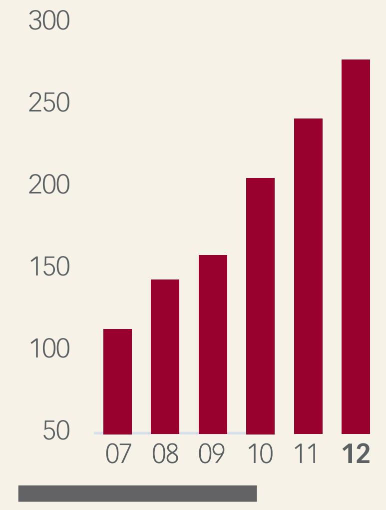
famous | brands LIMITED

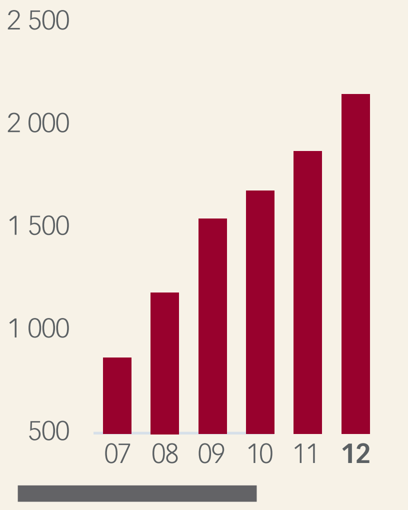
(Incorporated in the Republic of South Africa)
(Registration number 1969/004875/06)
JSE Share code: FBR
ISIN code: ZAE000053328
("Famous Brands" or "the Group")

You're in good company

Audited results for the year ended 29 February 2012



Headline earnings per share (cents)



Revenue (R million)

Commentary

Overview

Despite talk of early signs of economic recovery in the country, the period under review remained challenging for retailers. Pessimistic consumer sentiment prevailed in an environment featuring continued high levels of unemployment and indebtedness, limited real wage increases, and consumer spend pressured by rising power and fuel costs and widespread food inflation.

In this broad economic context, the food services sector experienced a range of discernible new trends, most apparent of which was unprecedented fragmentation, reflected by aggressive price cutting and promotional activities; divergence by established brands from traditional core menu offerings; entry into unrelated categories; and portion size re-engineering. Additional pressure was exerted by traditional retailers attempting to gain market share from conventional convenience-centred food services operators. Significantly, whilst the number of consumers increased across the food services category, the frequency of visits declined by 10% to their lowest level in twelve years, and in line with 2005.

Notwithstanding these testing conditions, Famous Brands has delivered creditable results for the year ended 29 February 2012, achieved through intensified focus and improvements in the front and back ends of the business.

Financial results

Following a phase of intense acquisitive growth in the past two years, the Group undertook to focus on consolidating and integrating its new businesses, a programme which has been concluded and is reflected in the improvements in revenue and profitability of the Franchising and Supply Chain divisions.

Group revenue and operating profit grew by 15% to R2,16 billion (2011: R1,88 billion) and R413 million (2011: R358 million) respectively. The operating margin remained steady at the record level of 19,1% achieved in the prior comparative period.

Net interest paid decreased 29% to R11 million (2011: R15 million) due to reduced net borrowings arising from sustained strong cash flows and the prevailing low interest rate environment.

The Group's tax rate increased to 33,3% (2011: 32,8%) in the reporting period due mainly to the impact of the increased capital gains tax rate on deferred tax balances. This was significantly offset by prior year tax adjustments.

Headline earnings per share and earnings per share both increased by 15% to 278 cents per share.

Cash generated from operations before changes in working capital increased by 15% to R452 million (2011: R392 million). After changes in working capital, cash generated from operations amounted to a healthy R399 million (2011: R397 million). Tax payments of R132 million were 6% up on the prior year. Capital expenditure of R88 million was incurred and comprised mainly R31 million for the acquisition of the Milky Lane and Juicy Lucy trademarks on 1 March 2011 as well as Supply Chain expansion activities. These included R18 million for the chicken fillet plant in the Manufacturing Division and R6 million for a new Logistics depot in Nelspruit which commenced deliveries in April 2012.

After payment of R159 million (2011: R128 million) in dividends, cash flows were sufficient to pay down net borrowings by R19 million (2011: R58 million). The low level of borrowings, net of cash and bank balances, of R82 million (2011: R101 million) represents a mere 10% of equity, (2011: 14%), affording ample scope to grow the business organically or by acquisition.

Operational reviews

FRANCHISING DIVISION – LOCAL

The Local Franchising division, which comprises operations in South Africa and 15 African countries, reported a satisfactory performance in an extremely competitive environment. In South Africa system-wide sales across the brand portfolio increased by 8%, while like-on-like sales grew 5%; the Group's African market improved system-wide and like-on-like sales by 21% and 7% respectively. Combined revenue for the South African and African operations increased 14% to R440 million (2011: R386 million), whilst operating profit in this division rose 13% to R265 million (2011: R235 million). The operating profit margin was 60,2% compared with 60,9% in the prior year, slightly lower, effectively a function of investing in newly acquired and developing brands in advance of royalty collections.

The Group surpassed its 2 000 restaurant milestone, opening a total of 146 new restaurants during the year (2011: 111), 113 of them in South Africa and the balance of 33 in Africa; the latter achievement is a reflection of Famous Brands' success in gaining traction in the region. In addition, 99 restaurants were revamped (2011: 81), 92 of them in South Africa and the balance in Africa.

Once again the Group's brands were acknowledged by loyal consumers via the annual consumer survey, Leisure Options, achieving a clean sweep of awards across all major categories in which the Group's brands compete.

FRANCHISING DIVISION – INTERNATIONAL

The results delivered by the International Franchise division, comprising Wimpy United Kingdom, are a reflection of the dire trading conditions experienced in that country. Revenue in Sterling declined 19%, and in Rand terms by 13% to R82 million (2011: R95 million). Operating profit decreased 30% to R8 million (2011: R11 million). This division makes a nominal contribution to Group revenue and operating profit, namely 3,8% and 1,8% respectively.

SUPPLY CHAIN

The Supply Chain division, comprising the Group's Manufacturing and Logistics operations delivered another gratifying performance. Consolidated revenue grew by 17% whilst operating profit rose 21%. Increased volumes and tight management of costs ensured that the operating margin improved to 8,7% from 8,4% notwithstanding the Group's deliberate strategy in the first half of the year to absorb margin pressure created by rampant beef price increases.

• **Manufacturing**

This division increased revenue by 13% to R747 million (2011: R664 million). Operating profit rose 13% to R88 million (2011: R78 million), resulting in a margin of 11,7% (2011: 11,7%).

The following projects were concluded during the period and contributed to this business unit's strong performance:

– Full commissioning of a chicken fillet plant which commenced supplying product to the franchise network with effect from November 2011;

– Take-on of the soft serve component for Milky Lane.

• **Logistics**

This division reported a 20% increase in revenue to R1,52 billion (2011: R1,26 billion). Operating profit rose 37% to R53 million (2011: R38 million), producing a record margin of 3,5% (2011: 3,1%).

This stellar result was derived from attaining critical mass in line items handled, which increased by 43% during the period, and productivity improvements in the Owner Driver programme.

Corporate action

The Group extended its Theatre of Foods portfolio with the creation of a new business, Creative Coffee Franchise Systems (Pty) Ltd (Creative Coffees). With effect from 1 May 2011, the trademarks and franchise agreements of the House of Coffees and Juicy Lucy brands were moved into Creative Coffees and merged with the business of Kairuz Holdings (Pty) Ltd, a company specialising in servicing the retail and food offerings in the private hospital industry. Famous Brands retains a 61% controlling shareholding in the new company.

Directorate

Shareholders are advised that Christopher Hardy Boulle was appointed as an alternate non-executive director to Hymie Reuvin Levin, with effect from 1 December 2011. He will also serve as Chairman of the social and ethics committee and as a member of the audit committee.

Dividend

In respect of the new Dividends Tax, shareholders are advised that the final dividend has been increased to 120 cents (2011: 85 cents) and thus ensures that shareholders are in an improved cash position notwithstanding the introduction of this tax. The dividend cover for the financial year has been reduced to 1,4 times, which is considered sustainable given Famous Brands' strong cash generating ability. In considering future dividend declarations, the board will be guided by the Group's cash requirements according to future cash flow forecasts.

Prospects

Consumer disposable income will remain pressured by escalating electricity tariffs, fuel costs and general food inflation. The bulk of consumers in payment arrears are middle-class earners, the traditional target market for food services operators. To entice them to resume previous levels of spending will demand intensified innovation, particularly should interest rates increase and economic uncertainty persist.

Despite the negative effect which these factors will have on the industry, the Group's all-encompassing business model, exceptional personnel and best-in-class leisure brands position Famous Brands for continued growth.

In this regard, the Group will undertake a range of initiatives in the period ahead aimed at unlocking further value for shareholders. This will include centralising the Group's procurement function enabling Famous Brands to become an even lower cost producer; extending the Group's presence in market segments where it currently has no representation, including identifying new joint venture partnerships; and continuing to explore opportunities to leverage the synergies afforded by Famous Brands' supply chain.

On behalf of the board

P Halamandaris
Non-executive Chairman

K A Hedderwick
Chief Executive Officer

Declaration of ordinary dividend

Notice is hereby given that a final dividend No. 35 of 120 cents (2011: 85 cents) per ordinary share payable out of income has been declared in respect of the 2012 financial year. This will bring the total cash dividends to 200 cents per share for the 2012 financial year, an increase of 29% when compared to total dividends of 155 cents in 2011.

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

Last day to trade cum-dividend	Friday, 6 July 2012
Shares commence trading ex-dividend	Monday, 9 July 2012
Record date	Friday, 13 July 2012
Payment of dividend	Monday, 16 July 2012

Share certificates may not be dematerialised or rematerialised between Monday, 9 July 2012 and Friday, 13 July 2012 both dates inclusive.

In terms of the new Dividends Tax effective 1 April 2012, the following additional information is disclosed:

- The local dividend tax rate is 15% before utilisation of Secondary Tax on Companies (STC) credits.
- STC credits available amount to 1,13543 cents per share.
- There are no further STC credits to carry forward. The net local dividend amount is 102,17031 cents per share for shareholders liable to pay the new Dividends Tax and 120 cents per share for shareholders exempt from paying the new Dividends Tax as at declaration date.
- The issued share capital of Famous Brands as at declaration date is 96 192 435 ordinary shares; and
- Famous Brands' tax reference number is 9208085846.

By order of the board

J G Pyle
Company Secretary

Midrand
18 May 2012

Condensed consolidated statement of comprehensive income

	29 February 2012 R000	28 February 2011 R000	% change
Revenue	**2 155 615**	1 878 036	15
Gross profit	**922 967**	813 152	14
Selling and administrative expenses	**(510 311)**	(454 699)	
Operating profit	**412 656**	358 453	15
Net interest paid	**(10 652)**	(14 934)	
Profit before taxation	**402 004**	343 519	17
Taxation	**(133 950)**	(112 520)	
Profit for the year	**268 054**	230 999	16
Foreign currency translation differences	**7 837**	(5 182)	
Total comprehensive income for the year	**275 891**	225 817	
Profit attributable to:			
Equity holders of Famous Brands Limited	**266 811**	230 260	16
Non-controlling interests	**1 243**	739	
Total comprehensive income attributable to:			
Equity holders of Famous Brands Limited	**274 648**	225 078	
Non-controlling interests	**1 243**	739	
Reconciliation to headline earnings for the year			
Earnings attributable to equity holders of Famous Brands Limited	**266 811**	230 260	16
Loss on sale of company-owned restaurants	**455**	406	
Loss/(profit) on disposal of property, plant and equipment	**172**	(164)	
Headline earnings for the year	**267 438**	230 502	16
Earnings per share – cents			
– basic	**278**	242	15
– diluted	**272**	237	15
Headline earnings per share – cents			
– basic	**278**	242	15
– diluted	**272**	237	15
Dividends to shareholders – cents			
– interim: dividend declared	**80**	70	14
– final: dividend declared	**120**	85	41
Total dividends for the year	**200**	155	29
Ordinary shares			
– in issue	**96 192 435**	95 817 435	
– weighted average	**96 102 435**	95 245 418	
– diluted weighted average	**99 937 435**	98 905 257	

Condensed consolidated segmental information – business unit and geographical

	29 February 2012 R000	28 February 2011 R000	% change
Revenue			
Franchising	**439 946**	386 015	14
Supply chain	**1 613 907**	1 382 778	17
Manufacturing	**747 244**	663 812	
Logistics	**1 516 375**	1 262 325	
Eliminations	**(649 712)**	(543 359)	
Corporate	**19 829**	14 577	
South Africa	**2 073 682**	1 783 370	16
Franchising (UK)	**81 933**	94 666	(13)
Total	**2 155 615**	1 878 036	15
Operating profit			
Franchising	**264 685**	234 971	13
Supply chain	**140 508**	116 233	21
Manufacturing	**87 784**	77 788	
Logistics	**52 724**	38 445	
Corporate	**(40)**	(3 489)	
South Africa	**405 153**	347 715	17
Franchising (UK)	**7 503**	10 738	(30)
Total	**412 656**	358 453	15

NOTES:

1. **Basis of preparation**
These condensed 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 No. 71 of 2008 and the Listings Requirements of the JSE Limited. These condensed results were prepared under the supervision of Mr SJ Aldridge CA(SA), in his capacity as Group Financial Director.

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 2011 is R 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.

	29 February 2012 R000	28 February 2011 R000
4. Operating profit		
The following have been accounted for in operating profit:		
– Amortisation of intangible assets	**1 795**	1 631
– Auditors' remuneration	**3 053**	3 462
– Depreciation of property, plant and equipment	**27 241**	24 402
– Foreign exchange losses	**298**	245
– Operating lease charges on immovable property net of recoveries from sub-leases	**42 508**	27 145
– Operating lease charges on movable property	**2 102**	1 930
– (Profit)/loss on sale of property, plant, equipment and restaurants	**(1 203)**	337
– Transfer of share-based payment reserve	**9 378**	7 339
5. Capital commitments		
Capital expenditure approved not contracted	**35 328**	43 968

Condensed consolidated statement of cash flow

	29 February 2012 R000	28 February 2011 R000
Cash generated before changes in working capital	**451 636**	392 133
(Increase)/decrease in inventories	**(44 430)**	4 592
Increase in receivables	**(15 690)**	(23 039)
Increase in payables	**7 194**	23 243
Cash generated by operations	**398 710**	396 929
Net interest paid	**(10 652)**	(14 934)
Taxation paid	**(131 719)**	(123 895)
Net cash flow from operating activities	**256 339**	258 100
Dividends paid	**(159 165)**	(127 817)
Net cash retained from operating activities	**97 174**	130 283
Acquisition of businesses including intangibles	**(30 896)**	(43 800)
Expansion capital expenditure:		
Property, plant and equipment	**(45 793)**	(15 794)
Intangible assets	**(1 030)**	(3 893)
Replacement capital expenditure on property, plant and equipment	**(9 776)**	(25 546)
Proceeds from disposal of property, plant and equipment	**3 263**	1 818
Cash flow from investing activities	**(84 232)**	(87 215)
Movement in share capital and reserves	**5 657**	15 245
Decrease in interest-bearing borrowings	**(65 634)**	(67 399)
Cash flow from financing activities	**(59 977)**	(52 154)
Change in cash and cash equivalents	**(47 035)**	(9 086)
Foreign currency effect	**1 218**	963
Cash and cash equivalents at beginning of year	**86 397**	94 520
Cash and cash equivalents at end of year	**40 580**	86 397

Condensed consolidated statement of changes in equity

	29 February 2012 R 000	28 February 2011 R000
Balance at beginning of year	**708 594**	583 926
Group comprehensive income for the year	**274 648**	225 078
Group dividends to shareholders	**(158 565)**	(127 629)
Equity settled share-based payments	**9 378**	7 339
Movement in share capital and reserves	**5 657**	15 245
Increase in non-controlling interests	**658**	4 635
Total equity	**840 370**	708 594

Condensed consolidated statement of financial position

	29 February 2012 R000	28 February 2011 R000
ASSETS		
Non-current assets	**859 304**	793 323
Property, plant and equipment	**155 739**	130 847
Intangible assets	**694 977**	659 668
Deferred taxation	**8 588**	2 808
Current assets	**361 865**	345 989
Inventories	**119 987**	75 552
Taxation	**1 386**	1 468
Trade and other receivables	**199 912**	182 572
Cash and cash equivalents	**40 580**	86 397
Total assets	**1 221 169**	1 139 312
EQUITY AND LIABILITIES		
Equity attributable to equity holders of Famous Brands Limited	**834 792**	703 674
Non-controlling interests	**5 578**	4 920
Total equity	**840 370**	708 594
Non-current liabilities	**106 624**	177 032
Interest-bearing borrowings	**52 216**	122 011
Deferred taxation and lease liabilities	**54 408**	55 021
Current liabilities	**274 175**	253 686
Trade and other payables	**191 523**	180 631
Short-term portion of interest-bearing borrowings	**69 936**	65 775
Taxation	**12 716**	7 280
Total liabilities	**380 799**	430 718
Total equity and liabilities	**1 221 169**	1 139 312

Directors and administration:

Non-executive:
P Halamandaris *(Chairman)*, JL Halamandres, P Halamandaris *(Jnr)*, HR Levin, CH Boulle, BL 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) Ltd, (Registration number 2000/007239/07),
Rennie House, 19 Ameshoff Street, Braamfontein 2001, PO Box 4844, Johannesburg 2000

Sponsor:
The Standard Bank of South Africa Limited
(Registration number 1969/017128/06), 3 Simmonds Street, Johannesburg 2001

R2 156m

Revenue up 15%
to R2 156 million

R413m

Operating profit up 15%
to R413 million

278c

Headline earnings per share
up 15% to 278 cents

200c

Dividends per share up 29%
to 200 cents

R452m

Cash generated before changes in working capital
up 15% to R452 million

10%

Net borrowings to equity
improved to 10%

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BASTION GRAPHICS