famous | brands

("Famous Brands" or "the Group")

you're in good company

Unaudited consolidated interim results for the six months ended 31 August 2013

↑16% Revenue **R1 377 million**

↑23% Operating profit **R254 million**

↑20% Headline earnings per share **180 cents**

↑20% Dividends per share **130 cents**

OVERVIEW

Trading environment

The economic climate experienced in the review period remained constrained and the branded food service trading environment fiercely competitive. In addition, heightened industrial action served to create further instability and dampen sentiment in the country.

Notwithstanding these subdued conditions, the fast food industry remained relatively buoyant and the incidence of usage continues to grow. Industry statistics* reveal that the percentage of South African consumers aged 16+ who bought fast food over a four week period has increased from 65% (20,4 million) in 2008 to 78% (26,5 million) in 2012.

Group performance

Famous Brands' strong performance in the reporting period is attributable to its unique vertically integrated business model designed to leverage opportunities across its brands, logistics and manufacturing operations, and the deliberate strategy to provide a total food service solution across most LSM categories. The Group's sought-after brands which are strategically populated across the South African landscape, with an ever-growing presence across the rest of Africa, continue to build a loyal following based on their availability, affordability and accessibility.

The business model transformation project implemented at the end of the prior period aimed at getting closer to our customers (franchisees) and consumers has delivered encouraging initial results, endorsing the introduction of this intervention. Management is satisfied that this restructuring has positioned the Group to realise its longer-term growth ambitions.

Financial results

Group revenue increased by 16% to R1,38 billion (2012: R 1,18 billion), while operating profit grew by 23% to R254 million (2012: R207 million). The operating margin rose to 18,4% (2012: 17,5%). Improved profitability was derived from economies of scale achieved across the business and prudent cost containment.

The tax rate increased marginally to 28,8% and profit after tax reported for the period rose 23% to R180 million.

Basic earnings per share ("EPS") and headline earnings per share ("HEPS") both increased by 20% to 180 cents per share (2012: 150 cents per share). Diluted EPS rose 22% to 179 cents (2012: 147 cents per share), while diluted HEPS improved by 22% to 180 cents per share (2012: 147 cents per share).

Cash generated by operations before changes in working capital increased by 22% to R271 million (2012: R223 million). Working capital absorbed R39 million, resulting in a net cash flow from operating activities of R164 million (2012: R157 million), more than sufficient to service higher dividend payments totalling R143 million.

Net capital expenditure of R29 million was incurred on manufacturing capacity expansion and fleet replacement.

Borrowings of R117 million, net of cash and cash equivalents of R71 million, represent a mere 4% of equity (2012: 4%).

Operational reviews

FRANCHISING

The Group's footprint as at 31 August 2013 comprised 2 180 restaurants across Africa, the Middle East, India and the United Kingdom ("UK").

SOUTH AFRICA

Total revenue reported by this division increased by 16% to R261 million. Operating profit rose 21% to R158 million, with a strong improvement in the operating margin to 60,7% from 57,9%.

System-wide sales (including new restaurants) grew 14,9% while same store sales increased 8,5%.

Improved like-on-like sales were reported across the Group's portfolio of 23 brands, (with the exception of three niche brands that are currently undergoing further development), underlining the Group's deliberate total food service solution strategy.

The review period featured a slow-down in frequency of visits to Casual Dining Restaurants ("CDR"), a trend which benefitted Quick Service Restaurants ("QSR") as consumers continued to purchase home-meal replacements but with smaller budgets.

During the six months expansion of retail property developments was subdued; in this context, 53 (2012: 51) new restaurants were opened across the South African network. Increased expansion activity is forecast for the second half of the year and the Group plans to open a further 115 restaurants within its home market.

REST OF AFRICA, MIDDLE EAST AND INDIA

Revenue reported by this division increased 36% to R23 million. Operating profit grew 57% to R9 million. System-wide sales improved by 30,4%, while like-on-like sales rose 15,7%. This territory now contributes 8,2% (2012: 7,3%) of total system-wide sales (excluding UK).

Ten restaurants were opened in the rest of Africa region during the period, and a further 23 are planned for the balance of the year.

In March 2013 the Group concluded a Master Licence agreement in India with Diwa Hospitality Pvt Ltd and in July 2013 opened its pilot Debonairs Pizza restaurant in Mumbai. The response to this offering has been encouraging. In the short term, a second restaurant is being planned for Mumbai.

UNITED KINGDOM

Early signs of an economic improvement in the UK food services industry became evident during the period. While consumers remained value conscious, they continued to support established brands with tried and tested offerings.

The Group's UK operation delivered revenue of R44 million, in line with the prior year. Operating profit grew by 72% to R4,7 million. This disproportionately high profit is a function of right-sizing the business and the benefit of foreign currency translation improvements during the period. This division remains a very small component of the Group's business, comprising less than 3,3% of total revenue.

The Group launched its maiden Steers restaurant in Clapham, London in July 2013 to warm acclaim. The business has delivered consistently good results since opening. Further expansion of the Steers UK offering will be cautious in the context of the current economy, and will be dictated by availability of suitable sites and franchise partners.

SUPPLY CHAIN

Consolidated revenue increased by 17% to R1,05 billion, while operating profit rose 22% to R81 million. The operating margin was 7,7% (2012: 7,4%).

• Manufacturing

Revenue increased by 33% to R414 million, whilst operating profit grew by 17% to R47 million; the relatively lower profit to revenue ratio is a function of start-up costs at the Coega Cheese facility. The operating margin was 11,4% (2012: 13,0%).

Capital expenditure of R15 million was incurred, building manufacturing capability across a number of the Group's plants in order to increase capacity and/or improve yields and efficiencies.

During the period the Famous Brands Coffee Company successfully took on the supply of coffee for the Group's Mugg & Bean, Fego Caffé, Europa and The Bread Basket brands.

In the forthcoming six months the Famous Brands Choice Meats facility will commence the supply of product to the Steers brand whilst the Turn 'n Tender sauce products will be integrated into the Group's Sauce and Spice plant at Midrand. Furthermore, the Famous Brands Great Baking Company will integrate the supply of specialist bread and baked products to the Wimpy, Mugg & Bean, Fego Caffé and Europa networks.

• Logistics

Revenue grew 15% to R982 million, while operating profit rose 30% to R34 million. The disproportionately higher profit to revenue ratio is due to the inclusion for the first time of supply to the recently acquired Fego Caffé, Europa, The Bread Basket and Turn 'n Tender franchised businesses.

Despite the impact of fuel price volatility, the division managed to improve the operating margin to 3,4% (2012: 3,1%).

In May the Group's Port Elizabeth distribution centre was relocated to a new state-of-the-art multi-temperature facility in the Coega Industrial Development Zone.

Subsequent events

Shareholders were advised on 16 September 2013 that the Group had acquired from UAC of Nigeria PLC ("UAC"), a 49% stake in their hitherto wholly-owned company UAC Restaurants Limited ("UACR"). UACR manages the QSR component of UAC's business and houses the flagship Mr Bigg's brand, the single largest food franchise brand in Africa, north of the South African border. The acquisition consideration was not disclosed, but falls below the threshold of a categorised transaction in terms of the Listings Requirements of the JSE Limited. The acquisition will be funded out of cash reserves and was effective as at 1 October 2013.

UACR comprises 165 franchised restaurants across Nigeria as well as a nationwide distribution network and Lagos-based manufacturing infrastructure. This acquisition boosts Famous Brands' strategy to expand its presence in the broader African QSR market and enables the Group to acquire a substantial stake in an existing leading home-grown brand in Nigeria.

Prospects

Prevailing trading conditions are likely to persist for the foreseeable future. Consumer disposable income will continue to be constrained, and competition amongst industry participants is likely to accelerate. Margin pressure will remain a feature as fuel and food inflation continue to rise.

Despite these factors, the food services category remains a robust one. Industry statistics* predict that consumption of fast food (as viewed over a four week period) is expected to increase by a compound annual growth rate of 5,2% to 34,1 million consumers in 2017 up from 20,4 million consumers in 2008. In this context and by virtue of its affordable, accessible and aspirational offerings, the Group is optimistic regarding its future growth opportunities.

Famous Brands is well positioned to capitalise on any available disposable income over the forthcoming period which includes the peak summer holiday trading period. The Group's brands are represented at all major consumer hubs, ranging from suburban shopping malls, casinos, coastal resorts and airports to national road transit sites and outlying rural areas. This accessibility to potential customers has been enhanced with the recent awarding of the food service licence at a range of Kruger National Park sites including Pretoriuskop, Satara and Letaba (Wimpy), and Lower Sabie and Olifants (Mugg & Bean).

The rest of Africa offers good growth opportunities as the shift from informal to branded food service offerings becomes entrenched. The Group's recent investment in Nigeria exemplifies its conviction that this region will become increasingly significant to the business over time.

Management is mindful that a continued focus on product innovation, value, quality, service, trading formats and break-through communications will be critical in retaining its market leadership position, and is satisfied that the appropriate teams and structures are in place to do so.

**Source: Analytix Consumer Analysis*

On behalf of the board

P Halamandaris
Non-executive Chairman

KA Hedderwick
Chief Executive

Condensed consolidated statement of comprehensive income

	Unaudited six months ended 31 August 2013 R000	Unaudited six months ended 31 August 2012 R000	% change	Audited year ended 28 February 2013 R000
Revenue	**1 376 948**	1 183 918	16	2 516 287
Gross profit	**582 468**	490 775	19	1 052 566
Selling and administrative expenses	**(328 828)**	(284 181)	16	(586 724)
Operating profit	**253 640**	206 594	23	465 842
Net interest paid	**(695)**	(2 077)		(3 969)
Profit before taxation	**252 945**	204 517	24	461 873
Taxation	**(72 751)**	(58 313)		(130 821)
Profit for the period	**180 194**	146 204	23	331 052
Foreign currency translation differences	**33 748**	15 678		19 337
Total comprehensive income for the period	**213 942**	161 882		350 389
Profit attributable to				
Equity holders of Famous Brands Limited	**177 462**	145 319		328 805
Non-controlling interests	**2 732**	885		2 247
Total comprehensive income attributable to				
Equity holders of Famous Brands Limited	**211 210**	160 997		348 142
Non-controlling interests	**2 732**	885		2 247
Reconciliation to headline earnings for the period				
Earnings attributable to equity holders of Famous Brands Limited	**177 462**	145 319		328 805
Impairment of goodwill	**—**	—		1 469
Loss/(profit) on disposal of property, plant and equipment and businesses	**357**	120		(86)
Headline earnings for the period	**177 819**	145 439	22	330 188
Earnings per share – cents				
– basic	**180**	150	20	338
– diluted	**179**	147	22	334
Headline earnings per share – cents				
– basic	**180**	150	20	339
– diluted	**180**	147	22	335
Dividends to shareholders – cents				
– interim dividend declared	**130**	108	20	108
– final dividend declared				142
Total dividends	**130**	108	20	250
Ordinary shares				
– in issue	**99 242 435**	97 757 435		97 827 435
– weighted average	**98 662 435**	96 962 435		97 377 435
– diluted weighted average	**99 297 435**	99 032 435		99 377 435

Condensed consolidated segmental information – business unit and geographical

	Unaudited six months ended 31 August 2013 R000	Unaudited six months ended 31 August 2012 Restated R000	% change	Audited year ended 28 February 2013 Restated R000
Revenue				
Franchising and Development	**260 712**	225 521	16	476 896
Supply Chain	**1 048 682**	897 031	17	1 919 400
Manufacturing	**414 470**	312 625	33	715 418
Logistics	**981 955**	851 576	15	1 812 358
Eliminations	**(347 743)**	(267 170)	30	(608 376)
Corporate	**672**	668		1 296
South Africa	**1 310 066**	1 123 220	17	2 397 592
International (rest of Africa and UK)	**66 882**	60 698	10	118 695
UK	**44 071**	43 945	0	83 030
Rest of Africa	**22 811**	16 753	36	35 665
Total	**1 376 948**	1 183 918	16	2 516 287
Operating profit				
Franchising and Development	**158 370**	130 650	21	286 639
Supply Chain	**81 258**	66 588	22	160 694
Manufacturing	**47 444**	40 600	17	97 618
Logistics	**33 814**	25 988	30	63 076
Corporate	**347**	901		722
South Africa	**239 975**	198 139	21	448 055
International (rest of Africa and UK)	**13 665**	8 455	62	17 787
UK	**4 656**	2 702	72	5 391
Rest of Africa	**9 009**	5 753	57	12 396
Total	**253 640**	206 594	23	465 842

Condensed consolidated statement of changes in equity

	Unaudited six months ended 31 August 2013 R000	Unaudited six months ended 31 August 2012 R000	Audited year ended 28 February 2013 R000
Balance at beginning of year	**1 000 088**	840 370	840 370
Group total comprehensive income for the period	**211 210**	160 997	348 142
Group dividends to shareholders	**(141 880)**	(117 539)	(222 866)
Share-based payments	**3 216**	3 695	5 456
Increase in share capital	**37 776**	25 167	26 219
Increase in non-controlling interests	**8 264**	1 856	2 767
Balance at end of period	**1 118 674**	914 546	1 000 088

Declaration of ordinary dividend

Notice is hereby given that an interim gross dividend No. 38 of 130 cents (2012: 108 cents) per ordinary share, payable out of income, has been declared in respect of the six months ended 31 August 2013.

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

Last day to trade cum-dividend	Friday, 29 November 2013
Shares commence trading ex-dividend	Monday, 2 December 2013
Record date	Friday, 6 December 2013
Payment of dividend	Monday, 9 December 2013

Share certificates may not be dematerialised or rematerialised between Monday, 2 December 2013 and Friday, 6 December 2013, both dates inclusive.

In terms of Dividends Tax legislation, the following additional information is disclosed:

- The local Dividends Tax rate is 15% before utilisation of Secondary Tax on Companies ("STC") credits.
- There are no STC credits used or to carry forward. The net local dividend amount is 110,5 cents per share for shareholders liable to pay the Dividends Tax and 130 cents per share for shareholders exempt from paying the Dividends Tax.
- The issued share capital of Famous Brands is 99242435 ordinary shares.
- Famous Brands' tax reference number is 9208085846.

By order of the board

JG Pyle
Company Secretary

Midrand
23 October 2013

Condensed consolidated statement of cash flows

	Unaudited six months ended 31 August 2013 R000	Unaudited six months ended 31 August 2012 R000	Audited year ended 28 February 2013 R000
Cash generated before changes in working capital	**271 053**	222 921	503 396
Increase in inventories	**(41 881)**	(36 121)	(47 281)
Increase in receivables	**(37 422)**	(18 817)	(46 911)
Increase in payables	**40 367**	41 869	73 075
Cash generated by operations	**232 117**	209 852	482 279
Net interest paid	**(695)**	(2 077)	(3 969)
Taxation paid	**(66 950)**	(50 585)	(136 507)
Net cash flow from operating activities	**164 472**	157 190	341 803
Dividends paid	**(142 650)**	(117 596)	(223 173)
Net cash retained from operating activities	**21 822**	39 594	118 630
Cash flow from investing activities			
Acquisition of businesses including intangible assets	**(14 522)**	(7 260)	(92 257)
Expansion capital expenditure			
Property, plant and equipment	**(14 665)**	(9 692)	(49 608)
Intangible assets	**(4 620)**	(3 401)	(4 291)
Replacement capital expenditure on property, plant and equipment	**(14 192)**	(1 606)	(18 433)
Proceeds on disposal of business	**274**	—	—
Investments in associate	**(810)**	—	—
Proceeds from disposal of property, plant and equipment	**5 135**	187	2 239
Net cash flow from investing activities	**(43 400)**	(21 772)	(162 350)
Cash flow from financing activities			
Increase in share capital and reserves	**37 775**	25 167	26 219
Decrease in interest-bearing borrowings	**(47 633)**	(55 813)	(86 325)
Interest-bearing borrowings raised	**—**	—	130 000
Contribution by non-controlling shareholders	**10 643**	—	12 283
Cash flow from financing activities	**785**	(30 646)	82 177
(Decrease)/increase in cash and cash equivalents	**(20 793)**	(12 824)	38 457
Foreign currency effect	**6 851**	3 933	5 699
Cash and cash equivalents at beginning of year	**84 736**	40 580	40 580
Cash and cash equivalents at end of period	**70 794**	31 689	84 736

Condensed consolidated statement of financial position

	Unaudited 31 August 2013 R000	Unaudited 31 August 2012 R000	Audited 28 February 2013 R000
ASSETS			
Non-current assets	**1 066 796**	881 864	1 006 137
Property, plant and equipment	**204 986**	154 895	194 080
Intangible assets	**849 567**	717 546	800 470
Investments in associates	**810**	—	—
Deferred taxation	**11 433**	9 423	11 587
Current assets	**572 492**	416 231	504 330
Inventories	**209 633**	159 217	167 277
Taxation	**2 032**	1 705	2 780
Trade and other receivables	**290 033**	223 620	249 537
Cash and cash equivalents	**70 794**	31 689	84 736
Total assets	**1 639 288**	1 298 095	1 510 467
EQUITY AND LIABILITIES			
Equity attributable to equity holders of Famous Brands Limited	**1 102 751**	907 362	991 743
Non-controlling interests	**15 923**	7 184	8 345
Total equity	**1 118 674**	914 546	1 000 088
Non-current liabilities	**92 070**	79 850	130 456
Interest-bearing borrowings	**32 500**	20 437	77 313
Deferred taxation and lease liabilities	**59 570**	59 413	53 143
Current liabilities	**428 544**	303 699	379 923
Trade and other payables	**309 324**	236 488	269 469
Non-controlling shareholders' loans	**22 926**	—	12 283
Short-term portion of interest-bearing borrowings	**84 920**	48 255	88 514
Taxation	**11 374**	18 956	9 657
Total liabilities	**520 614**	383 549	510 379
Total equity and liabilities	**1 639 288**	1 298 095	1 510 467

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 31st August 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the South African Companies 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 IAS34 Interim Financial Reporting.
5. These condensed interim consolidated results were prepared under the supervision of Mr NS Richards, in his capacity as Group Financial Director.
6. Within segmental information, revenue and operating profit attributable to the rest of Africa have been reclassified separately and Development division revenues and operating profit reclassified from Corporate to Franchising South Africa. In both instances comparative numbers have been restated.

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Directors and administration

Non-executive: P Halamandaris *(Chairman)*, JL Halamandres, P Halamandaris *(Jnr)*, T Halamandaris *(Deputy Chairman)*, HR Levin, CH Boulle *(Alternate to HR Levin)*, BL Sibiya, SL Botha *(Lead Independent Director)*. **Executive:** KA Hedderwick *(Chief Executive)*, NS Richards *(Group Financial Director)*, DP Hele *(Chief Operating Officer)*

Famous Brands Limited: (Incorporated in the Republic of South Africa) (Registration number 1969/004875/06) JSE Share code: FBR ISIN code: ZAE000053328. **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), 30 Baker Street, Rosebank, 2196.

BASTION GRAPHICS