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

*You're in good company*

famous | brands
LIMITED

# Unaudited consolidated interim results for the six months ended 31 August 2011

| REVENUE | OPERATING PROFIT | NET BORROWINGS TO EQUITY | HEADLINE EARNINGS PER SHARE | INTERIM DIVIDEND PER ORDINARY SHARE |
|---|---|---|---|---|
| ➔ Up 12% to R1 013 million | ➔ Up 8% to R184 million | ➔ At 25% | ➔ Up 9% to 125 cents | ➔ Up 14% to 80 cents |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited six months ended 31 August 2011 R 000 | Unaudited six months ended 31 August 2010 R 000 | % change | Audited year ended 28 February 2011 R 000 |
|---|---|---|---|---|
| **Revenue** | **1 013 443** | 908 329 | 12 | 1 878 036 |
| Gross profit | **428 025** | 395 115 | 8 | 813 153 |
| Selling and administrative expenses | **(244 189)** | (225 033) | 9 | (454 700) |
| **Operating profit** | **183 836** | 170 082 | 8 | 358 453 |
| Net interest paid | **(4 863)** | (7 698) | | (14 934) |
| **Profit before taxation** | **178 973** | 162 384 | 10 | 343 519 |
| Taxation | **(58 523)** | (53 100) | | (112 520) |
| **Profit for the period** | **120 450** | 109 284 | 10 | 230 999 |
| Foreign currency translation differences | **2 242** | (5 589) | | (5 182) |
| Total comprehensive income for the period | **122 692** | 103 695 | | 225 817 |
| **Profit attributable to:** | | | | |
| Equity holders of Famous Brands Limited | **119 949** | 109 054 | | 230 260 |
| Non-controlling interests | **501** | 230 | | 739 |
| **Total comprehensive income attributable to:** | | | | |
| Equity holders of Famous Brands Limited | **122 191** | 103 465 | | 225 078 |
| Non-controlling interests | **501** | 230 | | 739 |
| **Reconciliation to headline earnings for the period** | | | | |
| Earnings attributable to equity holders of Famous Brands Limited | **119 949** | 109 054 | | 230 260 |
| Loss on sale of company-owned restaurants | **–** | – | | 406 |
| Loss/(profit) on disposal of property, plant and equipment | **222** | 135 | | (164) |
| **Headline earnings for the period** | **120 171** | 109 189 | 10 | 230 502 |
| **Earnings per share – cents** | | | | |
| – basic | **125** | 115 | 9 | 242 |
| – diluted | **120** | 112 | 7 | 237 |
| **Headline earnings per share – cents** | | | | |
| – basic | **125** | 115 | 9 | 242 |
| – diluted | **120** | 112 | 7 | 237 |
| **Dividends to shareholders – cents** | | | | |
| – interim dividend declared | **80** | 70 | 14 | 70 |
| – final dividend declared | | | | 85 |
| Total dividends | **80** | 70 | 14 | 155 |
| **Ordinary shares** | | | | |
| – in issue net of treasury shares | **96 162 435** | 95 277 435 | | 95 817 435 |
| – weighted average | **96 022 435** | 95 051 602 | | 95 245 418 |
| – diluted weighted average | **100 054 274** | 99 401 357 | | 98 905 257 |

## CONDENSED CONSOLIDATED SEGMENTAL INFORMATION BUSINESS UNIT AND GEOGRAPHICAL

| | Unaudited six months ended 31 August 2011 R 000 | Unaudited six months ended 31 August 2010 R 000 | % change | Audited year ended 28 February 2011 R 000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Franchising | **208 534** | 184 170 | 13 | 386 015 |
| Supply Chain | **754 887** | 660 072 | 14 | 1 382 778 |
| Manufacturing | **351 486** | 330 079 | | 663 812 |
| Logistics | **702 298** | 594 871 | | 1 262 325 |
| Eliminations | **(298 897)** | (264 878) | | (543 359) |
| Corporate | **8 382** | 7 557 | | 14 577 |
| South Africa | **971 803** | 851 799 | 14 | 1 783 370 |
| Franchising (UK) | **41 640** | 56 530 | (26) | 94 666 |
| **Total** | **1 013 443** | 908 329 | 12 | 1 878 036 |
| **Operating profit** | | | | |
| Franchising | **122 905** | 113 034 | 9 | 234 971 |
| Supply Chain | **56 913** | 52 689 | 8 | 116 233 |
| Manufacturing | **35 617** | 36 379 | | 77 788 |
| Logistics | **21 296** | 16 310 | | 38 445 |
| Corporate | **532** | 156 | | (3 489) |
| South Africa | **180 350** | 165 879 | 9 | 347 715 |
| Franchising (UK) | **3 486** | 4 203 | (17) | 10 738 |
| **Total** | **183 836** | 170 082 | 8 | 358 453 |

### Notes

1) These results have not been audited by the Group's auditors.
2) The unaudited results of the Group for the six months ended 31 August 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS), the AC500 standards as issued by the Accounting Practices Board and its successor, the Companies Act, (Act No. 71 of 2008) and the Listings Requirements of the JSE Limited.
3) The accounting polices applied by the Group are consistent with those applied in the comparative financial periods.
4) The interim results have been prepared in accordance with IAS 34: Interim Financial Reporting.
5) These condensed interim consolidated results were prepared under the supervision of Mr SJ Aldridge CA(SA), in his capacity as Group Financial Director.


**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

**E-mail:** 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:** The Standard Bank of South Africa Limited (Registration number 1969/017128/06), 3 Simmonds Street, Johannesburg 2001.


## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Unaudited six months ended 31 August 2011 R 000 | Unaudited six months ended 31 August 2010 R 000 | Audited year ended 28 February 2011 R 000 |
|---|---|---|---|
| **Cash generated before changes in working capital** | **203 022** | 179 018 | 392 133 |
| (Increase)/decrease in inventories | **(81 556)** | (5 633) | 4 592 |
| (Increase) in receivables | **(11 303)** | (15 960) | (23 039) |
| (Decrease)/increase in payables | **(4 939)** | 23 365 | 23 243 |
| **Cash generated by operations** | **105 224** | 180 790 | 396 929 |
| Net interest paid | **(4 863)** | (7 698) | (14 934) |
| Taxation paid | **(58 859)** | (43 596) | (123 895) |
| **Net cash flow from operating activities** | **41 502** | 129 496 | 258 100 |
| Dividends paid | **(81 589)** | (60 959) | (127 817) |
| **Net cash retained from operating activities** | **(40 087)** | 68 537 | 130 283 |
| **Cash flow from investing activities** | | | |
| Acquisition of businesses including intangible assets | **(30 896)** | – | (43 800) |
| Expansion capital expenditure | | | |
| Property, plant and equipment | **(16 398)** | (11 638) | (15 794) |
| Intangible assets | **(610)** | (1 393) | (3 893) |
| Replacement capital expenditure on property, plant and equipment | **(3 600)** | (10 543) | (25 546) |
| Proceeds from disposal of property, plant and equipment | **976** | 1 473 | 1 818 |
| **Net cash flow from investing activities** | **(50 528)** | (22 101) | (87 215) |
| **Cash flow from financing activities** | | | |
| Movement in share capital and reserves | **5 207** | 6 494 | 15 245 |
| (Decrease) in interest-bearing borrowings | **(33 066)** | (33 978) | (67 399) |
| **Net cash flow from financing activities** | **(27 859)** | (27 484) | (52 154) |
| (Decrease)/increase in cash and cash equivalents | **(118 474)** | 18 952 | (9 086) |
| Foreign currency effect | **428** | (731) | 963 |
| Cash and cash equivalents at beginning of year | **86 397** | 94 520 | 94 520 |
| **Cash and cash equivalents at end of period** | **(31 649)** | 112 741 | 86 397 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Unaudited six months ended 31 August 2011 R 000 | Unaudited six months ended 31 August 2010 R 000 | Audited year ended 28 February 2011 R 000 |
|---|---|---|---|
| **Balance at beginning of year** | **708 594** | 583 926 | 583 926 |
| Group total comprehensive income for the period | **122 191** | 103 465 | 225 078 |
| Group dividends to shareholders | **(81 611)** | (60 957) | (127 629) |
| Share-based payments | **5 174** | 3 060 | 7 339 |
| Net movement in share capital | **5 100** | 6 488 | 15 245 |
| Increase in non-controlling interests | **501** | 230 | 4 635 |
| **Balance at end of period** | **759 949** | 636 212 | 708 594 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Unaudited 31 August 2011 R 000 | Unaudited 31 August 2010 R 000 | Audited 28 February 2011 R 000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **831 532** | 738 608 | 793 323 |
| Property, plant and equipment | **136 566** | 125 140 | 130 847 |
| Intangible assets | **692 158** | 608 676 | 659 668 |
| Deferred taxation | **2 808** | 4 792 | 2 808 |
| **Current assets** | **397 620** | 377 624 | 345 989 |
| Inventories | **157 108** | 85 790 | 75 552 |
| Taxation | **1 739** | 1 828 | 1 468 |
| Trade and other receivables | **192 238** | 177 265 | 182 572 |
| Cash and bank balances | **46 535** | 112 741 | 86 397 |
| **Total assets** | **1 229 152** | 1 116 232 | 1 139 312 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of Famous Brands Limited** | **754 528** | 635 698 | 703 674 |
| Non-controlling interests | **5 421** | 514 | 4 920 |
| **Total equity** | **759 949** | 636 212 | 708 594 |
| **Non-current liabilities** | **144 659** | 206 879 | 177 032 |
| Interest-bearing borrowings | **88 402** | 155 249 | 122 011 |
| Deferred taxation and lease liabilities | **56 257** | 51 630 | 55 021 |
| **Current liabilities** | **324 544** | 273 141 | 253 686 |
| Trade and other payables | **174 653** | 180 720 | 180 631 |
| Short-term portion of interest-bearing borrowings | **66 440** | 60 748 | 65 775 |
| Taxation | **5 267** | 31 673 | 7 280 |
| Bank overdraft | **78 184** | — | — |
| **Total liabilities** | **469 203** | 480 020 | 430 718 |
| **Total equity and liabilities** | **1 229 152** | 1 116 232 | 1 139 312 |

## Commentary

**Overview:** In line with management's caution expressed at the end of the prior year, the Group's trading environment has proved difficult in the six months ended 31 August 2011. In both South Africa and the United Kingdom (UK) consumer confidence remained subdued in the context of general economic uncertainty and limited disposable income; locally, previously buoyant growth in the volume-based middle class market was curtailed, exacerbating competitive trading conditions. Furthermore, input costs rose sharply during the review period, including a dramatic spike in red meat prices and electricity tariffs.

Generally, unprecedented fragmentation was experienced in the marketplace. This disarray was reflected in aggressive price-cutting, divergence from traditional core menu offerings and portion size re-engineering as operators sought to drive turnover. Additional pressure was experienced from retailers continuing to enter the fray in an effort to gain market share from conventional convenience-centered food services operators.

It is management's opinion that the current short-term erratic trading behaviour evinced in the industry is unsustainable; as a result, further rationalisation in the marketplace could be anticipated. In this environment, Famous Brands deliberately refrained from diluting its core focus on value, quality and service, which stood it in good stead, indicated by the Group's creditable turnover growth and continued emphatic consumer support in industry benchmarks such as Leisure Options.

The Group's footprint as at 31 August 2011 comprised 1 982 restaurants across South Africa, 15 other African countries and the UK.

**Financial results:** Given the adverse conditions described above and the fact that the prior comparative period incorporated the benefits of robust FIFA World Cup™ sales, the Group delivered commendable results for the six months, demonstrating the resilience of its business model and strength of its brands.

Group revenue increased by 12% to R1.013 billion (2010: R908 million), while operating profit improved 8% to R184 million (2010: R170 million) reflecting the deliberate pricing strategy to stimulate consumer sales and protect franchisee margins. Notwithstanding this strategy, and the increase in staff complement to service and reposition recently acquired businesses, judicious cost management enabled the Group to report an operating margin of 18.1% (2010: 18.7%).

Cash generated by operations before working capital changes improved 13% to R203 million. After working capital changes, this declined to R105 million (2010: R181 million) due to higher inventories, specifically increased beef stocks bought forward to secure current input prices, which are expected to continue to escalate.

Net borrowings were R186 million (2010: R103 million) and the ratio of net borrowings to shareholders' equity at 25% is well within internal constraint levels. Net financing costs of R4.9 million (2010: R7.7 million) reflect the continued low interest rate environment and average borrowings which were contained at levels below the comparative reporting period.

Headline earnings increased by 10% to R120 million from R109 million. Headline earnings per share and basic earnings per share both increased by 9% to 125 cents (2010: 115 cents).

Capital expenditure of R50.5 million was incurred in the period. It includes expansion of the logistics fleet, enhanced capacity in the Manufacturing Division, advance payments on the chicken fillet plant to be commissioned in October 2011, as well as the settlement of R30.9 million for the acquisition of the Milky Lane and Juicy Lucy trademarks in March 2011.

The board has declared an interim dividend of 80 cents per ordinary share (2010: 70 cents), an improvement of 14%.

## Operational review

**Franchising Division – Local:** Revenue increased 13% to R209 million (2010: R184 million), while operating profit improved 9% to R123 million from R113 million. This division's operating margin declined to 58.9% from 61.4% largely due to softer top-line growth and the cost of bedding down recently acquired brands, which required investment ahead of royalty collections.

System-wide sales, including acquired businesses and new stores, grew by 7.0% (2010: 13.1%). This lower growth rate must be viewed in the context of an approximate 2.8% FIFA World Cup™ sales boost in the prior comparative period. Like-on-like sales increased 4.1% (2010: 7.4%).

During the reporting period 50 new restaurants were opened. Whilst this pace lags historical levels, the period ahead will feature an aggressive restaurant roll-out, with 90 new restaurants planned for South Africa and a further 30 restaurants for the rest of Africa. These 120 new restaurants will be opened over five months, equating to 24 new restaurants per month. The total number of new restaurants opened for the year – 170 – will be in line with management's targets set at the beginning of the financial year. The Group's footprint will exceed 2 100 restaurants by February 2012 – a significant milestone in the current economic climate – and illustrative of the continued confidence in the Group's brand portfolio by consumers, franchisees and property developers alike.

Expansion plans in Africa are progressing well, with particular reference to Zambia and Mauritius where the current complement of 13 and 23 restaurants respectively will be increased to 25 and 31 restaurants by February 2012.

Famous Brands once again achieved a clean sweep of accolades in the consumer-driven Leisure Options publication, including 'best burger', 'best chips', 'best pizza' and 'best coffee shop'. Vovo Telo's recognition as 'best new restaurant' and tashas 'best breakfast restaurant' awards are positive endorsement of the Group's strategy to continue to introduce innovative offerings across its portfolio.

Good progress was achieved in bedding down the Group's recent acquisitions and integrating them into the company's business model. Milky Lane has undergone a complete overhaul of its brand identity and menu offering and is ready for relaunch in time for the summer season. The Keg model has also been re-engineered and pending the granting of a liquor licence, is scheduled to launch its flagship restaurant in Johannesburg in the near future. Conservative roll-out of Giramundo, the Group's flame grilled peri-peri chicken offering proceeded. Consumer response to the product has been extremely favourable and management is quietly confident of Giramundo's potential to become a challenger brand in its category.

The Group's recently established Creative Coffees Company which specialises in servicing the retail and food offerings in the private hospital industry has advanced its captive market strategy and will be opening House of Coffees restaurants at Life Eugene Marais Hospital in Pretoria and Mediclinic Limpopo in Polokwane.

**Franchising Division – United Kingdom:** Trading conditions continued to deteriorate as the UK government's austerity measures gained traction in the broader economy and consumer disposable income contracted further.

Increased commodity prices pushed up CPI inflation, and competition in the industry intensified, manifested by aggressive price discounting and increased promotional voucher activity.

In this context, revenue declined to R42 million from R57 million in the prior comparative period, reflecting the challenging trading environment, the effect of the closure in the second half of 2011 of a multiple franchisee, and the impact of civil unrest on turnover levels in August 2011. Operating profit decreased to R3.5 million (2010: R4.2 million). The UK business reported an improvement in operating margin to 8.4% from 7.4% based on intensified cost management.

Despite the adverse circumstances, the division remains profitable, is well managed and is not a distraction from the Group's local core business. One new restaurant was opened during the period and one third of the total estate is now aligned with the new Wimpy UK design.

Given management's cautious outlook for the period ahead, the Group has elected to delay plans to launch its Steers brand in the UK market until such time as a sustained meaningful recovery of the economy occurs.

**Supply Chain:** Combined revenue for this division's manufacturing and logistics businesses was R755 million (2010: R660 million), an improvement of 14%. Operating profit increased by 8% to R57 million (2010: R53 million), while the operating margin declined slightly to 7.5% from 8.0%, primarily due to margin pressure in the Manufacturing Division.

**Manufacturing Division:** Revenue increased by 6% to R351 million from R330 million. Operating profit decreased 2% to R35.6 million from R36.4 million, due to the deliberate strategy to support the Group's franchisees by containing menu price increases.

Operating margin declined to 10.1% from 11.0%, primarily a function of absorbing red meat price increases and the impact of launching the smaller Steers' Get Real burger product, introduced to meet demand from price-sensitive consumers for a value offering.

A further backward integration opportunity has been capitalised on with the installation of a R14.8 million chicken fillet manufacturing facility. The commissioning of this plant in October will enable the Group to service its own brands, thereby gaining business which was previously outsourced.

The Western Cape soft serve business has been brought back in-house and the Group is also set to manufacture and distribute the Milky Lane soft serve product from October, in good time for the Group's peak holiday trading season.

**Logistics Division:** Revenue increased strongly to R702 million from R595 million, an improvement of 18%, while operating profit rose 31% to R21 million from R16 million, reflecting a significant expansion of the logistics basket, facilitated by enhancements in multi-temp fleet capability. The division's operating margin increased to 3.0% from 2.7%.

During the review period the dry basket business of Milky Lane, Juicy Lucy and the Pubs Division was successfully integrated into the supply chain.

The Group's owner-driver pilot project in KwaZulu Natal has proved very successful in terms of productivity, customer service and empowerment. Accordingly, management has set a goal to reach 50% owner-driver status across the company within three years. At present 11 owner-drivers are in the programme and this number will reach 19 by the end of the financial year.

## Prospects

The Group's outlook for the forthcoming six months is cautious in the context of prevailing macro-economic factors. The impact of global uncertainty and the weakening local currency will undoubtedly weigh on consumer sentiment. Disposable income will remain restrained in the absence of economic recovery, and intense competition in the industry will persist.

Notwithstanding its circumspect outlook, the Group is confident that opportunities for growth exist. Management is enthusiastic about potential in the lower-end entry level market in which its participation to date has been restricted; expansion prospects in Africa; and opportunities to further expand its manufacturing capability as part of the Group's backward integration business model.

Famous Brands has traditionally experienced stronger second half trading. This eventuality will be determined by the success of the December holiday period; however management is optimistic that the Group will benefit from its robust marketing and promotion campaigns, high profile brands, and long-standing strategy to ensure widespread restaurant presence at national airports, transient sites on all major motorways, and prime coastal resorts and shopping malls.

The board is satisfied that the Group's best-in-class brand portfolio, strong management team and cash generative nature position it well for improvements in the economy.

## Dividend to shareholders

Notice is hereby given that an interim dividend No. 34 of 80 cents (2010: 70 cents) per ordinary share, payable out of income, has been declared in respect of the six months ended 31 August 2011.

| | |
|---|---|
| Last day to trade cum-dividend | Thursday, 8 December 2011 |
| Shares commence trading ex-dividend | Friday, 9 December 2011 |
| Record date | Thursday, 15 December 2011 |
| Payment of dividend | Monday, 19 December 2011 |

Share certificates may not be dematerialised or rematerialised between Friday, 9 December 2011 and Thursday, 15 December 2011, both dates inclusive.

On behalf of the board

**P Halamandaris**
Non-executive Chairman

**KA Hedderwick**
Chief Executive Officer

Midrand
19 October 2011