 28%). Net interest paid was covered 24 times by operating profit, substantially ahead of last year's already strong 15 times. The future capital expenditure programme of R75 million, including R31 million for the Milky Lane/Juicy Lucy acquisition, planned for the year ahead will be settled from existing cash reserves and borrowing facilities.

### Operational reviews

**Franchising Division – Local** This division delivered a pleasing performance and made an important contribution to the Group's results. Revenue increased 18% to R386 million (2010: R327 million) and operating profit improved 15% to R235 million (2010: R205 million). The division's operating profit margin was 60.9% compared with 62.5% in the prior year, primarily due to investment ahead of royalty collections from our recently acquired brands, notably an investment in personnel to ensure adequate capacity to continue to grow, and, or where necessary, repackage and reposition these brands.

Our mainstream brands continued to build on well-established platforms, whilst our niche brands gained traction in their respective markets.

A total of 111 (2010: 125) new restaurants were opened during the year bringing the network to a total of 1 861 restaurants. In addition 81 (2010: 72) existing restaurants were revamped.

Once again we enjoyed heart-warming support from our customers reflected by the range of awards received this year, including for best burger, best chips, best pizza, best breakfast and best coffee.

**Franchising Division – International** Trading conditions in the United Kingdom were amongst the most difficult experienced in the past decade. In this environment, revenue in Sterling declined 21%, and in Rand terms by 31% to R95 million (2010: R138 million). Operating profit fell 23% to R11 million (2010: R14 million). A further factor impacting these results was the termination of the Roadchef agreement which resulted in reduced turnover levels in the short term. The implementation of right-sizing measures ensured that the operating profit margin improved to record levels, from 10.1% to 11.3%.

A further six restaurants were revamped during the period and three new restaurants were opened. Management is satisfied that the business is now well positioned to benefit from any improvement in the economy. Plans to open the first pilot Steers restaurant have been finalised and a suitable location is currently being sourced.

**Supply Chain** This business unit comprises the Group's Manufacturing and Logistics divisions. Combined revenue for the division increased to R1.4 billion (2010: R1.2 billion), an improvement of 15%. Operating profit increased 24% to R116 million (2010: R94 million) with the margin improving to 8.4% from 7.8% based on a range of productivity and efficiency initiatives.

**– Manufacturing Division** The Manufacturing Division reported a 6% increase in revenue to R664 million (2010: R626 million). Operating profit rose 28% to R78 million (2010: R61 million), resulting in an improved margin of 11.7% (2010: 9.7%).

The slightly constrained revenue growth is primarily a reflection of the introduction of the Get Real Burger range by the Steers brand, which impacted on turnover in both the Group's Meat Processing and Bakery Plants. The healthy improvement in gross profit margins is derived from lower input costs, sustained productivity improvements and further efficiency gains reported across all manufacturing plants.

During the period, a range of key projects were concluded including expansion of the in-house manufactured basket of products and relocation of the Western Cape manufacturing facilities to accommodate the Bakery and Meat Processing Plants within the existing Logistics and Administrative building.

Capital expenditure of R10 million was invested in the review period in upgrading technology and equipment. A further R20 million has been budgeted for additional optimisation projects in the year ahead, including equipping the Meat Processing Plant with the capability to supply chicken fillets, thereby achieving another profitable backward integration opportunity.

**– Logistics Division** The Logistics Division grew revenue by 14% to R1.3 billion (2010: R1.1 billion). Operating profit increased 16% to R38 million (2010: R33 million), producing an unchanged operating margin of 3.0%.

The goal to increase critical mass and enhance productivity continued in the year under review. A number of achievements in this regard can be noted including the conversion of all distribution centres, excluding Midrand, to full multi-temperature capability; completion of the take-on of Mugg & Bean's refrigerated basket in the Eastern Cape, Free State and KwaZulu-Natal; completion of the take-on of Wimpy's refrigerated basket in the Western Cape and Bloemfontein, phased introduction of the Group's owner-driver programme and introduction of a five-day rolling week shift system at Midrand.

Capital expenditure of R20 million was invested in a range of projects including a state-of-the-art frozen storage facility in the Western Cape and racking and handling equipment at a number of other logistics centres. A further R6 million has been budgeted for the year ahead primarily aimed at our multi-temperature vehicle fleet upgrade programme.

### Corporate actions

The Group employed an aggressively acquisitive strategy in the review period facilitated by its strong cash reserves, depth of management, and opportunities afforded by the depressed market. Each of the acquired businesses will play a key role in rounding off our portfolio of best-in-class franchised leisure brands.

The trademarks and franchise agreements of the following businesses were acquired:

- KEG and McGinty's – effective 1 September 2010, for a purchase consideration of R27 million.
- O'Hagan's – effective 1 December 2010, for a purchase consideration of R13 million.

In addition, a controlling 51% stake was acquired in the following businesses:

- Giramundo, a peri-peri flame-grilled chicken offering – effective 1 August 2010, for a purchase consideration of R1.2 million.
- Vovo Telo artisan bakery and café – effective 1 October 2010, for a purchase consideration of R3.8 million.

After funding costs and taxation, the net contribution from these acquisitions during the reporting period was insignificant.

### Subsequent events

The trademarks and franchise agreements of Milky Lane and Juicy Lucy were acquired with effect from 1 March 2011. The acquisition of these iconic South African brands at a compelling price, together with the synergies afforded by their integration into the Group's business model, make this transaction an exciting, low-risk one, which will deliver returns for shareholders from the outset. The purchase consideration was R31 million and no income was earned or recognised in this set of results.

### Prospects

We expect trading conditions to remain difficult in the year ahead. Economic recovery will be muted and consumer spend will remain under pressure due to factors including electricity tariff hikes, increased fuel costs and the proposed toll road levies. Red meat prices have also risen steeply during the early part of the year, driving up food inflation. In this environment and without the benefit of World Cup sales, the Group believes that it will be difficult to achieve the same levels of growth delivered in the review period. The prospects information has not been reviewed by the company's auditors. New store expansion will continue to be managed cautiously, with a planned roll-out of a further 176 stores across the Group's network in the year ahead.

Acquisitive growth was the overriding feature of 2011. In contrast, the 2012 fiscal year will be focused on consolidation. The Group's immediate priorities are to ensure that all recent acquisitions are firmly bedded down and wherever possible integrated into the Group's supply chain.

### Dividend to shareholders

Notice is hereby given that a final dividend No. 33 of 85 cents (2010: 64 cents) per ordinary share, payable out of income, has been declared in respect of the year ended 28 February 2011.

Salient dates are:

| | |
|---|---|
| Last day to trade cum-dividend | Friday, 24 June 2011 |
| Shares commence trading ex-dividend | Monday, 27 June 2011 |
| Record date | Friday, 1 July 2011 |
| Payment of dividend | Monday, 4 July 2011 |

Share certificates may not be dematerialised or rematerialised between Monday, 27 June 2011 and Friday, 1 July 2011, both dates inclusive.

On behalf of the board

**P Halamandaris**
Non-executive Chairman

**KA Hedderwick**
Chief Executive Officer

Midrand
19 May 2011

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 28 February 2011 R000 | 28 February 2010 R000 | % change |
|---|---|---|---|
| **Revenue** | 1 878 036 | 1 684 840 | 11 |
| Gross profit | 813 153 | 715 749 | 14 |
| Selling and administrative expenses | (454 700) | (407 802) | |
| **Operating profit before impairment losses** | 358 453 | 307 947 | 16 |
| Impairment losses | – | (4 506) | |
| Net interest paid | (14 934) | (20 648) | |
| **Profit before taxation** | 343 519 | 282 793 | 21 |
| Taxation | (112 520) | (91 153) | |
| **Profit for the year** | 230 999 | 191 640 | 21 |
| Foreign currency translation differences | (5 182) | (26 300) | |
| Total comprehensive income for the year | 225 817 | 165 340 | |
| **Profit attributable to:** | | | |
| Equity holders of Famous Brands Limited | 230 260 | 191 367 | 20 |
| Non-controlling interests | 739 | 273 | |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of Famous Brands Limited | 225 078 | 165 067 | |
| Non-controlling interests | 739 | 273 | |
| **Reconciliation to headline earnings for the year** | | | |
| Earnings attributable to equity holders of Famous Brands Limited | 230 260 | 191 367 | 20 |
| Impairment losses | – | 3 245 | |
| Loss/(profit) on sale of company owned restaurants | 406 | (381) | |
| (Profit)/loss on disposal of property, plant and equipment | (164) | 76 | |
| **Headline earnings for the year** | 230 502 | 194 307 | 19 |
| **Earnings per share – cents** | | | |
| – basic | 242 | 202 | 20 |
| – diluted | 237 | 199 | 19 |
| **Headline earnings per share – cents** | | | |
| – basic | 242 | 206 | 17 |
| – diluted | 237 | 202 | 17 |
| **Dividends to shareholders – cents** | | | |
| – interim: dividend declared | 70 | 50 | 40 |
| – final: dividend declared | 85 | 64 | 33 |
| **Total dividends for the year** | 155 | 114 | 36 |
| **Ordinary shares** | | | |
| – in issue net of treasury shares | 95 817 435 | 94 894 435 | |
| – weighted average | 95 245 418 | 94 508 393 | |
| – diluted weighted average | 98 905 257 | 97 678 232 | |

## CONDENSED CONSOLIDATED SEGMENTAL INFORMATION – BUSINESS UNIT AND GEOGRAPHICAL

| | 28 February 2011 R000 | 28 February 2010 R000 | % change |
|---|---|---|---|
| **Revenue** | | | |
| Franchising | 386 015 | 327 134 | 18 |
| Supply chain | 1 382 778 | 1 205 944 | 15 |
| Manufacturing | 663 812 | 625 988 | |
| Logistics | 1 262 325 | 1 102 709 | |
| Eliminations | (543 359) | (522 753) | |
| Corporate | 14 577 | 14 031 | |
| South Africa | 1 783 370 | 1 547 109 | 15 |
| Franchising (UK) | 94 666 | 137 731 | (31) |
| **Total** | 1 878 036 | 1 684 840 | 11 |
| **Operating profit** | | | |
| Franchising | 234 971 | 204 605 | 15 |
| Supply chain | 116 233 | 93 690 | 24 |
| Manufacturing | 77 788 | 60 725 | |
| Logistics | 38 445 | 33 210 | |
| Eliminations | – | (245) | |
| Corporate | (3 489) | (4 236) | |
| South Africa | 347 715 | 294 059 | 18 |
| Franchising (UK) | 10 738 | 13 888 | (23) |
| **Total** | 358 453 | 307 947 | 16 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | 28 February 2011 R000 | 28 February 2010 R000 |
|---|---|---|
| **Cash generated by operations** | 396 929 | 351 961 |
| Net interest paid | (14 934) | (20 648) |
| Taxation paid | (123 895) | (114 089) |
| **Net cash flow from operating activities** | 258 100 | 217 224 |
| Dividends paid | (127 817) | (85 021) |
| **Net cash retained from operating activities** | 130 283 | 132 203 |
| Acquisition of businesses, subsidiaries and intangibles | (43 800) | (96 351) |
| Expansion capital expenditure | | |
| Property, plant and equipment | (15 794) | (8 891) |
| Intangible assets | (3 893) | (3 337) |
| Replacement of capital expenditure on property, plant and equipment | (25 546) | (9 679) |
| Purchase of non-controlling interest and debt restructure in foreign subsidiary | – | 33 137 |
| Proceeds from disposal of property, plant and equipment | 1 818 | 5 268 |
| **Cash flow from investing activities** | (87 215) | (79 853) |
| Movement in share capital and reserves | 15 245 | 7 524 |
| Decrease in interest-bearing borrowings | (67 399) | (51 767) |
| **Cash flow from financing activities** | (52 154) | (44 243) |
| Change in cash and cash equivalents | (9 086) | 8 107 |
| Foreign currency effect | 963 | (2 793) |
| Cash and cash equivalents at beginning of year | 94 520 | 89 206 |
| **Cash and cash equivalents at end of year** | 86 397 | 94 520 |

## NOTES:

**1. Basis of preparation**

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the AC 500 standards as issued by the Accounting Practices Board and its successor, the South African Companies Act (1973) and the Listings Requirements of the JSE Limited.

**2. Accounting policies**

The accounting policies applied by the Group are consistent with those applied in the comparative financial periods, except for the adoption of improved, revised or new standards and interpretations. The aggregate effect of these changes in respect of the year ended 28 February 2010 is nil.

**3. Auditors**

These financial statements have been audited by RSM Betty & Dickson (Johannesburg) and their unqualified audit opinion is available for inspection at the company's registered office.

| | 28 February 2011 R000 | 28 February 2010 R000 |
|---|---|---|
| **4. Operating profit** | | |
| The following have been accounted for in operating profit before impairment losses: | | |
| – Amortisation of intangible assets | 1 631 | 1 244 |
| – Auditors' remuneration | 3 462 | 3 350 |
| – Depreciation of property, plant and equipment | 24 402 | 22 381 |
| – Foreign exchange loss/(profit) | 245 | (289) |
| – Loss/(profit) on sale of property, plant and equipment | 337 | (339) |
| – Operating lease charges on immovable property | 27 145 | 32 672 |
| – Operating lease charges on movable property | 1 930 | 874 |
| – Transfer of share-based payment reserve | 7 339 | 3 754 |
| **5. Capital commitments** | | |
| Capital expenditure approved not contracted | 43 968 | 44 473 |

**6. Prior year presentation restatement effects**

A Circular 9 adjustment relating to financing elements within revenue and cost of sales is now a disclosure item only. Included in revenue and cost of sales are financing elements of R9 212 000 (2010: R10 511 000) and R7 543 000 (2010: R7 735 000) respectively. Net interest paid now excludes the net financing effect of R1 669 000 (2010: R2 776 000). Within segmental information, revenue and the net loss attributable to Development Division activities have been reclassified from Local Franchising to Corporate, affecting revenue by R14 577 000 (2010: R14 031 000) and operating loss by R1 211 000 (2010: R1 798 000). In both instances comparative numbers have been restated.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 28 February 2011 R000 | 28 February 2010 R000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | 793 323 | 733 687 |
| Property, plant and equipment | 130 847 | 115 580 |
| Intangible assets | 659 668 | 613 315 |
| Deferred taxation | 2 808 | 4 792 |
| **Current assets** | 345 989 | 337 142 |
| Inventories | 75 552 | 80 157 |
| Taxation | 1 468 | 1 159 |
| Trade and other receivables | 182 572 | 161 306 |
| Cash and cash equivalents | 86 397 | 94 520 |
| **Total assets** | 1 139 312 | 1 070 829 |
| **EQUITY AND LIABILITIES** | | |
| **Equity attributable to equity holders of Famous Brands Limited** | 703 674 | 583 641 |
| Non-controlling interests | 4 920 | 285 |
| **Total equity** | 708 594 | 583 926 |
| **Non-current liabilities** | 177 032 | 242 068 |
| Interest-bearing borrowings | 122 011 | 189 206 |
| Deferred taxation and lease liabilities | 55 021 | 52 862 |
| **Current liabilities** | 253 686 | 244 835 |
| Trade and other payables | 180 631 | 157 355 |
| Short-term portion of interest-bearing borrowings | 65 775 | 65 979 |
| Taxation | 7 280 | 21 501 |
| **Total liabilities** | 430 718 | 486 903 |
| **Total equity and liabilities** | 1 139 312 | 1 070 829 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | 28 February 2011 R 000 | 28 February 2010 R000 |
|---|---|---|
| **Balance at beginning of year** | 583 926 | 492 291 |
| Group comprehensive income for the year | 225 078 | 165 067 |
| Group dividends to shareholders | (127 629) | (84 983) |
| Share-based payments | 7 339 | 3 754 |
| Movement in share capital and reserves | 15 245 | 7 524 |
| Increase in non-controlling interests | 4 635 | 273 |
| **Total equity** | 708 594 | 583 926 |

### Directors:

**Non-executive:** P Halamandaris *(Chairman),* JL Halamandres, P Halamandaris *(Jnr)*, HR Levin, B Sibiya

**Executive:** KA Hedderwick *(Chief Executive Officer)*, T Halamandaris *(Executive Deputy Chairman)*, SJ Aldridge *(Group Financial Director)*

**Registered office:** 478 James Crescent, Halfway House 1685, PO Box 2884, Halfway House 1685

**Email:** investorrelations@famousbrands.co.za

**Transfer secretaries:** Link Market Services (Pty) Limited, (Registration number 2000/007239/07), Rennie House, 19 Ameshoff Street, Braamfontein 2001, PO Box 4844, Johannesburg 2000

**Sponsor:** Standard Bank (Registration number 1969/017128/06), 3 Simmonds Street, Johannesburg 2001

STEERS WIMPY DEBONAIRS PIZZA fish aways MUGG & BEAN Milky Lane BREWERS GUILD KEG RESTAURANTS & PUBS McGINTY'S O'Hagans GIRAMUNDO braziliancafé house of coffees BLACKSTEER juicy lucy tashas Vovo Telo

BASTION GRAPHICS