



2017



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Audited Annual Financial Statements 2017

Annual Financial Statements and other information

The reports and statements set out below were prepared under the supervision of Mrs K Ntsha (CA(SA)), Group Financial Director, and comprise the Annual Financial Statements presented to the shareholders.

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Level of assurance

These Audited Annual Financial Statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

Exchange rates

The following significant exchange rates were applied in the preparation of the Group's results:

	Group			
	2017		2016	
	Average	Closing	Average	Closing
Rand to GB Pound	18.92	16.19	20.37	22.25
Rand to Euro	15.71	13.80	14.86	17.47
Rand to US Dollar	14.26	13.02	13.49	16.03
Euro to GB Pound	1.20	1.17	1.37	1.27
Rand to Zambian Kwacha	1.35	1.37	1.39	1.4
Rand to Nigerian Naira	0.04	0.04	0.08	0.08
Rand to Botswana Pula	1.31	1.22	1.27	1.39



Directors' report

The directors have pleasure in submitting their report for the year ended 28 February 2017.

Nature of business

Famous Brands Limited (Famous Brands) is a holding company listed on the JSE Limited (JSE) under the category Consumer Services: Travel and Leisure. The Group is Africa's leading branded food services franchisor.

Famous Brands' vertically integrated business model comprises a portfolio of 27 brands represented by a franchise network of 2 782 restaurants across South Africa, the Rest of Africa, the United Kingdom, and the Middle East, underpinned by substantial Logistics and Manufacturing operations.

Directors' responsibilities

The responsibilities of the Company's directors are detailed on page 3.

Financial statements and results

The Group's results and financial position are reflected in page 18 to page 63.

Corporate governance

The corporate governance report is set out in the 2017 Integrated Annual Report.

Tangible and intangible assets

Movements in the Group's tangible and intangible assets are set out in Note 1 Property, plant and equity and Note 2 Intangible assets.

Dividends

In order to achieve its robust growth targets, the Group has made a number of acquisitions, including its largest ever, Gourmet Burger Kitchen (GBK), in the UK. In this regard, the Group's gearing is

substantially higher than in prior years, and the Board has therefore resolved that no dividend will be declared for the period. It is anticipated that subject to future acquisitions, payment of dividends will resume in the 2018 financial year.

Share capital

The authorised and issued share capital of the Company at 28 February 2017 is set out in Note 10.

Issued during the year

The Company issued 50 000 (2016: nil) ordinary shares for a cash subscription of R6 million (2016: Rnil) to participants of the 2012 Famous Brands Share Incentive Scheme.

Shareholder spread and material shareholders

In terms of the JSE Listings Requirements, Famous Brands complies with the minimum shareholder spread requirements, with 65% (2016: 61%) of ordinary shares being held by the public at 28 February 2017. Details of the Company's shareholder spread and material shareholders are set out on page 64.

Staff Share Incentive Scheme

Details are reflected in Note 28.

Directors

The names of the directors and the Company Secretary at the date of this report are detailed on page 46 to 48 of the 2017 Integrated Annual Report, which is available on the Company's website at www.famousbrands.co.za.

Audit and Risk Committee's report for the year ended 28 February 2017

In terms of section 94 of the Companies Act of South Africa, the report by the Audit and Risk Committee, which is chaired by Mr RM Kgosana, is presented below.

During the financial year ended 28 February 2017 the Audit and Risk Committee met on three occasions. In addition to the duties set out in the Audit and Risk Committee's charter (a summary of which is provided on page 52 of our Integrated Annual Report, which is available on the Company's website at www.famousbrands.co.za) the Audit and Risk Committee carried out its functions, inter alia, as follows:

- nominated the re-appointment of Deloitte & Touche as the registered independent auditor after satisfying itself through enquiry that Deloitte & Touche and Ms S Nelson are independent as defined in terms of the Companies Act of South Africa;
- determined the terms of engagement and fees to be paid to the external auditors;
- ensured that the appointment of Deloitte & Touche complied with the legislation relating to the appointment of auditors;
- approved and monitored a non-audit services policy which determines the nature and extent of any non-audit services which the external auditors may provide to the Group;
- ensured that the financial reporting to stakeholders fairly presents the state of affairs of the Group. The committee received the external auditor's report and key audit matters included therein and is satisfied that these matters were appropriately addressed through the audit procedures performed;
- reviewed the internal audit reports and processes;
- reviewed and approved the internal audit business plan budget and audit plan;
- reviewed and approved the internal audit charter;
- reviewed and approved a Whistle Blower Policy endorsed by the management of Famous Brands;
- reviewed and approved the anti-fraud policy;
- reviewed and approved a hedging policy;
- reviewed and approved the Audit and Risk Committee charter;
- reviewed an assessment prepared by management of the going concern status of the Company and made recommendations to the Board. The committee concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate;

- reviewed the status of the Group's tax affairs, which the committee found to be satisfactory;
- evaluated and reported to the Board on the effectiveness of risk management controls and governance processes;
- reviewed and recommended the interim and Annual Financial Statements to the Board for approval;
- reviewed and recommended the Integrated Annual Report to the Board for approval;
- considered the reports of the internal auditor and external auditor on the Group's systems of internal control including financial controls, business risk management and maintenance of effective internal control systems;
- received assurance that proper and adequate accounting records were maintained and the systems safeguard the assets against unauthorised use or disposal thereof; and
- based on the above, the committee formed the opinion that there were no material breakdowns in internal control, including financial control, business risk management and maintenance of effective material control systems.

The Audit and Risk Committee is satisfied with the competence and expertise of the Group Financial Director, Company Secretary and head of internal audit.

The Audit and Risk Committee recommended the Annual Financial Statements for the year ended 28 February 2017 for approval to the Board. The Board has approved the Annual Financial Statements which will be open for discussion at the forthcoming Annual General Meeting.

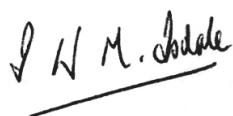


RM Kgosana
Chairman of the Audit and Risk Committee

26 May 2017

Company Secretary's certificate

In my capacity as the Company Secretary, I hereby certify that Famous Brands Limited has lodged with the Companies and Intellectual Property Commission for the financial year ended 28 February 2017, all such returns and notices as are required of a public company in terms of the Companies Act of South Africa and that all such returns are to the best of my knowledge and belief true, correct and up to date.



IWM Isdale
Company Secretary

26 May 2017

Approval of the Audited Annual Financial Statements

The directors are required by the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is their responsibility to ensure that the Annual Financial Statements and the full set of the audited Annual Financial Statements present fairly the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity 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 Council, the Companies Act of South Africa and the Listings Requirements of the JSE Limited.

The external auditors are engaged to express an independent opinion on the Annual Financial Statements. The Annual Financial Statements are prepared in accordance with IFRS and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk

management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. The Audit and Risk Committee, together with the internal auditors, perform an oversight role in matters related to financial and internal controls.

The directors are of the opinion that, based on the information and explanations given by management, the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the subsequent year and, in light of this review and the current financial position, they are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

The consolidated and separate financial statements, which have been prepared on the going concern basis, were approved by the Board of Directors on 26 May 2017 and are signed on its behalf by:



Santie Botha
Independent Chairman



Darren Hele
Chief Executive Officer

26 May 2017

Independent auditor's report

TO THE SHAREHOLDERS OF FAMOUS BRANDS LIMITED

Report on the audit of the financial statements Opinion

We have audited the consolidated and separate financial statements of Famous Brands Limited and its subsidiaries (the Group) set out on pages 8 to 63, which comprise the statements of financial position as at 28 February 2017, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 28 February 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our

report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct* for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. These key audit matters are applicable to the consolidated financial statements and do not apply to the separate financial statements as we have determined that there are no key audit matters to communicate in our report relating to the separate financial statements.

Key audit matter

Valuation of goodwill, indefinite useful life trademarks and brand names

As disclosed in Note 2, the consolidated financial statements include goodwill of R877 million (2016: R565 million) and indefinite useful life trademarks and brand names of R1 811 million (2016: R488 million). These assets have been recognised in the consolidated statement of financial position as a consequence of the acquisitive nature of the Group.

As required by IAS 36 *Impairment of Assets*, the directors conduct annual impairment tests to assess recoverability of the carrying value of goodwill and indefinite useful life trademarks and brand names. This is performed using discounted cash flow models which involve a number of key sensitive judgements. These include:

- Revenue growth (long-term growth and volume growth);
- Operating margins; and
- The discount rates applied to the projected future cash flows.

The impairment tests of these assets is considered to be a key audit matter due to the value of the assets and the extent of judgement and estimate required.

How the matter was addressed in our audit

We focused our testing of the impairment of goodwill and indefinite useful life trademarks on the key judgements made by the directors. Our audit procedures included:

- Critically evaluating whether the model used by the Directors to calculate the recoverable amount, whether determined by fair value less costs to sell or value in use, of the individual cash-generating units complies with the requirements of IAS 36 *Impairment of Assets*;
- Challenging the level at which goodwill, trademarks and brand names are assessed. We made use of our technical accounting experts to assist in this assessment;
- Assessing the appropriateness of certain discount rates used in performing the impairment test. In specific instances, we were assisted by our corporate finance valuation specialists to assist with this assessment;
- Subjecting the key assumptions to sensitivity analyses;
- Analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable;
- Comparing achieved cash flows against historical performance to test the accuracy of historical projections; and
- Determining the appropriateness of inputs and computed the reasonability of the fair value less costs to sell where used as the recoverable amount.

We found that the assumptions used by the directors were reasonable and the expected future outlook and the discount rates used were appropriate in the circumstances. We consider the disclosure of the goodwill, trademarks and brand names to be acceptable.

Report on the audit of the financial statements continued

Key audit matters continued

Key audit matter	How the matter was addressed in our audit
New business acquisitions and related accounting Aligned with the Group's growth strategy, it continues to expand through acquisition. The accounting for these acquisitions is governed by IFRS 3 <i>Business Combinations</i> whose requirements can be complex and requires the directors to exercise judgement in determining certain estimates. The most significant is the determination of the Purchase Price Allocation Valuation (PPAV) which encompasses: • Identifying the assets and liabilities acquired and determining their fair values; • Determination of goodwill to be recognised on acquisition; and • Determining the value of the considerations transferred. The directors engaged external experts to assist with the determination of the PPAV on the Group's most significant acquisitions concluded during the year. Due to the value of the current year acquisitions, their geographical spread and the level of judgement and estimate involved in their PPAVs, the accounting for business combinations has been identified as a key audit matter. Acquisitions occurring in the current year have been disclosed in Note 22.4 to the consolidated financial statements.	Our audit work included the following on all significant acquisitions: • Involvement of our internal PPAV experts in assessing the completeness of assets and liabilities acquired; • Involvement of our internal valuation specialists in the valuation of the identifiable assets and liabilities including assessing the adequacy of the valuation methods and appropriateness of key assumptions used; • Recomputing the value of the considerations transferred with reference to the purchase agreements; • Recomputing the resulting goodwill to be recognised on acquisition; and • Performing procedures to determine that acquisitions made were included correctly in the consolidation. The PPAVs and the accounting for the acquisition transactions was assessed to be appropriate based on the evidence obtained. We consider the disclosures related to the acquisitions to be appropriate.
Accounting for and valuation of the put options included in acquisition agreements As disclosed in Note 7, the consolidated financial statements include put option liabilities over the equity of minority interests to the value of R211 million (2016: R125 million). The valuation of these financial instruments require the Directors to make assumptions about future operating performance including: • Revenue growth (pricing and volume growth); • Operating margins; and • The discount rates applied to the projected future cash flows. The valuation and accounting for these put option liabilities is considered to be complex and the size thereof is significant to the Group. Further, the inputs require estimate and judgement. This is therefore identified as a key audit matter.	Our audit work involved the following: • Involvement of our internal IFRS specialists to assess the importer accounting treatment of the put options associated with acquisitions, in particular the Gourmet Burger Kitchen business combination; • Analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the cash-generating units; • Where relevant, comparing the achieved performance against historical projections to test the accuracy of historical projections; and • Subjecting the key assumptions to sensitivity analyses. We found the accounting and valuation of the put options to be appropriate based on the evidence obtained and found the related disclosures to be acceptable.

Independent auditor's report continued

Report on the audit of the financial statements continued

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the Audit and Risk Committee's report, the Company Secretary's certificate and the Integrated Annual Report as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable

assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Committee, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in *Government Gazette* Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Famous Brands Limited for two years.



Deloitte & Touche
Registered Auditors

Per Shelly Nelson
Partner

26 May 2017

Accounting policies

Reporting entity

Famous Brands Limited (Famous Brands or the Company) is a holding company domiciled in South Africa and is listed on the JSE Limited under the category Consumer Services: Travel and Leisure. Famous Brands is Africa's leading quick service and casual dining restaurant franchisor. The consolidated financial statements of Famous Brands, as at 28 February 2017 and for the year ended 28 February 2017, comprise the Company and its subsidiaries (together referred to as the Group) and the Group's investments in associates.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the Companies Act of South Africa.

Significant accounting policies

These accounting policies are consistent with the previous period, except for the changes set out in accounting policy Note 23 Adoption of new standards, amendments to standards and interpretations.

1. Basis of preparation

Functional and presentation currency

The Group financial statements and the financial statements of the Company are presented in South African Rand (Rand), which is the Company's functional and presentation currency. All financial information presented in Rand has been rounded to the nearest thousand (000) except for when otherwise indicated.

Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

The going concern basis has been used in preparing the Annual Financial Statements as the directors have a reasonable expectation that the Group will continue as a going concern for the foreseeable future.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all investees which are controlled by the Company. Control exists when the Company has power over the investee; it is exposed to or has rights to variable returns from involvement with the investee; and it has the ability to use its power over the investee to affect the amount of the Company's returns.

The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal. Adjustments are made when necessary to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses incurred by subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interests.

Transactions that result in changes in ownership levels, where the Group has control of the subsidiary both before and after the transaction, are regarded as equity transactions and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

Business combinations

The Group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the business combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration, are not effected against goodwill, unless they are valid measurement period adjustments. They will then be accounted for through profit and loss.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 *Business Combinations* are recognised at their fair values at acquisition date, except for non-current assets (or disposal group) that are classified as held-for-sale in accordance with IFRS 5 *Non-current Assets Held-for-Sale* and discontinued operations, which are recognised at fair value less costs to sell; and deferred tax assets and liabilities which are measured in accordance with IAS 12 *Income Taxes*.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the Group assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for Group purposes.

Non-controlling interests that arise from a business combination, which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured either at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in Note 22.4 Acquisition of business operations.

Where the Group writes a put option over the equity of a subsidiary, a gross obligation (put option financial liability) is recognised in the consolidated financial statements at an amount equal to the present value of the amount that could be required to be paid to the counterparty. The corresponding debit is presented separately within equity as a deduction from other reserves attributable to the owners of the Company.

2. Basis of consolidation continued

Business combinations continued

Subsequently, the put option financial liability is remeasured in line with IAS 39 *Financial Instruments: Recognition and Measurement*, with changes in the measurement of the financial liability recognised in the profit or loss attributable to the owners of the Company.

In the separate financial statements of the parent company, the written put option is recognised and measured initially at fair value and classified as a derivative financial instrument at fair value through profit or loss.

In cases where the Group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree. Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, the impairment loss is recognised in profit and loss and is not subsequently reversed. Goodwill is recognised on consolidation of the foreign entities and is considered an asset of that foreign group. In such cases, the goodwill is translated to the functional currency of the Group at the end of each reporting period with the adjustment recognised in equity through to other comprehensive income.

Investment in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held-for-sale in accordance with IFRS 5 *Non-current Assets Held-for-Sale and discontinued operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate less any impairment losses and dividends received. When the Group's share of losses exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. The most recent available financial statements of the associate are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, an excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss as part of the equity-account profit of the associate in the period in which the investment is acquired.

When the Group reduces its level of significant influence or loses significant influence, the Group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

3. Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous Annual Financial Statements, are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Investments in subsidiaries and associates

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

Accounting policies continued

3. Translation of foreign currencies continued

Foreign currency transactions continued

- income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised to other comprehensive income and accumulated as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the translation reserve. They are recognised in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of the net investment.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the average rate of the year or period.

4. Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include:

Allowance for doubtful debts

Past experience indicates a reduced prospect of collecting debts over the age of three months. Trade receivable balances are regularly assessed by management and provided for based upon information available. Debt arising from the sale of products to franchisees and franchise fees due, although past due, are generally regarded as recoverable if the related trading outlet continues to operate.

Allowance for slow-moving, damaged and obsolete inventory

Judgement is used to write down inventory to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write-down is included in the operating profit.

Consolidated financial statements

No significant judgements or assumptions were necessary in determining whether control over the investments in subsidiaries existed. Control over the investees was established by virtue of the Group's representation on the respective company's board of directors, involvement in the daily operations and majority ownership.

Options granted

Management uses the Black-Scholes-Merton model, which takes account of the vesting period (European style option), to determine the value of the options at issue date. Additional details regarding the estimates are included in Note 28 Share-based payments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact our estimations and may require a material adjustment to the carrying value of intangible and tangible assets.

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, intangible assets with an indefinite useful life are tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of intangible and tangible assets are inherently uncertain and could materially change over time.

Tax

Judgement is required in determining the provision for income taxes due to the complexity of legislation and varying tax jurisdictions in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Put option liabilities

This liability arises when new acquisitions have contractual obligations enabling non-controlling interest shareholders to put their shares back to the Group at an agreed price. The initial recognition of this amount is debited directly to equity with subsequent movements to the liability recognised in profit or loss. In arriving at the liability the future earnings need to be assessed and discounted back to calculate the present value. This is based on management's best estimate at initial recognition.

Purchase price allocations

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third-party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

4. Significant judgements and sources of estimation uncertainty continued

Leases

Management has applied its judgement to classify all lease agreements that the Group is party to as either operating leases or finance leases. Those that do not transfer substantially all the risks and rewards of ownership to the Group are treated as operating leases. As the operating lease in respect of premises is only for a relatively short period of time, management has made a judgement that it would not be meaningful to classify the lease into separate components for the land and for the buildings for the current lease, and the agreement has been classified in its entirety as an operating lease. Leases that transfer the right of use of an asset to the Group are classified as finance leases and recorded as liabilities on the balance sheet.

Useful lives and residual values of property, plant and equipment and intangible assets

Management has made certain estimates with regard to the determination of estimated useful lives and residual values of items of property, plant and equipment and intangible assets, as disclosed further in accounting policy Note 1 Property, plant and equipment and Note 2 Intangible assets.

5. Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Group; and
- the cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost. Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses, and are depreciated on the straight-line basis over their expected useful lives to their estimated residual value. Land is not depreciated.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	50 years
Leasehold property	Over expected remaining term of the lease
Plant and machinery	5 to 15 years
Furniture, fixtures and office equipment	4 to 10 years
Motor vehicles	5 to 8 years
IT equipment	5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment, with a cost that is significant in relation to the total cost of the item, is depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset. Depreciation commences once the asset is brought into use.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

6. Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation charge, if any, for each period, is recognised in profit or loss.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for on these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful lives.

The amortisation period and the amortisation method for intangible assets are reviewed every year-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, franchise agreements, recipes, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Trademarks	Indefinite
Lease premiums, franchise incentives or similar	Agreement period
Computer software	3 to 5 years
Brand names	3 years – indefinite

Accounting policies continued

6. Intangible assets continued

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

7. Interests in subsidiaries Company financial statements

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company; plus
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

8. Financial instruments Classification

The Group classifies financial assets and financial liabilities into the following categories:

- financial assets at fair value through profit or loss – designated;
- loans and receivables;
- financial liabilities at fair value through profit or loss – designated; and
- financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Derivatives and financial assets designated as held at fair value through profit or loss are not reclassified out of the fair value through profit or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Gains or losses arising on remeasurement of financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. The same applies for unlisted securities. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option-pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each reporting date, the Group assesses all financial assets, other than those held at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. For amounts due to the Group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments, are all considered indicators of impairment.

Impairment losses are recognised in profit or loss, and are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset, at the date that the impairment is reversed, shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in profit or loss.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write-off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Hedge accounting

The Group enters into forward exchange contracts, currency option contracts and interest rate swap contracts to hedge its exposure to foreign exchange and interest rate risk.

Changes in the fair value of derivative instruments that are not formally designated in a hedging relationship are recognised immediately in profit or loss.

For qualifying cash flow hedges, the fair value gain or loss on the hedging instrument associated with the effective portion of the cash flow hedge is recognised initially in other comprehensive income within hedge accounting reserve, and then recycled to profit or loss in the reporting periods when the hedged item affects profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in profit or loss.

8. Financial instruments continued

Hedge accounting continued

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to profit or loss.

Receivables from/payables to Group companies

These include amounts receivable from and payable to subsidiaries and associates and are recognised initially at fair value. Amounts receivable from Group companies are classified as financial assets held at fair value through profit or loss. Amounts payable to Group companies are classified as financial liabilities held at fair value through profit or loss.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, breach of contract and default or delinquency in payments (more than 90 days overdue), are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Other payables are classified as other financial liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft

Bank overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

9. Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities or assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates (and tax laws) that have been enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which:
 - is not a business combination; and
 - at the time of the transaction, affects neither accounting nor taxable profit (tax loss).

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches, associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting nor taxable profit or tax loss.

A deferred tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches, associates and interests in joint ventures, to the extent that it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and/or unutilised capital allowances and recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unutilised capital allowances can be recovered.

Deferred tax assets are reviewed at each reporting period and are adjusted if recovery is no longer probable.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Accounting policies continued

9. Tax continued

Tax expenses

Current and deferred taxes are recognised in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

10. Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

10.1 Operating leases – lessor

Operating lease income is recognised as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Income from leases is included in operating profit.

10.2 Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as a deferred lease asset or liability. This liability is not discounted. Any contingent rents are expensed in the period in which they are incurred.

10.3 Finance leases – lessee

Leases are classified as finance leases whenever the terms of lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

11. Inventories

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific

projects is assigned using specific identification of the individual costs. The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

12. Impairment of assets

The Group assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, the Group also:

- tests intangible assets with indefinite useful lives or intangible assets not yet available for use for impairment annually by comparing their carrying amounts with their recoverable amounts. This impairment test is performed during the annual period and at the same time every period; and
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and then
- to the other assets of the unit, *pro rata* on the basis of the carrying amount of each asset in the unit.

12. Impairment of assets continued

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

13. Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the Company reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes), on those instruments is deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Consideration paid or received shall be recognised directly in equity.

14. Share-based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received and the corresponding increase in equity are measured, directly, at the fair value of the goods or services received, provided that the fair value can be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, or if the services received are employee services, their value and the corresponding increase in equity are measured, indirectly, by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

If the share-based payments granted do not vest until the counterparty completes a specified period of service, the Group accounts for those services as they are rendered by the counterparty during the vesting period (or on a straight-line basis over the vesting period). If the share-based payments vest immediately and are simultaneously exercised, the expense for services received is recognised in full.

15. Shareholders for dividends and dividends declared

Dividends payable are recognised as a liability in the period in which they are declared.

16. Provisions and contingencies

Provisions are recognised when:

- the Group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

After their initial recognition, contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in Note 23 Contingent liabilities.

17. Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Accounting policies continued

17. Revenue continued

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts, volume rebates and value added tax.

Interest is recognised, in profit or loss, using the effective interest method.

Franchise fees are recognised on the accrual basis in accordance with the substance of the relevant agreements.

Dividends are recognised, in profit or loss, when the Company's right to receive payment has been established.

Franchise joining fees are recognised in the month when the outlet opens for trading.

Design and project management revenue are recognised using the stage of completion method.

18. Government grant

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognised as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets for the purposes of the manufacturing process are recognised against the carrying amount of the depreciable asset in the consolidated statement of financial position. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

19. Advertising levies

The Group receives advertising levies from franchisees that are utilised in the advertising and promotion of the Group's brands. Advertising expenditure incurred in excess of the levies received is carried forward as a prepaid expense to be set off against future levies. Any amounts not expensed are carried forward as liabilities to set off against future advertising expenditure.

20. Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

21. Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

22. Earnings before non-operational items

Non-operational items are disclosed to provide an additional basis on which to measure the Group's performance. It represents the impact of certain non-operational and non-recurring income and expense items on the reported earnings of the Group.

23. Adoption of new standards, amendments to standards and interpretations

The Group adopted the following new standards, amendments to standards and interpretations applicable for the first time during the year under review and did not have a material impact on the financial statements:

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates (Amendment, effective date: 1 January 2016)

The amendment to IFRS 10, IFRS 12 and IAS 28 introduces clarifications to the requirement when accounting for investment entities. The amendment also provides relief in particular circumstances, which will reduce the costs of applying the standards.

IAS 1 Presentation of Financial Statements (Amendment, effective date: 1 January 2016)

The amendment to IAS 1 is designed to encourage entities to apply professional judgement in determining what information to disclose in the financial statements. The amendment clarifies that materiality applies to the whole of financial statements and the inclusion of immaterial information can inhibit the usefulness of financial disclosures.

23. Adoption of new standards, amendments to standards and interpretations continued

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment, effective date: 1 January 2016)

The amendment to IAS 16 and IAS 38 clarifies that the basis of calculation of depreciation and amortisation, as being the expected pattern of consumption of the future economic benefits of an asset. The amendment further clarifies that revenue is generally presumed to be an inappropriate basis of measuring the consumption of economic benefits in such assets.

The adoption of the amendment is not expected to have a material impact on the financial statements.

IAS 27 Separate Financial Statements (Amendment, effective date: 1 January 2016)

The amendment to IAS 27 allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

24. New standards, amendments to standards and interpretations in issue not yet effective

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2017 or later periods:

IFRS 2 Share-Based Payment Transactions (Amendment, effective date: 1 January 2017)

Amendment to clarify the treatment of cash-settled share-based payment transactions which include a performance condition, share-based payment transactions which include a net settlement feature and modification of a share-based payment transaction from cash settled to equity settled.

The adoption of the standard is not expected to have a material impact on the financial statements.

IFRS 9 Financial Instruments (effective date: 1 January 2018)

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard, *inter alia*, introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. The standard further introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets.

The adoption of the standard is not expected to have a material impact on the financial statements.

IFRS 12 Disclosure of Interests in Other Entities (Amendment, effective date: 1 January 2017)

Amendment to clarify the disclosure requirements where an entity's interests are classified as held-for-sale, held for distribution or a discontinued operation in accordance with IFRS 5 *Non-Current Assets Held-for-Sale and Discontinued Operations*.

The adoption of the standard is not expected to have a material impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers (effective date: 1 January 2018)

IFRS 15 replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue*. The standard, *inter alia*, requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers.

Management is determining the impact of the standard on the financial statements.

IFRS 16 Leases (effective date: 1 January 2019)

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

Management is determining the impact of the standard on the financial statements.

IAS 7 Statement of Cash flows (effective date: 1 January 2018)

The amendments to IAS 7 are intended to improve information provided to users of financial statements about the entity's financing activities.

Management is determining the impact of the standard on the financial statements.

IAS 12 Income Taxes (Amendment, effective date: 1 January 2017)

IAS 12 has been amended to clarify the recognition of deferred tax assets on unrealised losses arising from certain debt instruments and the impact of various requirements of tax laws.

Management is determining the impact of the standard on the financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective date: 1 January 2017)

A new interpretation which has been issued in order to provide guidance on the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

Management is determining the impact of the standard on the financial statements.

25. Standards and interpretations early adopted

The Group has chosen not to early adopt any new standards.

Statements of financial position

at 28 February 2017

	Notes	Group		Company	
		2017 R000	2016 R000	2017 R000	2016 R000
Assets					
Non-current assets		4 315 513	1 436 377	1 961 460	347 864
Property, plant and equipment	1	1 397 601	286 448	–	–
Intangible assets	2	2 818 755	1 095 888	–	–
Investments in associates	3	83 083	52 746	–	–
Investments in subsidiaries	4			1 961 460	347 864
Deferred tax	5	16 074	1 295	–	–
Current assets		1 570 940	971 906	229 461	4 837
Receivables from Group companies	4			227 684	3 679
Inventories	6	454 656	301 625	–	–
Current tax assets		38 174	60 786	730	730
Derivative financial instruments	7	–	100	–	–
Trade and other receivables	8	649 290	463 261	139	–
Cash and cash equivalents	9	428 820	146 134	908	428
Total assets		5 886 453	2 408 283	2 190 921	352 701
Equity and liabilities					
Capital and reserves					
Issued capital and share premium	10	131 475	125 354	132 845	126 724
Other reserves	11	(250 892)	47 021	85 966	59 660
Retained earnings		1 502 926	1 302 405	(159 024)	15 497
Equity attributable to owners of Famous Brands Limited		1 383 509	1 474 780	59 787	201 881
Non-controlling interests		101 805	75 819		
Total equity		1 485 314	1 550 599	59 787	201 881
Non-current liabilities		3 407 380	214 690	60 447	–
Borrowings	13	2 740 744	–	–	–
Derivative financial instruments	7	196 469	124 821	60 447	–
Lease liabilities	12	80 122	10 858	–	–
Deferred tax	5	390 045	79 011	–	–
Current liabilities		993 759	642 994	2 070 687	150 820
Payables to Group companies	4			2 068 377	148 928
Non-controlling shareholder loans	14	22 130	24 988	–	–
Derivative financial instruments	7	23 381	–	–	–
Lease liabilities	12	6 548	1 689	–	–
Trade and other payables	15	790 891	462 481	89	19
Shareholders for dividends		2 221	1 873	2 221	1 873
Current tax liabilities		10 109	11 713	–	–
Borrowings	13	114 853	–	–	–
Bank overdrafts	9	23 626	140 250	–	–
Total liabilities		4 401 139	857 684	2 131 134	150 820
Total equity and liabilities		5 886 453	2 408 283	2 190 921	352 701



Statements of profit or loss and other comprehensive income

for the year ended 28 February 2017

	Notes	Group		Company	
		2017	2016	2017	2016
		R000	R000	R000	Restated R000
Revenue*	16	5 720 363	4 308 318	30 000	405 000
Cost of sales		(2 948 744)	(2 469 947)	–	–
Gross profit		2 771 619	1 838 371	30 000	405 000
Selling and administrative expenses		(1 833 571)	(1 046 263)	(7 285)	(1 242)
Operating profit before non-operational items		938 048	792 108	22 715	403 758
Non-operational items	17	(120 755)	(12 000)	19 877	–
Operating profit including non-operational items		817 293	780 108	42 592	403 758
Net finance (costs)**/income		(131 557)	(6 909)	(2 409)	382
Finance costs		(184 389)	(27 375)	(2 482)	–
Finance income		52 832	20 466	73	382
Share of profit/(loss) of associates		4 314	(622)	–	–
Profit before tax	17	690 050	772 577	40 183	404 140
Tax	18	(235 246)	(221 011)	–	(619)
Profit for the year		454 804	551 566	40 183	403 521
Other comprehensive income, net of tax:					
Exchange differences on translating foreign operations***		(245 603)	65 753		
Pre-tax exchange differences on translating foreign operations		(252 681)	65 753		
Tax effect on exchange differences on translating foreign operations		7 078	–		
Movement in hedge accounting reserve***		(2 704)	–		
Effective portion of change in fair value of cash flow hedges		(3 867)	–		
Tax on movement in hedge accounting reserve		1 163	–		
Total comprehensive income for the year		206 497	617 319	40 183	403 521
Profit for the year attributable to:					
Owners of Famous Brands Limited		413 747	527 699	40 183	403 521
Non-controlling interests		41 057	23 867		
		454 804	551 566	40 183	403 521
Total comprehensive income attributable to:					
Owners of Famous Brands Limited		165 440	593 452	40 183	403 521
Non-controlling interests		41 057	23 867		
		206 497	617 319	40 183	403 521
Earnings per share					
Basic earnings per share (cents)					
Basic	19	414	529		
Diluted	19	413	528		
Basic earnings per share before non-operational items and additional interest costs (cents)					
Basic	19	614	541		
Diluted	19	612	540		

* Dividends received from subsidiaries were reclassified to Revenue.

** The increase in finance costs relates to borrowings raised during the year under review.

*** This item may be reclassified subsequently to profit or loss.

Statements of changes in equity

for the year ended 28 February 2017

Attributable to owners of Famous Brands Limited								
	Share capital R000	Share premium R000	Non-distributable reserves R000	Foreign currency translation reserve R000	Retained earnings R000	Total R000	Non-controlling interests R000	Total equity R000
Group								
Balance at 1 March 2015	998	124 139	38 712	61 564	1 163 975	1 389 388	27 766	1 417 154
Issue of capital and share premium	–	217	–	–	–	217	–	217
Recognition of share-based payments	–	–	10 173	–	–	10 173	–	10 173
Recognition of put options over non-controlling interests	–	–	(118 426)	–	–	(118 426)	–	(118 426)
Total comprehensive income for the year	–	–	–	65 753	527 699	593 452	23 867	617 319
Payment of dividends	–	–	–	–	(389 269)	(389 269)	(9 120)	(398 389)
Non-controlling interest arising on business combination	–	–	–	–	–	–	24 889	24 889
Change in ownership interests in subsidiaries	–	–	(12 323)	–	–	(12 323)	8 417	(3 906)
Contingent consideration	–	–	1 568	–	–	1 568	–	1 568
Balance at 29 February 2016	998	124 356	(80 296)	127 317	1 302 405	1 474 780	75 819	1 550 599
Issue of capital and share premium	1	6 120	–	–	–	6 121	–	6 121
Recognition of share-based payments	–	–	26 306	–	–	26 306	–	26 306
Recognition of put-options over non-controlling interests	–	–	(73 233)	–	–	(73 233)	–	(73 233)
Total comprehensive income for the year	–	–	(2 704)	(245 603)	413 747	165 440	41 057	206 497
Payment of dividends	–	–	–	–	(213 226)	(213 226)	(14 286)	(227 512)
Non-controlling interest arising on business combination	–	–	–	–	–	–	1 033	1 033
Change in ownership interests in subsidiaries	–	–	(1 111)	–	–	(1 111)	(1 818)	(2 929)
Contingent consideration	–	–	(1 568)	–	–	(1 568)	–	(1 568)
Balance at 28 February 2017	999	130 476	(132 606)	(118 286)	1 502 926	1 383 509	101 805	1 485 314
Company								
Balance at 1 March 2015	998	125 726	49 487	–	1 245	177 456	–	177 456
Issue of capital and share premium	–	–	–	–	–	–	–	–
Recognition of share-based payments	–	–	10 173	–	–	10 173	–	10 173
Total comprehensive income for the year	–	–	–	–	403 521	403 521	–	403 521
Payment of dividends	–	–	–	–	(389 269)	(389 269)	–	(389 269)
Balance at 29 February 2016	998	125 726	59 660	–	15 497	201 881	–	201 881
Issue of capital and share premium	1	6 120	–	–	–	6 121	–	6 121
Recognition of share-based payments	–	–	26 306	–	–	26 306	–	26 306
Total comprehensive income for the year	–	–	–	–	40 183	40 183	–	40 183
Payment of dividends	–	–	–	–	(214 704)	(214 704)	–	(214 704)
Balance at 28 February 2017	999	131 846	85 966	–	(159 024)	59 787	–	59 787



Statements of cash flows

for the year ended 28 February 2017

	Notes	Group		Company	
		2017 R000	2016 R000	2017 R000	2016 R000
Cash generated/(utilised) from/(in) operations	22.1	795 262	718 370	(47 366)	(1 231)
Dividends received		–	–	30 000	405 000
Net finance costs (paid)/received		(84 628)	(205)	(2 409)	382
Income taxes paid	22.2	(214 715)	(243 993)	–	(263)
Net cash flow from operating activities		495 919	474 172	(19 775)	403 888
Dividends paid to owners of Famous Brands Limited	22.3	(212 878)	(388 883)	(214 356)	(388 883)
Dividends paid to non-controlling interests	22.3	(14 286)	(9 120)	–	–
Net cash inflow/(outflow) from operating activities		268 755	76 169	(234 131)	15 005
Cash generated from investing activities					
Additions to property, plant and equipment		(282 440)	(82 199)	–	–
Intangible assets acquired		(40 807)	(42 749)	–	–
Proceeds from disposal of property, plant and equipment		10 004	2 527	–	–
Proceeds from disposal of a subsidiary		–	–	134 870	–
Net cash outflow on acquisition of subsidiaries	22.4	(1 897 991)	(83 989)	(1 598 169)	–
Net cash outflow on acquisition of associates		(50 573)	–	–	–
Dividends received from associates		4 550	4 200	–	–
Net cash outflow from investing activities		(2 257 257)	(202 210)	(1 463 299)	–
Cash flow from financing activities					
Borrowings raised		2 484 979	–	–	–
Cash (paid to)/contributed by non-controlling shareholders		(2 315)	539	–	–
Proceeds from issue of equity instruments of Famous Brands Limited		6 121	217	6 121	–
Acquired from non-controlling interests in subsidiaries		(2 929)	(18 084)	–	–
Increase/(decrease) in payables to Group companies		–	–	1 691 789	(28 890)
Underwriting fees paid on debt raised		(50 635)	–	–	–
Participation fees paid on debt raised		(11 438)	–	–	–
Net cash inflow/(outflow) from financing activities		2 423 783	(17 328)	1 697 910	(28 890)
Net increase/(decrease) in cash and cash equivalents		435 281	(143 369)	480	(13 885)
Foreign currency effect		(35 971)	23 025	–	–
Cash and cash equivalents at the beginning of the year		5 884	126 228	428	14 313
Cash and cash equivalents at the end of the year	9	405 194	5 884	908	428

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

for the year ended 28 February 2017

For management purposes the Group is organised into three major operating divisions namely, Franchising and Development, Manufacturing, and Logistics. The Manufacturing and Logistics divisions are grouped together within a total Supply Chain business. Such structural organisation is determined by the nature of risks and returns associated with each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the Group reports its primary segment information.

The global operations of the Group are divided into two principal geographical areas, i.e. South Africa and International. The South African segment houses the South African operations of the Group and the International segment houses the operations in the United Kingdom and the Rest of Africa. The International segment only represents franchising operations.

	2017		Group	
	R000	%	2016	%
			R000	
Revenue				
Franchising and Development	780 887	14	681 364	16
Supply Chain	3 983 297	70	3 363 929	78
Manufacturing	2 300 418	40	1 799 958	42
Logistics	3 415 746	60	2 911 061	68
Eliminations	(1 732 867)	(30)	(1 347 090)	(31)
Corporate	2 800	–	2 562	–
South Africa	4 766 984	84	4 047 855	94
International	953 379	16	260 463	6
UK	704 182	12	115 696	3
Rest of Africa and Middle East (AME)*	249 197	4	144 767	3
Total	5 720 363	100	4 308 318	100
Operating profit before non-operational items				
Franchising and Development	426 755	45	389 282	49
Supply Chain	454 671	48	347 653	44
Manufacturing	330 103	35	247 455	31
Logistics	124 568	13	100 198	13
Corporate	(48 463)	(4)	(11 239)	(1)
South Africa	832 963	89	725 696	92
International	105 085	11	66 412	8
UK	55 468	6	32 640	4
Rest of Africa and AME*	49 617	5	33 772	4
Total operating profit before non-operational items	938 048	100	792 108	100
Franchising and Development	–	–	(12 000)	–
Impairment losses	–	–	(12 000)	–
Corporate	(483 244)	–	(228 542)	–
Non-operational items, excluding impairment loss	(100 755)	–	–	–
Impairment loss	(20 000)	–	–	–
Net finance costs	(131 557)	–	(6 909)	–
Share of profit/(loss) of associates	4 314	–	(622)	–
Tax	(235 246)	–	(221 011)	–
Profit for the year	454 804	–	551 566	–

* Previously categorised as Rest of Africa.

The table below sets out the performance of the UK business in GBP and ZAR respectively. The results of GBK only relate to the period since acquisition date (7 October 2016).

	2017		Group	
	£000	R000	2016	R000
			£000	
UK business segmental results (Wimpy and GBK)				
Revenue	40 722	704 181	5 678	115 696
Operating profit	3 217	55 468	1 601	32 640
Operating profit margin	7.9	7.9	28.2	28.2

Notes to the Audited Annual Financial Statements

for the year ended 28 February 2017

1. Property, plant and equipment

Owned	Group						Total R000
	Land and buildings R000	Leasehold improve- ments R000	Plant and equip- ment R000	Motor vehicles R000	Computer equip- ment R000	Furniture, fittings and office equip- ment R000	
Carrying amount at 1 March 2015	10 647	11 363	132 490	46 335	3 058	5 058	208 951
Cost	10 874	19 755	230 543	93 886	30 483	28 182	413 723
Accumulated depreciation	(227)	(8 392)	(98 053)	(47 551)	(27 425)	(23 124)	(204 772)
Additions	6 401	7 489	34 463	19 972	6 408	7 466	82 199
Acquired in business combinations	–	–	29 090	1 172	854	6 909	38 025
Government grant	–	–	(1 078)	–	–	–	(1 078)
Foreign currency translation	–	–	934	84	90	837	1 945
Disposals	–	–	(92)	(1 812)	(212)	(289)	(2 405)
Transfer	–	(8 075)	8 548	(473)	–	–	–
Depreciation	–	(1 146)	(21 983)	(11 928)	(2 951)	(3 181)	(41 189)
Carrying amount at 29 February 2016	17 048	9 631	182 372	53 350	7 247	16 800	286 448
Cost	17 275	19 169	345 878	109 001	40 188	53 134	584 645
Accumulated depreciation	(227)	(9 538)	(163 506)	(55 651)	(32 941)	(36 334)	(298 197)
Additions	4	117 878	19 569	21 528	16 729	109 759	285 467
Acquired in business combinations	20 163	686 168	267 340	2 375	7 508	9 051	992 605
Government grant	–	–	(2 992)	–	–	–	(2 992)
Foreign currency translation	(214)	(41 778)	(18 851)	(912)	(621)	(2 113)	(64 489)
Disposals	–	(118)	(837)	(3 640)	(324)	(172)	(5 091)
Transfer	10 602	2 657	(16 446)	5 761	908	(3 482)	–
Depreciation	(1 238)	(28 337)	(35 998)	(9 499)	(7 338)	(11 937)	(94 347)
Carrying amount at 28 February 2017	46 365	746 101	394 157	68 963	24 109	117 906	1 397 601
Cost	49 574	1 156 784	723 268	130 335	91 643	211 934	2 363 538
Accumulated depreciation	(3 209)	(410 683)	(329 111)	(61 372)	(67 534)	(94 028)	(965 937)

The cost and net carrying amount of the land within land and buildings is R12 million (2016: R6 million).

Encumbrance

None of the Group's property, plant and equipment is encumbered.

Notes to the Audited Annual Financial Statements continued

for the year ended 28 February 2017

2. Intangible assets

Owned	Trademarks and brand names R000	Goodwill R000	Group Franchise incentives, lease premiums and similar R000	Computer software R000	Total R000
Carrying amount at 1 March 2015	402 086	494 878	13 578	12 034	922 576
Cost	402 086	494 878	30 035	30 656	957 655
Accumulated amortisation	–	–	(16 457)	(18 622)	(35 079)
Additions	31 798	–	13 352	14 805	59 955
Acquired in business combinations	34 124	56 095	–	–	90 219
Foreign currency translation	20 864	25 995	–	–	46 859
Amortisation	(592)	–	(4 969)	(6 160)	(11 721)
Impairment	–	(12 000)	–	–	(12 000)
Carrying amount at 29 February 2016	488 280	564 968	21 961	20 679	1 095 888
Cost	488 872	576 968	43 387	45 461	1 154 688
Accumulated amortisation	(592)	–	(21 426)	(24 782)	(46 800)
Accumulated impairment	–	(12 000)	–	–	(12 000)
Additions	3 024	–	17 252	20 531	40 807
Acquired in business combinations	1 472 227	376 315	39 860	–	1 888 402
Foreign currency translation	(118 496)	(63 971)	(4 320)	–	(186 787)
Disposals	–	–	(3 955)	–	(3 955)
Transfer	(34 306)	–	34 306	–	–
Amortisation	–	–	(10 841)	(4 759)	(15 600)
Carrying amount at 28 February 2017	1 810 729	877 312	94 263	36 451	2 818 755
Cost	1 810 729	889 312	125 657	62 654	2 888 352
Accumulated amortisation	–	–	(31 394)	(26 203)	(57 597)
Accumulated impairment	–	(12 000)	–	–	(12 000)

Trademarks and brand names

The Group's trademarks and brand names that have been assessed as indefinite life intangible assets are disclosed on page 25. Trademarks and brand names acquired in 2017 related to the acquisitions of Catch, Lamberts Bay Foods and GBK. Trademarks acquired in 2016 related to the acquisition of the businesses of Mythos, Cater Chain and Retail Group Botswana. The Group does not amortise its brands by value. In arriving at the conclusion that a brand has an indefinite life, management considers that the Group is a brands business and expects to acquire, hold and support brands for an indefinite period. The Group supports its brands through spending on consumer marketing and through significant investment in promotional support.

Indefinite life trademarks are assessed as such, as management believes there is no foreseeable limit over which the Group will continue to generate revenues from their continued use. Supporting this assumption is the fact that the brands held are established, well known, and can reasonably be expected to generate revenues beyond the Group's strategic planning horizon. In addition, the Group can continue to renew legal rights attached to such trademarks, without significant costs, and intends to do so beyond the foreseeable future.

2. Intangible assets continued

Goodwill

Goodwill acquired during the year ended February 2017 as part of business combinations related to the acquisition of the Salsa, Lupa and GBK businesses. Goodwill acquired during the year ended February 2016 as part of business combinations related to the acquisition of the Cater Chain and Retail Group Botswana businesses.

Franchise incentives, lease premiums and similar

Franchise incentives and similar represent financial assistance given to franchisees in respect of fit-out costs. Together with lease premiums, these are initially measured at cost and amortised over the period of the franchise agreements, as well as licenses held but not owned.

Impairment reviews of goodwill and indefinite life intangible assets

For the purposes of impairment testing, goodwill is allocated to the smallest cash-generating unit. Significant goodwill and indefinite life intangible asset carrying amounts and the cash-generating units to which they relate are detailed below.

	Group	
	2017 R000	2016 R000
Trademarks and brand names		
Domestic[^]		
Wimpy, Debonairs Pizza, FishAways, Milky Lane, Steers, tashas, Vovo Telo, KEG, Mugg & Bean, Europa, Fego Caff�, Bread Basket, Mythos, Wakaberry TM , Cater Chain, Catch, Tru Fruit and Lamberts Bay Foods	364 752	348 380
International^{^^}		
Wimpy UK and GBK	1 445 977	105 445
	1 810 729	453 825
Goodwill		
Domestic[^]		
Wimpy, Debonairs Pizza, FishAways, Steers, O'Hagan's, Famous Brands Coffee Company, Turn 'n Tender, Wakaberry TM , Cater Chain and Retail Group Botswana, Lupa, Salsa	405 838	433 122
International^{^^}		
Wimpy UK, GBK	471 474	131 846
	877 312	564 968

[^] With the exception of Cater Chain and Lamberts Bay Foods, which are allocated to the manufacturing revenue stream, allocated to local franchise revenue stream.

^{^^} Allocated to Famous Brands UK revenue stream.

South African-based intangibles

The recoverable amounts of trademarks, brand names and goodwill have been determined on the basis of value-in-use calculations. Value-in-use calculations use cash flow projections based on 2018 financial year budgets, approved by management, extrapolated by a combination of volume growth rates and long-term growth rates of between 6% and 10% for five years. These five-year cumulative cash flows are discounted using a pre-tax weighted average cost of capital range between 10% and 12% (2016: between 14% and 16%). There was no impairment recognised during the year under review (2016: R12 million).

UK-based intangibles

Wimpy UK

The recoverable amounts of trademarks, brand names and goodwill and other intangibles have been determined on the basis of value-in-use calculations. Value-in-use calculations use cash flow projections based on 2018 financial year budgets, approved by management, extrapolated over the following four years with an annuity calculation thereafter to represent a terminal value at an average growth rate of between 3% and 4% (2016: 4%). The five-year cumulative cash flow was discounted using a pre-tax weighted average cost of capital of between 7% to 13% (2016: 11.1%). There was no impairment recognised during the year under review (2016: nil).

Key assumptions used in value-in-use calculations include budgeted manufacturing margins and budgeted franchising revenue streams. Such assumptions are based on historical results adjusted for anticipated future growth. These assumptions are a reflection of management's past experience in the market in which these units operate.

Based on the above assumptions, management's calculations of recoverable amounts were greater than the carrying amounts.

Sensitivity analysis on value-in-use calculations

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 1% less favourable than management's estimates, the Group would need to reduce the carrying value of the trademarks and brand names by Rnil (2016: Rnil) and goodwill by Rnil (2016: R5 million). If the actual gross margin and the pre-tax discounted rate had been more favourable than management's estimates, the Group would not be able to reverse any impairment losses that arose on trademarks and brand names, if this resulted from the disposal of the relevant business in the cash-generating unit, as no previous trademark impairment has been recognised. IAS 36 *Impairment of Assets* does not permit reversing an impairment loss for goodwill.

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2. Intangible assets continued UK-based intangibles continued

GBK

The GBK business acquired during the period was assessed as a cash-generating unit. The goodwill which arose on the acquisition of the business during the period was allocated to this cash-generating unit's carrying amount for the purpose of the impairment assessment.

The recoverable amount of the cash-generating unit was determined on the basis of fair value less cost to sell. 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 profit targets and the discount rate applied in arriving at the acquisition price. The assumed profitability was based on historical performances but adjusted for expected growth.

The future profits were forecast over a period of five years applying a declining growth rate averaging 23% over the five-year period. A growth rate of 1% per annum was set for the years subsequent to the forecast. A discount rate of 9.33% was applied.

No impairment was recognised during the current year for the cash-generating unit.

Sensitivity analysis on fair value less costs to sell

A change of 1% in the discount rate will result in a movement in the recoverable amount of R7.5 million. A change of 1% in the forecast cash flows will result in a movement in the recoverable amount of R9.1 million. These changes will not result in any impairment of the cash-generating unit. If the future cash flows decrease with 1%, the recoverable amount will decrease by R9.1 million; however, this will not result in an impairment.

3. Investments in associates

Name of associate	Principal activity	Place of incorporation and operation	Year-end	Effective date of acquisition	Group			
					2017	Interest held by Famous Brands Group %	2016	Interest held by Famous Brands Group %
					Carrying amount R000		Carrying amount R000	
UAC Restaurants Limited	Quick service restaurants	Nigeria	31 December	1 October 2013	30 193	49	50 613	49
Sauce Advertising (Pty) Ltd	Advertising	South Africa	28 February	1 March 2013	1 695	35	2 133	35
It's a Matter of Taste (Pty) Ltd	Commercial catering	South Africa	28 February	1 December 2016	51 195	49.9	–	–
					83 083		52 746	

The above associates are accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's material associates is set out on page 27. The summarised financial information represents the associates' financial statements prepared in accordance with IFRS.



3. Investments in associates continued

UAC Restaurants Limited (UACR)

UACR is a subsidiary of UAC of Nigeria plc, a leading diversified conglomerate with operations in foods, paints, logistics and real estate, listed on the Nigerian Stock Exchange.

The UACR business, trading as Mr Bigg's, remains in repair mode. In light of the prevailing difficult economic climate in Nigeria, and the introduction of a flexible exchange rate policy and subsequent devaluation of the Naira, the Group recognised a R20 million impairment on its investment in the UACR business. In addition, a number of underperforming Mr Bigg's restaurants were closed, while opportunities to open additional restaurants remain constrained in the current economy, further tempering management's outlook for this business in the short term.

The latest available IFRS-compliant financial statements of UACR were at 31 December 2016 (stated in Nigerian Naira (N)). The financial year-end date of UACR was 31 December 2016. This was the reporting date established when that company was incorporated, and has been aligned with the tax year in Nigeria. For the purposes of applying the equity method of accounting, the financial statements of UACR for the year ended 31 December 2016 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 28 February 2017.

	2017 31 December N000	2016 31 December N000
Current assets	539 949	582 154
Non-current assets	564 871	713 142
Current liabilities	(679 450)	(839 946)
Non-current liabilities	(22 123)	(23 578)
Net assets of the associate	403 247	431 772
Revenue	1 181 762	1 078 124
Loss from continuing operations	(28 525)	(133 620)
Loss for the year	(28 525)	(133 620)
Other comprehensive income for the year	–	–
Total comprehensive loss for the year	(28 525)	(133 620)

	2017 R000	2017 R000
Reconciliation of the carrying amount of the interest in UACR		
Balance at the beginning of the year	50 613	54 247
Impairment on investment	(20 000)	–
The Group's share of loss from continuing operations	(420)	(3 634)
Dividends received	–	–
Carrying amount of the Group's interest in UACR	30 193	50 613

It's a Matter of Taste (Pty) Ltd

It's a Matter of Taste (Pty) Ltd (trading as By Word of Mouth) is a multi-awarded commercial catering company, acquired by the Group effective 1 December 2016. Its summarised financial information is set out below:

Current assets	16 380	–
Non-current assets	9 167	–
Current liabilities	(19 579)	–
Non-current liabilities	(275)	–
Net assets of the associate	5 693	–
Revenue for the three months ended 28 February 2017	21 353	–
Profit from continuing operations for the three months ended 28 February 2017	1 247	–
Profit for the year for the three months ended 28 February 2017	1 247	–
Other comprehensive income for the three months ended 28 February 2017	–	–
Total comprehensive income for the three months ended 28 February 2017	1 247	–
Dividends received from the associate during the year	–	–

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3. Investments in associates continued

	2017 R000	2016 R000
Reconciliation of the carrying amount of the interest in By Word of Mouth		
Balance at the beginning of the year	–	–
Acquired during the year	50 573	–
The Group's share of profit from continuing operations	622	–
Carrying amount of the Group's interest in By Word of Mouth	51 195	–
Aggregate information of associates that are not individually material:		
The Group's share of profit from continuing operations	4 112	622
The Group's share of other comprehensive income	4 112	622
Aggregate carrying amount	1 695	2 133

4. Investments in subsidiaries

	Company 2017 R000	2016 R000
Unlisted shares at cost less amounts written off	1 961 460	347 864
Net amount owing to subsidiaries	(1 840 693)	(145 249)
Receivables from Group companies	227 684	3 679
Payables to Group companies*	(2 068 377)	(148 928)
	120 767	202 615

* The amounts owing to Group companies are interest free and have no fixed terms of repayment. They are disclosed as current on the statement of financial position as required by IFRS. However, repayment is not expected in the foreseeable future. Therefore, the Company's ability to settle its short-term obligations is not in question.

A schedule of subsidiaries of the Company is set out in Note 30.

5. Deferred tax

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Balance at the beginning of the year (net)	77 716	48 021	–	(712)
Acquired in business combinations	331 364	10 030	–	–
Foreign currency effect	(24 141)	6 426	–	–
Movement through profit and loss	(3 890)	13 239	–	712
Current year temporary differences	145	19 199	–	–
Prior year over provision	(4 035)	(5 960)	–	–
Movement through other comprehensive income	–	–	–	–
Current year temporary differences	(7 078)	–	–	–
Balance at the end of the year (net)	373 971	77 716	–	–

5. Deferred tax continued

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Analysis				
Excess capital allowances over depreciation and amortisation	79 783	48 592	–	–
Property, plant and equipment	70 105	15 037	–	–
Intangible assets	9 678	33 555	–	–
Effect of tax losses	496	(1 762)	–	–
Prepayments	13 879	6 548	–	–
Provisions	(11 386)	(11 057)	–	–
Other temporary differences	(20 242)	(12 101)	–	–
	62 530	30 220	–	–
Attributable to the valuation of assets in line with IFRS 3 <i>Business Combinations</i> :				
Trademarks*	296 635	45 090	–	–
Property, plant and equipment	14 807	2 406	–	–
	311 442	47 496	–	–
* This will only reverse on a change in tax rate, an impairment of the trademark asset and brand name or on disposal of the businesses.				
The balance comprises:				
Aggregate of deferred tax assets	(16 074)	(1 295)	–	–
Aggregate of deferred tax liabilities	390 045	79 011	–	–
	373 971	77 716	–	–

6. Inventories

	Group	
	2017 R000	2016 R000
Raw materials	92 861	61 078
Finished goods	344 615	231 714
Stock in transit	6 331	–
Consumables	10 849	8 833
	454 656	301 625

Write-downs of inventories to their net realisable value and obsolete inventory provisions, mainly relating to finished goods, amounted to R307 000 (2016: R621 000), and have reduced gross inventories to the carrying amounts above. There are no inventories pledged as security for liabilities.

The cost of inventory in stock write-offs expensed was R3 million (2016: R2 million).

Notes to the Audited Annual Financial Statements continued

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7. Derivative financial instruments

	Note	Group				Company			
		2017		2016		2017		2016	
		Assets R000	Liabilities R000	Assets R000	Liabilities R000	Assets R000	Liabilities R000	Assets R000	Liabilities R000
Put options written over the equity of non-controlling interests		–	(211 239)	–	(124 821)	–	(60 447)	–	–
Foreign currency option (liabilities)/assets		–	(102)	100	–	–	–	–	–
Interest rate swap liabilities	7.1	–	(8 509)	–	–	–	–	–	–
Balance at the end of the year (net)		–	(219 850)	100	(124 821)	–	(60 447)	–	–
Maturity analysis									
Current (liabilities)/assets		–	(23 381)	100	–	–	–	–	–
Non-current liabilities		–	(196 469)	–	(124 821)	–	(60 447)	–	–
Balance at the end of the year (net)		–	(219 850)	100	(124 821)	–	(60 447)	–	–

Refer to Note 31 Risk management for further details.

7.1 Interest rate swap liabilities

The Group has entered into interest rate swap contracts that entitle it to pay fixed interest rates on notional principal amounts relating to interest-bearing borrowings raised at floating interest rates (refer to Note 13 Borrowings). The table below sets out the details of the interest rate swap contracts:

	Maturity date	Group			
		2017 Notional amount Rm	Fixed interest rate %	2016 Notional amount Rm	Fixed interest rate %
Syndicated loans (swap from variable to fixed)					
Syndicated facility: three-year bullet	Sep 2019	288 000	7.70	–	–
Syndicated facility: four-year bullet	Sep 2020	288 000	7.83	–	–
Syndicated facility: five-year amortising, repayable quarterly	Sep 2021	384 000	7.78	–	–

8. Trade and other receivables

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Financial instruments	551 844	444 069	–	–
Trade receivables	508 694	393 589	–	–
Impairment allowance	(24 796)	(6 930)	–	–
Net trade receivables	483 898	386 659	–	–
VAT receivable	33 728	28 078	64	–
Advertising levy deficit	8 841	11 199	–	–
Other receivables	25 377	18 133	75	–
Non-financial instruments	97 446	19 192	–	–
Prepayments	97 446	19 192	–	–
	649 290	463 261	139	–
Credit quality of trade and other receivables				
The Group has a wide customer base. No credit rating has been obtained from banks. One debtor has a current balance in excess of 5% of the trade receivables balance amounting to R45 million (2016: R26 million).				
The table below illustrates the trade receivables ageing analysis:				
Less than 30 days	482 030	385 234	–	–
31 to 60 days	8 277	2 645	–	–
61 to 90 days	(2 085)	–	–	–
Over 90 days	20 472	5 710	–	–
	508 694	393 589	–	–
It is the policy of the Company to allow seven to 90-day payment terms.				
Fair value of trade and other receivables				
There is no material difference between the fair value of trade and other receivables and their book value due to the short-term nature of these items.				
Trade and other receivables past due and not impaired				
Trade and other receivables that are less than three months past due are not considered to be impaired unless specific circumstances indicate otherwise. Amounts that were past due but not impaired were as follows:				
Over 90 days	289	447	–	–
Trade and other receivables impaired				
Trade and other receivables that were impaired and provided for were as follows:				
Less than 30 days	79	996	–	–
31 to 60 days	–	576	–	–
61 to 90 days	–	95	–	–
91 to 120 days	24 717	5 263	–	–
	24 796	6 930	–	–
Reconciliation of trade and other receivables impairment allowance				
Balance at the beginning of the year	6 930	2 999	–	–
Amounts raised during the year	21 266	5 045	–	–
Amounts written off as uncollectible	(3 400)	(1 114)	–	–
Balance at the end of the year	24 796	6 930	–	–

The maximum exposure to credit risk at the reporting date is the fair value of trade and other receivables above.

The Group does not hold any collateral as security.

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9. Cash and cash equivalents

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position items:				
Cash and cash equivalents	428 820	146 134	908	428
Bank overdrafts	(23 626)	(140 250)	–	–
Cash on hand and bank balances	405 194	5 884	908	428
As described in the accounting policies, certain bank overdrafts payable on demand fluctuate from being positive to overdrawn and are considered an integral part of the Group's cash management for cash flow statement purposes.				
There is no material difference between the fair value and the book value of cash and cash equivalents.				

10. Issued capital and share premium

Share capital	999	998	999	998
Share premium	130 476	124 356	131 846	125 726
	131 475	125 354	132 845	126 724
Share capital				
Authorised				
200 000 000 (2016: 200 000 000) ordinary par value shares of 1 cent each	2 000	2 000	2 000	2 000
Issued				
Total shares in issue 99 862 435 (2016: 99 812 435) ordinary par value shares of 1 cent each	999	998	999	998
Unissued				
100 137 565 (2016: 100 187 565) ordinary par value shares of 1 cent each				
3% of the unissued shares are under the control of the directors until the next Annual General Meeting.	1 002	1 002	1 002	1 002
6 702 538 (2016: 6 702 538) of the unissued ordinary shares are specifically reserved for the Famous Brands Share Incentive Scheme, of which 510 000 (2016: 620 000) options have already been offered to and accepted by directors and employees.				
Share premium				
Balance at the beginning of the year	124 356	124 139	125 726	125 726
Premium on shares issued	6 120	217	6 120	–
Balance at the end of the year	130 476	124 356	131 846	125 726

11. Other reserves

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Foreign currency translation reserve	(118 286)	127 317	–	–
Share-based payments	75 191	48 885	85 966	59 660
Change in ownership	(13 434)	(12 323)	–	–
Put options equity reserve	(191 659)	(118 426)	–	–
Contingent consideration	–	1 568	–	–
Cash flow hedge reserve	(2 704)	–	–	–
	(250 892)	47 021	85 966	59 660

12. Lease liabilities

Operating leases smoothing liability	80 380	6 757	–	–
Finance lease payables	6 290	5 790	–	–
Balance at the end of the year	86 670	12 547	–	–

Maturity analysis

Current liabilities	6 548	1 689	–	–
Non-current liabilities	80 122	10 858	–	–
	86 670	12 547	–	–

12.1 Operating lease smoothing liability

Balance at the beginning of the year	6 757	2 937	–	–
Movement during the year	73 623	3 820	–	–
Balance at the end of the year	80 380	6 757	–	–

Maturity analysis

Current liabilities	5 187	436	–	–
Non-current liabilities	75 193	6 321	–	–
	80 380	6 757	–	–

12.2 Finance lease payables

Balance at the beginning of the year	5 790	–	–	–
Movement during the year	500	5 790	–	–
Balance at the end of the year	6 290	5 790	–	–

Maturity analysis

Current liabilities	1 361	1 253	–	–
Non-current liabilities	4 929	4 537	–	–
	6 290	5 790	–	–

Details of the lease rentals are disclosed in Note 24.

Notes to the Audited Annual Financial Statements continued

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13. Borrowings

						Group			
	Currency	Maturity date	Nature	Interest rate Margin	Rate	2017 %	2016 %	2017 R000	2016 R000
Unsecured									
Long-term borrowings								2 740 744	–
Short-term portion of borrowings								114 853	–
								2 855 597	–
Interest is paid quarterly in arrears. The Company has unlimited borrowing powers in terms of its Memorandum of Incorporation.									
Terms of repayment									
Syndicated facility: three-year bullet	ZAR	Sep 2019	variable	2.35%	3-month JIBAR	7.36	–	720 000	–
Syndicated facility: four-year bullet	ZAR	Sep 2020	variable	2.55%	3-month JIBAR	7.36	–	720 000	–
Syndicated facility: five-year amortising	ZAR	Sep 2021	variable	2.45%	3-month JIBAR	7.36	–	960 000	–
								2 400 000	
Syndicated facility: revolving credit	GBP		variable	2.15%	3-month LIBOR	0.34	–	485 553	
Transaction costs								(55 035)	
Interest accrued								25 079	
								2 855 597	
Maturity analysis – capital									
Payable within one year								114 853	–
Payable between two and five years								2 740 744	–
								2 855 597	–

Sensitivity analysis

A change of 1% in interest rates at the reporting date would have increased/(decreased) profit or loss by R10 million.

Interest risk management

The Group utilises interest rate swap contracts to hedge its exposure to the variability of cash flows arising from unfavourable movements in interest rates. Refer to Note 31 Risk management for further details.

Facilities

Total ZAR overdraft facility in place: R190 million. Unutilised portion at year-end: R166 million.

Total GBP borrowings facility in place: £30 million. Unutilised portion at year-end: £nil.

Guarantees

Famous Brands Limited, Famous Brands Management Company (Pty) Ltd, Mugg & Bean Franchising (Pty) Ltd, Venus Solutions Limited and Famous Brands UK Limited have guaranteed in terms of the syndicated loan agreement:

- Punctual performance by the Group of amounts due in the syndication agreement.
- Immediate payment of amounts due which the Group has not paid.
- To indemnify the finance parties against any cost, loss or liability it incurs as a result of the Group not paying amounts that are due.

Underwriting and participation fees (transaction costs)

The unamortised portion of underwriting and participation fees paid have been recognised in the above long-term borrowings balance. The amortised portion is included within finance costs.

14. Non-controlling shareholder loans

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Unsecured:				
Amounts due to non-controlling shareholders of:				
Famous Brands Cheese Company (Pty) Ltd*	13 266	13 866	–	–
Famous Brands Great Bakery Company (Pty) Ltd	1 364	3 079	–	–
Cater Chain Food Services (Pty) Ltd	7 500	8 043	–	–
	22 130	24 988	–	–

* Previously Coega Cheese (Pty) Ltd.

The loans have no fixed terms of repayment. Interest is charged at variable rates. The book value of the loans is considered to be in line with the fair value.

15. Trade and other payables

Financial instruments	648 162	367 494	89	–
Trade payables	429 103	251 701	–	–
Accruals	214 007	109 413	89	–
Advertising levy surplus	5 052	6 380	–	–
Non-financial instruments	142 729	94 987	–	19
Employee benefits	82 448	41 822	–	–
Deferred income	22 326	25 653	–	–
VAT payable	37 955	27 512	–	19
	790 891	462 481	89	19

Accruals and deferred income represent miscellaneous contractual liabilities that relate to expenses that were incurred, but not paid for at the year-end and income received during the year, for which the Group had not supplied the goods or services at the end of the year.

The book value of trade payables, accruals and deferred income is considered to be in line with their fair values due to the short-term nature of the instruments.

16. Revenue

Sale of goods	4 116 221	3 482 991	–	–
Services rendered and franchise revenue	1 604 142	825 327	–	–
Dividends received from subsidiaries*	–	–	30 000	405 000
	5 720 363	4 308 318	30 000	405 000

* Dividends received from subsidiaries have been reclassified to Revenue to enhance disclosure.

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17. Profit before tax

	Note	Group		Company	
		2017 R000	2016 R000	2017 R000	2016 R000
Profit before tax is arrived at after taking into account, among other items, those detailed below:					
Depreciation of property, plant and equipment		94 347	41 189	–	–
Amortisation of intangible assets		15 600	11 721	–	–
Employee costs		865 534	525 013	–	–
Directors' remuneration	27	11 302	17 577	3 083	2 345
Executive directors		8 219	15 232	8 219	15 232
Non-executive directors		3 083	2 345	3 083	2 345
Less: Amounts paid by subsidiaries		–	–	(8 219)	(15 232)
Auditors' remuneration		7 519	5 216	–	–
Audit fee		6 559	4 683	–	–
Fees for other services		960	533	–	–
Foreign exchange loss/(profit)		6 522	2 535	14 783	(939)
Loss/(gain) on foreign currency options		8	(6 108)	–	–
Net finance costs/(income)		131 557	6 909	2 409	(382)
Finance costs		184 389	27 375	2 482	–
Finance income		(52 832)	(20 466)	(73)	(382)
Net operating lease charges		129 182	55 885	–	–
Operating lease charges on immovable property		155 111	88 942	–	–
Operating lease charges recovered from sub-lessees		(35 268)	(38 859)	–	–
Operating lease charges on movable property		9 339	5 802	–	–
Profit on disposal of property, plant, equipment and intangible assets		(958)	(122)	–	–
Share of (profit)/loss of associates		(4 314)	622	–	–
Share-based payments		26 306	10 173	–	–
Non-operational items*		120 755	12 000	(19 877)	–
Impairment loss		20 000	12 000	–	–
Gain on bargain purchase		(6 213)	–	–	–
Derivative loss on call option utilised to hedge GBK purchase price		33 253	–	–	–
Foreign exchange loss on initial recognition of GBK investment		23 295	–	23 295	–
Professional fees		50 420	–	17 572	–
Profit on the restructuring of the Company's offshore structure (Cyprus)		–	–	(60 744)	–

* Represents non-operational items that are not expected to recur in future.

18. Tax

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Normal tax				
Current tax	239 136	207 772	–	619
Current year	238 047	204 607	–	619
Prior year underprovision	1 089	3 165	–	–
Deferred tax	(3 890)	13 239	–	–
Current temporary differences	145	19 199	–	–
Prior year overprovision	(4 035)	(5 960)	–	–
	235 246	221 011	–	619

Reconciliation of rate of tax

	%	%	%	%
South African normal rate of tax	28.0	28.0	28.0	28.0
Reduction in rate for year, due to:				
Exempt dividend income	–	–	(20.9)	(28.0)
Share of profits of associates	(0.2)	(0.1)	–	–
Prior year overprovision: Deferred tax	(0.6)	(0.8)	–	–
Foreign tax differential	(1.1)	(0.1)	–	–
Non-taxable income	–	–	(42.3)	–
Increase in rate for year, due to:				
Disallowable expenditure*	5.3	0.9	11.0	–
Prior year underprovision: Current tax	–	0.4	–	–
Withholding taxes	0.2	0.3	–	–
Tax paid on controlled foreign companies	–	–	–	0.2
Unutilised losses	2.2	–	24.2	–
Securities transfer tax	0.3	–	–	–
Effective rate of tax	34.1	28.6	–	0.2

* Mainly attributable to non-deductible acquisition costs.

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19. Earnings and diluted earnings per share

Basic earnings per share

The calculation of basic earnings per ordinary share is based on earnings of R413 747 thousand (2016: R527 699 thousand) and a weighted average number of shares in issue of 99 841 602 (2016: 99 810 768).

Basic earnings per share before non-operational items and additional interest costs

The calculation of basic earnings per ordinary share before non-operational items and additional interest costs is based on earnings of R612 831 thousand (2016: R539 699 thousand) and a weighted average number of shares in issue of 99 841 602 (2016: 99 810 768).

Diluted earnings per share

The calculation of diluted earnings per ordinary share is based on diluted earnings of R413 747 thousand (2016: R527 699 thousand) and a weighted average number of shares in issue of 100 091 771 (2016: 99 892 206), after taking into account the effect of the possible issue of 250 169 (2016: nil) ordinary shares in the future relating to the share incentive scheme.

Diluted earnings per share before non-operational items and additional interest costs

The calculation of diluted earnings per ordinary share before non-operational items and additional interest costs is based on diluted earnings before non-operational items of R612 831 thousand (2016: R539 699 thousand) and a weighted average number of shares in issue of 100 091 771 (2016: 99 892 206), after taking into account the effect of the possible issue of 250 169 (2016: nil) ordinary shares in the future relating to the share incentive scheme.

	Group					
	Gross R000	2017 Tax R000	Net R000	Gross R000	2016 Tax R000	Net R000
Reconciliation between basic earnings and diluted basic earnings						
Attributable profit to owners of Famous Brands Limited	413 747	–	413 747	527 699	–	527 699
Basic and diluted basic earnings	413 747	–	413 747	527 699	–	527 699
Reconciliation between basic earnings and basic and diluted basic earnings before non-operational items and additional interest costs						
Basic earnings	413 747	–	413 747	527 699	–	527 699
Adjusted for non-operational items	120 755	(16 288)	104 467	12 000	–	12 000
Professional fees	50 420	(454)	49 966	–	–	–
Gain on bargain purchase	(6 213)	–	(6 213)	–	–	–
Foreign exchange loss on initial recognition of GBK investment	23 295	(6 523)	16 772	–	–	–
Derivative loss on call option utilised to hedge GBK purchase price	33 253	(9 311)	23 942	–	–	–
Impairment loss	20 000	–	20 000	12 000	–	12 000
Adjusted for additional interest costs	106 454	(11 837)	94 617			
Interest on borrowings	94 000	(11 837)	82 163	–	–	–
Remeasurement of interest rate swap (ineffective portion)	5 416	–	5 416	–	–	–
Amortisation of underwriting and participation fees	7 038	–	7 038	–	–	–
Basic and diluted basic earnings before non-operational items and additional interest costs	640 956	(28 125)	612 831	539 699	–	539 699
Basic earnings per share (cents)			414			529
Basic earnings per share before non-operational items and additional interest costs (cents)			614			541
Diluted earnings per share (cents)			413			528
Diluted earnings per share before non-operational items and additional interest costs (cents)			612			540

20. Headline earnings and diluted headline earnings per share

Basic headline earnings

The calculation of headline earnings per ordinary share is based on headline earnings of R426 844 thousand (2016: R539 611 thousand) and a weighted average number of shares in issue of 99 841 602 (2016: 99 810 768).

Basic headline earnings before non-operational items and additional interest costs

The calculation of headline earnings before non-operational items and additional interest costs per ordinary share is based on headline earnings of R612 141 thousand (2016: R539 611 thousand) and a weighted average number of shares in issue of 99 841 602 (2016: 99 810 768).

Diluted headline earnings

The calculation of diluted headline earnings per ordinary share is based on diluted headline earnings of R426 844 thousand (2016: R539 611 thousand) and a weighted average number of shares in issue of 100 091 771 (2016: 99 892 206), after taking into account the effect of the possible issue of 250 169 (2016: nil) ordinary shares in the future relating to the share incentive scheme.

Diluted headline earnings before non-operational items and additional interest costs

The calculation of diluted headline earnings per ordinary share is based on diluted headline earnings of R612 141 thousand (2016: R539 611 thousand) and a weighted average number of shares in issue of 100 090 771 (2016: 99 892 206), after taking into account the effect of the possible issue of 250 169 (2016: nil) ordinary shares in the future relating to the share incentive scheme.

	Group					
	Gross R000	2017 Tax R000	Net R000	Gross R000	2016 Tax R000	Net R000
Reconciliation between earnings, headline earnings and diluted headline earnings						
Attributable profit to owners of Famous Brands Limited	413 747	–	413 747	527 699	–	527 699
Adjustment for:	12 829	268	13 097	11 878	34	11 912
Profit on disposal of property, plant and equipment	(958)	268	(690)	(122)	34	(88)
Impairment loss	20 000	–	20 000	12 000	–	12 000
Gain on bargain purchase price	(6 213)	–	(6 213)	–	–	–
Headline earnings	426 576	268	426 844	539 577	34	539 611
Basic and diluted headline earnings	426 576	268	426 844	539 577	34	539 611
Reconciliation between earnings, headline earnings and diluted headline earnings before non-operational items and additional interest costs						
Basic and diluted earnings before non-operational items and additional interest costs	640 956	(28 125)	612 831	539 699	–	539 699
(Profit)/loss on disposal of property, plant and equipment	(958)	268	(690)	(122)	34	(88)
Headline earnings before non-operational items and additional interest costs	639 998	(27 857)	612 141	539 577	34	539 611
Diluted headline earnings before non-operational items and additional interest costs	639 998	(27 857)	612 141	539 577	34	539 611
Basic headline earnings per share (cents)			428			541
Basic headline earnings per share before non-operational items and additional interest costs (cents)			613			541
Diluted headline earnings per share (cents)			426			540
Diluted headline earnings per share before non-operational items and additional interest costs (cents)			612			540

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21. Dividends

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Final dividend number 41 of 200 cents, paid 13 July 2015		199 625		199 625
Interim dividend number 42 of 190 cents, paid 7 December 2015		189 644		189 644
Final dividend number 43 of 215 cents, paid 11 July 2016	214 704		214 704	
	214 704	389 269	214 704	389 269

	Cents	Cents	Cents	Cents
Dividend per share	–	405	–	405
Interim	–	190	–	190
Final	–	215	–	215

The Group concluded a number of acquisitions during the year to support its robust growth targets. Consequently, the business's gearing is substantially higher than in prior years and the Board has therefore resolved that no final dividend will be declared for the period. As noted in the interim results announcement, it is anticipated that, subject to future acquisitions, payment of dividends will resume in the 2018 financial year.

22. Cash flow information

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000

22.1 Reconciliation of profit before tax to cash generated by operations

Profit before tax	690 050	772 577	40 183	404 140
Adjustments for:				
Depreciation of property, plant and equipment	94 347	41 189	–	–
Amortisation of intangible assets	15 600	11 721	–	–
Impairment loss	20 000	12 000	–	–
Dividends received	–	–	(30 000)	(405 000)
Foreign currency effect of equity loans	(43 078)	3 532	–	–
Gain on bargain purchase	(6 213)	–	–	–
Movement in lease liabilities	2 217	9 923	–	–
Net finance costs/(income)	131 557	6 287	4 892	(382)
Profit on disposal of property, plant, equipment	(958)	(122)	–	–
Profit on sale of business	–	–	(60 744)	–
Share of (profit)/loss from associates	(4 314)	622	–	–
Share-based payments reserve	26 306	10 173	–	–
Other non-cash items	6 338	6 831	(1 628)	–
Cash generated/(utilised) before changes in working capital	931 852	874 733	(47 297)	(1 242)
Working capital changes	(136 590)	(156 363)	(69)	11
Increase in inventories	(91 118)	(84 357)	–	–
Increase in receivables	(16 033)	(131 452)	(139)	–
(Decrease)/increase in payables	(29 439)	59 446	70	11
Cash generated from/(utilised in) operations	795 262	718 370	(47 366)	(1 231)

22. Cash flow information continued

		Group		Company	
		2017 R000	2016 R000	2017 R000	2016 R000
22.2 Reconciliation of tax paid during the year					
Amounts receivable at the beginning of the year		49 073	5 705	730	1 086
Amounts charged to profit and loss		(235 246)	(221 011)	–	(619)
Adjustment for deferred tax		(3 890)	13 239	–	–
Acquisition of subsidiary		(821)	2 730	–	–
Foreign currency effect		4 234	4 417	–	–
Amounts receivable at the end of the year		(28 065)	(49 073)	(730)	(730)
Tax paid		(214 715)	(243 993)	–	(263)
22.3 Reconciliation of dividends paid during the year					
Amounts owing at the beginning of the year		(1 873)	(1 487)	(1 873)	(1 487)
Amounts charged to retained earnings		(227 512)	(398 389)	(214 704)	(389 269)
Amounts owing at the end of the year		2 221	1 873	2 221	1 873
Dividends paid		(227 164)	(398 003)	(214 356)	(388 883)
22.4 Acquisition of business operations					
Summary of cash outflow on acquisition of subsidiaries					
BC Hospitality (Lupa)		3 958	–		
Chilango (Pty) Ltd		4 985	–		
Lamberts Bay Foods Limited		73 530	–		
GBK Restaurants Limited		1 815 518	–		
Cater Chain Food Services and City Deep Cold Storage		–	38 082		
Retail Group		–	45 907		
Total cash outflow on acquisition of subsidiaries		1 897 991	83 989		
BC Hospitality (Pty) Ltd (Lupa)					
Effective 1 May 2016, a 51% share was acquired in BC Hospitality (Pty) Ltd (Lupa), for a consideration of R4 million. In total, R3.9 million was allocated to goodwill because of anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.					
Fair value of assets and liabilities acquired					
Cash and cash equivalents		42	–		
Trade and other payables		89	–		
Current tax liabilities		(5)	–		
Net assets acquired		126	–		
Non-controlling interests measured at their share of the fair value of net assets		(62)	–		
Amount capitalised		64	–		
Goodwill		3 936	–		
Purchase price		4 000	–		
Cash and cash equivalents		(42)	–		
Cash outflow on acquisition of subsidiary		3 958	–		

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22. Cash flow information continued

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
22.4 Acquisition of business operations continued				
Chilango (Pty) Ltd (Salsa)				
Effective 31 May 2016, a 51% interest was acquired in Chilango (Pty) Ltd (Salsa), for a consideration of R6.1 million. In total, R7.8 million was allocated to goodwill because of anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.				
Fair value of assets and liabilities acquired				
Property, plant and equipment	2 566	—		
Inventories	137	—		
Trade and other receivables	34	—		
Cash and cash equivalents	1 197	—		
Trade and other payables	(1 220)	—		
Non-controlling shareholder loans	(732)	—		
Net assets acquired	1 982	—		
Non-controlling interests measured at their share of the fair value of net assets	(971)	—		
Amount capitalised	1 011	—		
Goodwill	7 760	—		
Purchase price	8 771	—		
Contingent consideration	(2 589)	—		
Cash and cash equivalents	(1 197)	—		
Cash outflow on acquisition of subsidiary	4 985	—		
Lamberts Bay Foods Limited				
Effective 1 August 2016, a 100% interest was acquired in Lamberts Bay Foods Limited, for a consideration of R70 million. In total, R6.2 million gain on bargain purchase was realised.				
Fair value of assets and liabilities acquired				
Property, plant and equipment	48 188	—		
Intangible assets	16 277	—		
Inventories	38 361	—		
Trade and other receivables	36 932	—		
Current tax assets	1 314	—		
Cash and cash equivalents	8	—		
Deferred tax	(16 218)	—		
Trade and other payables	(45 110)	—		
Bank overdrafts	(3 539)	—		
Net assets acquired	76 213	—		
Gain on bargain purchase	(6 213)	—		
Purchase price	70 000	—		
Cash and cash equivalents	3 530	—		
Cash outflow on acquisition of subsidiary	73 530	—		

22. Cash flow information continued

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
22.4 Acquisition of business operations continued				
GBK Restaurants Limited				
Effective 7 October 2016, a 100% interest was acquired in GBK Restaurants Limited, for a consideration of R1.82 billion. In total, R364.6 million was allocated to goodwill because of anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.				
Fair value of assets and liabilities acquired				
Property, plant and equipment	941 813	—		
Intangible assets	1 495 809	—		
Inventories	25 034	—		
Trade and other receivables	122 622	—		
Provision for doubtful debt	(14 332)	—		
Cash and cash equivalents	11 275	—		
Borrowings	(427 301)	—		
Deferred tax liabilities	(315 146)	—		
Trade and other payables	(375 471)	—		
Current tax liabilities	(2 130)	—		
Net assets acquired	1 462 173	—		
Goodwill	364 620	—		
Purchase price	1 826 793	—		
Cash and cash equivalents	(11 275)	—		
Cash outflow on acquisition of subsidiary	1 815 518	—		
Cater Chain Food Services and City Deep Cold Storage				
Effective 1 April 2015, a 75% share was acquired in both Cater Chain Food Services and City Deep Cold Storage for a consideration of R30 million. In total, R15.1 million was allocated to goodwill because of anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.				
Fair value of assets and liabilities acquired				
Property, plant and equipment	—	21 245		
Intangible assets	—	6 609		
Trade and other receivables	—	19 471		
Inventories	—	28 970		
Current tax assets	—	787		
Bank overdraft	—	(8 082)		
Deferred tax	—	(3 871)		
Trade and other payables	—	(45 296)		
Net assets acquired	—	19 833		
Non-controlling interests measured at their share of the fair value of net assets	—	(4 958)		
Amount capitalised	—	14 875		
Goodwill	—	15 125		
Purchase price	—	30 000		
Bank overdraft	—	8 082		
Cash outflow on acquisition of subsidiary	—	38 082		

Notes to the Audited Annual Financial Statements continued

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22. Cash flow information continued

		Group		Company	
		2017 R000	2016 R000	2017 R000	2016 R000
22.4 Acquisition of business operations continued					
Effective 1 August 2015, a 51% interest was acquired in Retail Group (Pty) Ltd (Botswana), for a consideration of R61.8 million. In total, R40.9 million was allocated to goodwill because of anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.					
Fair value of assets and liabilities acquired					
Property, plant and equipment	–	16 781			
Intangible assets	–	27 515			
Trade and other receivables	–	2 473			
Inventories	–	1 519			
Receivables from shareholders	–	56			
Current tax assets	–	1 942			
Cash and cash equivalents	–	15 918			
Borrowings	–	(1 232)			
Deferred lease liabilities	–	(923)			
Deferred tax	–	(6 159)			
Trade and other payables	–	(16 923)			
Non-controlling shareholder loans	–	(75)			
Net assets acquired	–	40 892			
Non-controlling interests measured at their share of the fair value of net assets	–	(20 038)			
Amount capitalised	–	20 854			
Goodwill	–	40 971			
Purchase price	–	61 825			
Cash and cash equivalents	–	(15 918)			
Cash outflow on acquisition of subsidiary	–	45 907			
22.5 Investment in associates					
Effective 1 December 2016, the Group acquired a 49.9% stake in the multi-awarded commercial catering company, It's a Matter of Taste (Pty) Ltd trading as By Word of Mouth, advancing the Group's strategy to expand into the broader leisure and consumer product sector.					
Cash flow on investments in associates		50 573	–		
		Lupa Osteria R000	Salsa Mexican Grill R000	Lamberts Bay Foods R000	Gourmet Burger Kitchen R000
					Gourmet Burger Kitchen £000
2017					
22.6 Performance of acquired businesses					
Results since acquisition to reporting date					
Revenue	3 768	15 029	165 721	598 848	35 241
Operating profit/(loss)	95	3 678	(339)	36 926	2 173
Pro-forma results from the beginning of the year to the reporting date:					
Revenue	3 971	19 498	271 429	1 532 785	81 014
Operating profit/(loss)	173	4 535	(4 765)	67 015	3 542

23. Contingent liabilities

- 23.1 The Company and its South African subsidiaries have issued an unlimited suretyship in favour of First Rand Bank Limited to secure the banking facilities entered into by certain subsidiary companies.
- 23.2 Guarantees issued by banks in favour of trade creditors totalled R9 million (2016: Rnil).
- 23.3 The Group's borrowings are unsecured, no pledges have been issued.
- 23.4 Famous Brands Limited, Famous Brands Management Company Proprietary Limited, Mugg & Bean Franchising Proprietary Limited, Venus Solutions Limited and Famous Brands UK Limited have guaranteed in terms of the syndicated loan agreement:
- Punctual performance by the Group of amounts due in the syndication agreement;
 - Immediate payment of amounts due which the Group has not paid; and
 - It indemnifies the finance parties against any costs, loss or liability it incurs as a result of the Group not paying amounts that are due.

24. Commitments

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
24.1 Operating leases and consulting fees				
The Company and the Group have commitments arising from property leases for its own business operations and leases entered into to secure key sites for franchised outlets. With regard to leases entered into to secure key sites, it is the Group's policy to enter into sub-lease agreements with the franchisees on the same terms and conditions as those in the main lease.				
Lease rentals are negotiated on an average term of six years and escalated at an average rate of 8% per annum. No contingent rent is payable.				
In circumstances where the amounts recoverable are lower than the amounts payable, the Group immediately recognises provisions for onerous contracts.				
Certain operating commitments relating to computer equipment and professional fees exist.				
The net future minimum rentals due under operating leases are as follows:				
Gross amounts due	2 299 232	307 672	–	–
Amounts recoverable from sub-lessees	(129 441)	(79 876)	–	–
	2 169 791	227 796	–	–
The gross future minimum rentals due are repayable as follows:				
Payable within the next 12 months	233 003	80 937	–	–
Payable within two to five years	724 919	223 065	–	–
Payable thereafter	1 341 310	3 670	–	–
	2 299 232	307 672	–	–

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24 Commitments continued

		Group		Company	
		2017 R000	2016 R000	2017 R000	2016 R000
24.2 Finance leases					
The amounts set out below relate to motor vehicles that have been accounted for in line with the requirements of IFRIC 4 <i>Determining Whether an Arrangement Contains a Lease</i>					
The gross future minimum rentals due are repayable as follows:					
Payable within the next 12 months		1 369	1 369	–	
Payable within two to five years		6 748	5 621	–	
Payable thereafter		–	482	–	
		8 117	7 472		–
<i>Less: Future finance charges</i>		(1 827)	(1 682)	–	
Present value of minimum lease payments		6 290	5 790	–	
Payable within the next 12 months		1 361	1 253	–	
Payable within two to five years		4 929	4 108	–	
Payable thereafter		–	429	–	
		6 290	5 790		–
24.3 Capital expenditure					
Approved by the directors but not contracted for		426 163	169 815		
This capital expenditure relates to additions and improvements to production facilities, motor vehicles, franchise incentives, computer equipment and furniture and fittings.					
It is anticipated that this expenditure will be financed by existing borrowing facilities and internally generated funds.					

25. Retirement benefit plans

Employees within the Group are members of five provident funds. Three funds are administered by Liberty Life, one fund by Borwa Financial Services and another by Sanlam. Each fund provides benefits on a defined contribution basis. The funds are subject to the Pension Funds Act of 1956, as amended. All employees of the Group are eligible to be members of the funds. As at 28 February 2017, the membership of the funds was 1 593 (2016: 1 502) employees. The Group's contribution to the provident funds for the year was R35 million (2016: R26 million). The market value of the investments of the various funds as at 28 February 2017 was R136 million (2016: R114 million).

26. Directors' interest in shares

	Beneficial direct interest 000	2017 Beneficial indirect interest 000	Total 000	Beneficial direct interest 000	2016 Beneficial indirect interest 000	Total 000
Executive						
Mr DP Hele	70	–	70	75	–	75
Mr KA Hedderwick (retired 29 February 2016 as executive director)				484	–	484
Non-executive						
Mr KA Hedderwick (appointed 2 May 2017 as non-executive director)	374	–	374			
Mr P Halamandaris	366	7 500	7 866	366	9 000	9 366
Mr P Halamandaris (Jnr)	4 957	155	5 112	5 957	155	6 112
Mr T Halamandaris	7 138	–	7 138	8 638	–	8 638
Mr JL Halamandres	3 418	–	3 418	3 514	–	3 514
Mr RM Kgosana	2	–	2	2	–	2
	16 325	7 655	23 980	19 036	9 155	28 191

No director has any non-beneficial interest in the ordinary shares of the Company.

The Company has not been advised of any changes in the above interests of the directors during the period up to the date of this report.

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for the year ended 28 February 2017

27. Directors' remuneration

	For services as directors R000	Remune- ration R000	Bonuses R000	Provident fund contribution R000	Other benefit and payments R000	Total R000
28 February 2017						
Executive						
Mr DP Hele	–	3 462	1 565	280	258	5 565
Mr NS Richards (period 1/3/2016 to 30/6/2016)	–	684	586	–	51	1 321
Ms K Ntlha (period 1/7/2016 to 28/2/2017)	–	1 173	–	133	27	1 333
Non-executive						
Mr NJ Adami	287	–	–	–	–	287
Mr CH Boulle	315	–	–	–	–	315
Ms SL Botha	554	–	–	–	–	554
Mr P Halamandaris	204	–	–	–	–	204
Mr P Halamandaris (Jnr)	125	–	–	–	–	125
Mr T Halamandaris	125	–	–	–	–	125
Mr JL Halamandres	312	–	–	–	–	312
MR RM Kgosana	447	–	–	–	–	447
Mr BL Sibiya	447	–	–	–	–	447
Ms T Skweyiya (appointed 1 June 2016)	267	–	–	–	–	267
	3 083	5 319	2 151	413	336	11 302
Less: Paid by subsidiaries	–	(5 319)	(2 151)	(413)	(336)	(8 219)
	3 083	–	–	–	–	3 083
29 February 2016						
Executive						
Mr KA Hedderwick (retired as a director 29 February 2016)	–	5 023	2 899	–	436	8 358
Mr DP Hele	–	2 576	1 304	307	246	4 433
Mr NS Richards	–	1 805	488	–	148	2 441
Non-executive						
Mr NJ Adami (appointed 24 February 2015)	190	–	–	–	–	190
Mr CH Boulle	410	–	–	–	–	410
Ms SL Botha	397	–	–	–	–	397
Mr P Halamandaris	197	–	–	–	–	197
Mr P Halamandaris (Jnr)	117	–	–	–	–	117
Mr T Halamandaris	117	–	–	–	–	117
Mr JL Halamandres	234	–	–	–	–	234
Mr RM Kgosana (appointed 22 May 2015)	274	–	–	–	–	274
Mr BL Sibiya	410	–	–	–	–	410
	2 345	9 404	4 691	307	830	17 577
Less: Paid by subsidiaries	–	(9 404)	(4 691)	(307)	(830)	(15 232)
	2 345	–	–	–	–	2 345

Directors' remuneration is only reflected from the date upon which an appointment commences and up to the date of resignation. Performance bonuses reflect the amounts paid during the year under review.

27. Directors' remuneration continued

The following amounts, which have not been included in the remuneration on page 48, were recognised in line with IFRS 2 *Share-Based Payment*:

	Share appreciation rights R000	Retention shares R000	Share options R000	Total R000
28 February 2017				
Mr DP Hele	961	924	432	2 317
NS Richards	575	550	270	1 395
Ms K Ntlha	312	342	–	654
	1 848	1 816	702	4 366
29 February 2016				
Mr KA Hedderwick	653	668	540	1 861
Mr DP Hele	288	275	432	995
Mr NS Richards	168	160	270	598
	1 109	1 103	1 242	3 454

28. Share-based payments

Famous Brands operates the Famous Brands Share Incentive Scheme, which comprises the following equity-settled share-based payments arrangements:

- (a) Share options (refer to Note 28.1);
- (b) Share appreciation rights (SARs) (refer to Note 28.2); and
- (c) Retention shares (refer to Note 28.3).

The share incentive scheme enables directors, executive management and specified directors of subsidiaries to benefit from the Famous Brands share price performance. The Group's remuneration philosophy is contained in the Integrated Annual Report which is available on the Company's website at www.famousbrands.co.za.

28.1 Share options

This scheme confers the right to participants to acquire ordinary shares at the value of the Famous Brands share price at the date that the option is granted. On acceptance of the option, the participant has the right to exercise the option at any time, after vesting, during the option life, in as many tranches as the participant may elect. To receive shares, participants must be either employed by or retirees of the Company when the rights to the shares vest. The directors of the Company may amend the vesting period of the options by Board resolution.

The scheme has a single type of vesting category which comprises a three-year vesting period and sever-year expiry period subsequent to grant date.

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28. Share-based payments continued

28.1 Share options continued

A reconciliation of the movement of all share options is detailed below:

	Option exercise price range (Rand)		Number of shares	
	2017	2016	2017	2016
Opening balance	43.40 – 101.2	15.00 – 43.40	620 000	655 000
Granted			–	–
Forfeited	101.20	101.20	(60 000)	(35 000)
Allotted and issued	–	–	(50 000)	–
Options granted, shares not issued up to the end of the period			510 000	620 000

The last options were granted in November 2014.

The following options have been granted and accepted, but delivery of shares will only take place in the future.

Number of ordinary shares	Grant date	Option fair value at grant date (Rand)	Option exercise price (Rand)	Financial year in which options vest
15 000*	May 2011	10.88	43.40	February 2015
495 000	November 2014	16.21	101.20	February 2018
510 000				

* Vested, but not yet exercised.

Analysis of share options granted to executive directors is detailed below:

	Option vesting date	Subscription price (Rand)	Out-standing as at 1 March 2016	Granted during the period	Exercised during the period	Out-standing as at 28 February 2017
Executive director						
Mr DP Hele	November 2017	101.20	80 000	–	–	80 000
Options granted, shares not issued up to the end of the period			80 000	–	–	80 000

The share options granted have been valued, at grant date, using the Black-Scholes-Merton model which takes account of the vesting period (European style option). Expected volatility of the share price was determined by giving consideration to the historical volatility of the Famous Brands share price.

28. Share-based payments *continued*

28.2 Share appreciation rights

The Share Appreciation Rights (SARs) represent the right participants have to be paid the difference between the share price on grant date and the share price on the date on which the SARs vest. The SARs vest in three equal tranches, with the first tranche vesting at the end of the third year.

A reconciliation of the movement of all SARs granted is detailed below:

	Number of SARs	
	2017	2016
Opening balance	1 106 382	–
Granted	321 300	1 147 250
Management	293 139	798 752
Executive directors	28 161	348 498
Forfeited	(31 890)	(40 868)
SARs outstanding at the end of the year	1 395 792	1 106 382

Details of the SARs allocated as at 28 February 2017 are as set out below:

Grant date	Financial year in which SARs vest	SARs fair value at grant date (Rand)	Number of SARs outstanding
November 2015			1 074 492
Tranche 1	February 2019	32.75	358 164
Tranche 2	February 2020	37.65	358 164
Tranche 3	February 2021	41.61	358 164
June 2015			321 300
Tranche 1	February 2019 – 2020	31.67 [^]	121 026
Tranche 2	February 2020 – 2021	36.41 [^]	121 026
Tranche 3	February 2021 – 2022	42.12 [^]	79 248
SARs outstanding at the end of the year			1 395 792

[^] Average fair value for new grants and top-up grants.

Notes to the Audited Annual Financial Statements continued

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28. Share-based payments continued

28.2 Share appreciation rights continued

Details of the SARs granted to executive directors are as set out below:

	Grant date	Grant price (Rand)	Out-standing at the beginning of the year	Granted	Settled	Out-standing at the end of the year
28 February 2017						
Executive director						
Mr DP Hele			90 582	11 571	–	102 153
Tranche 1	November 2015	32.75	30 194	–	–	30 194
Tranche 2	November 2015	37.65	30 194	–	–	30 194
Tranche 3	November 2015	41.61	30 194	–	–	30 194
Tranche 1	June 2016	30.27	–	3 857	–	3 857
Tranche 2	June 2016	35.26	–	3 857	–	3 857
Tranche 3	June 2016	41.09	–	3 857	–	3 857
Mr NS Richards (director for period 1/3/2016 to 30/6/2017)			52 764	8 568	–	61 332
Tranche 1	November 2015	32.75	17 588	–	–	17 588
Tranche 2	November 2015	37.65	17 588	–	–	17 588
Tranche 3	November 2015	41.61	17 588	–	–	17 588
Tranche 1	June 2016	30.27	–	2 856	–	2 856
Tranche 2	June 2016	35.26	–	2 856	–	2 856
Tranche 3	June 2016	41.09	–	2 856	–	2 856
Ms K Ntsha (director for period 1/7/2016 to 28/2/2017)			25 743	8 022	–	33 765
Tranche 1	November 2015	32.75	8 581	–	–	8 581
Tranche 2	November 2015	37.65	8 581	–	–	8 581
Tranche 3	November 2015	41.61	8 581	–	–	8 581
Tranche 1	June 2016	30.27	–	2 674	–	2 674
Tranche 2	June 2016	35.26	–	2 674	–	2 674
Tranche 3	June 2016	41.09	–	2 674	–	2 674
			169 089	28 161	–	197 250
29 February 2016						
Executive director						
Mr KA Hedderwick (retired 29 February 2016 as executive director)			–	205 152	–	205 152
Tranche 1	November 2015	32.75	–	68 384	–	68 384
Tranche 2	November 2015	37.65	–	68 384	–	68 384
Tranche 3	November 2015	41.61	–	68 384	–	68 384
Mr DP Hele			–	90 582	–	90 582
Tranche 1	November 2015	32.75	–	30 194	–	30 194
Tranche 2	November 2015	37.65	–	30 194	–	30 194
Tranche 3	November 2015	41.61	–	30 194	–	30 194
Mr NS Richards			–	52 764	–	52 764
Tranche 1	November 2015	32.75	–	17 588	–	17 588
Tranche 2	November 2015	37.65	–	17 588	–	17 588
Tranche 3	November 2015	41.61	–	17 588	–	17 588
			–	348 498	–	348 498

The SARs granted have been valued, at grant date, using the Black-Scholes-Merton model which takes account of the vesting period (European style option). Expected volatility of the share price was determined by giving consideration to the historical volatility of the Famous Brands share price.



28. Share-based payments continued

28.2 Share appreciation rights continued

Details of the weighted average fair value of the retention shares granted during the year and the related assumptions utilised are as set out below:

	2017	2016
Number of SARs granted	321 300	1 147 250
The principal inputs are as follows:		
Range of the weighted average fair value at grant date for the respective tranches (Rand)	30.27 – 43.16	32.75 – 41.61
Weighted average grant price (Rand)	113.25	116.23
Closing share price at grant date (Rand)	125.49	131.72
Expected life (years)	4.00	4.00
Expected volatility (%)	24.35	28.67
Range of the risk-free interest rates utilised for the respective tranches (%)	7.96 – 9.04	7.63 – 8.15
Average expected dividend yield (%)	2.74	2.52

28.3 Retention shares

Retention shares represent the right participants have to be paid the value of the Company's 30-day volume weighted average price immediately preceding the vesting date. The retention shares vest in three equal tranches, with the first tranche vesting at the end of the third year.

A reconciliation of the movement of all retention shares granted is detailed below:

	Number of shares	
	2017	2016
Opening balance	283 734	–
Granted	95 967	297 359
Management	87 246	191 438
Executive directors	8 721	105 921
Forfeited	(10 630)	(13 625)
Settled	–	–
Retention shares outstanding at the end of the year	369 071	283 734

Details of the retention shares allocated as at 28 February 2016 are as set out below:

Grant date	Financial year in which SARs vest	Retention shares fair value at grant date (Rand)	Number of SARs outstanding
November 2015			273 105
Tranche 1	February 2019	122.14	91 035
Tranche 2	February 2020	119.11	91 035
Tranche 3	February 2021	116.15	91 035
June 2016			95 967
Tranche 1	February 2019 – 2020	116.71 [^]	36 576
Tranche 2	February 2020 – 2021	113.55 [^]	36 576
Tranche 3	February 2021 – 2022	110.48 [^]	22 815
Retention shares outstanding at the end of the year			369 072

[^] Average fair value for new grants and top-up grants.

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28. Share-based payments continued

28.3 Retention shares continued

Details of the retention shares granted to executive directors are as set out below:

	Grant date	Grant price (Rand)	Out-standing as at 1 March 2016	Granted	Settled	Out-standing as at 28 February 2017
28 February 2017						
Executive director						
Mr DP Hele			26 421	3 549	–	29 970
Tranche 1	November 2015	122.14	8 807	–	–	8 807
Tranche 2	November 2015	119.11	8 807	–	–	8 807
Tranche 3	November 2015	116.15	8 807	–	–	8 807
Tranche 1	June 2016	–	–	1 183	–	1 183
Tranche 2	June 2016	–	–	1 183	–	1 183
Tranche 3	June 2016	–	–	1 183	–	1 183
Mr NS Richards (director for period 1/3/2016 to 30/6/2017)			15 390	2 499	–	17 889
Tranche 1	November 2015	122.14	5 130	–	–	5 130
Tranche 2	November 2015	119.11	5 130	–	–	5 130
Tranche 3	November 2015	116.15	5 130	–	–	5 130
Tranche 1	June 2016	–	–	833	–	833
Tranche 2	June 2016	–	–	833	–	833
Tranche 3	June 2016	–	–	833	–	833
Ms K Ntlha (director for period 1/7/2016 to 28/2/2017)			8 580	2 673	–	11 253
Tranche 1	November 2015	122.14	2 860	–	–	2 860
Tranche 2	November 2015	119.11	2 860	–	–	2 860
Tranche 3	November 2015	116.15	2 860	–	–	2 860
Tranche 1	June 2016	–	–	891	–	891
Tranche 2	June 2016	–	–	891	–	891
Tranche 3	June 2016	–	–	891	–	891
			50 391	8 721	–	59 112
29 February 2016						
Executive director						
Mr KA Hedderwick (retired 29 February 2016 as executive director)			–	64 110	–	64 110
Tranche 1	November 2015	122.14	–	21 370	–	21 370
Tranche 2	November 2015	119.11	–	21 370	–	21 370
Tranche 3	November 2015	116.15	–	21 370	–	21 370
Mr DP Hele			–	26 421	–	26 421
Tranche 1	November 2015	122.14	–	8 807	–	8 807
Tranche 2	November 2015	119.11	–	8 807	–	8 807
Tranche 3	November 2015	116.15	–	8 807	–	8 807
Mr NS Richards			–	15 390	–	15 390
Tranche 1	November 2015	122.14	–	5 130	–	5 130
Tranche 2	November 2015	119.11	–	5 130	–	5 130
Tranche 3	November 2015	116.15	–	5 130	–	5 130
			–	105 921	–	105 921

28. Share-based payments continued

28.3 Retention shares continued

The retention shares granted have been valued, at grant date, using the Black-Scholes-Merton model which takes account of the vesting period (European style option). Expected volatility of the share price was determined by giving consideration to the historical volatility of the Famous Brands share price.

Details of the weighted average fair value of the retention shares granted during the year and the related assumptions utilised are as set out below:

	2017	2016
Number of retention shares granted	95 967	297 357
The principal inputs are as follows:		
Range of the weighted average fair value at grant date for the respective tranches (Rand)	109.60 – 117.64	116.15 – 122.14
Weighted average grant price (Rand)	113.25	116.23
Closing share price at grant date (Rand)	125.49	131.72
Expected life (years)	4.00	4.00
Expected volatility (%)	24.35	28.67
Range of the risk-free interest rates utilised for the respective tranches (%)	7.96 – 9.04	7.63 – 8.15
Average expected dividend yield (%)	2.74	2.52

29. Related party transactions

The Group, in the ordinary course of business, entered into various transactions with related parties. These transactions occurred under terms and conditions no more favourable to those entered into with third parties.

29.1 Franchise agreements

Directors have interests in 22 franchised outlets. Franchise fees and product sales have been charged under terms and conditions no more favourable than those entered into with third parties.

29.2 Lease agreements

The Group has entered into lease agreements with an entity controlled by certain directors. The transactions were concluded at market-related rates prevailing at the time of entering into the transactions.

29.3 Supply agreements

The Group has entered into a supply agreement with an entity controlled by certain directors. All products purchased were concluded at market-related prices.

29.4 Professional fees

Professional fees have been paid to a firm of which a non-executive director is a partner. The transactions were conducted at market-related rates prevailing at the time of entering into the transactions.

29.5 Management fees

Management fees have been paid to the non-controlling shareholders of certain subsidiary companies for providing operational management services to the related businesses. The transactions were conducted at market-related rates prevailing at the time of entering into the transactions.

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29. Related party transactions continued

29.6 Advertising fees

Advertising fees have been paid to an associate. The transactions were conducted at market-related fees prevailing at the time of entering into the transactions.

The aggregate of the above transactions is as follows:

	2017 R000	2016 R000
Sale of product and franchise fee revenue	36 418	33 028
Lease payments	19 367	17 472
Purchases of product	65 802	164 405
Professional fees paid	377	2 657
Management fees paid	18 153	9 403
Advertising fees paid to associate	83 492	77 073
Interest paid to related parties	3 340	4 290
Loans payable to related parties	22 130	24 988
Trade payables to related parties	6 958	5 989
29.7 Commitments to related parties		
The aggregate future commitments to related parties are as follows:	52 970	71 841
Payable within the next 12 months*	20 379	18 870
Payable within two to five years*	32 591	52 971
29.8 Transactions between the holding company and subsidiaries		
Dividends received	30 000	405 000
Management fees received by the Company from the operating subsidiary for statutory costs incurred	1 100	900
29.9 Remuneration		
Directors' remuneration		
The remuneration for directors of the holding company paid during the year by subsidiaries within the Group has been disclosed in Note 27. Executive directors are defined as key management.		
Employees' remuneration		
The remuneration to all employees amounted to:	865 534	525 013

* Disclosure updated to only include related parties.

30. Schedule of investments in subsidiaries

	Share capital	Interest		Cost of investment in shares		Amounts owing by/ (to) subsidiaries		Profit/(loss)	
	2017	2017 %	2016 %	2017 R000	2016 R000	2017 R000	2016 R000	2017 R000	2016 R000
30.1 Direct									
Debonairs Pizza (Pty) Ltd ³	100	100	100	110	110	–	–	1 505	1 192
Famous Brands Cyprus Ltd ²	–	–	100	–	70 471	–	3 655	–	(4 485)
Famous Brands Management Company (Pty) Ltd ¹	100	100	100	87 578	61 272	(2 068 377)	(148 925)	336 276	481 603
FishAways (Pty) Ltd ³	2 000	100	100	2 269	2 269	–	–	193	131
Gourmet Burger Kitchen (GBK) Limited ²	75 118 580	100		1 657 761	–	221 542	–	28 489	–
Mugg & Bean Franchising (Pty) Ltd ³	101	100	100	100 000	100 000	–	–	606	786
Pleasure Foods (Pty) Ltd ⁴	800	100	100	–	–	–	–	–	–
Pleasure Foods Intellectual Property Company (Pty) Ltd ³	800	100	100	107 499	107 499	–	–	1 300	2 098
Pleasure Foods Property Holdings 1 (Pty) Ltd ¹	100	100	100	–	–	–	–	39	34
Steers (Pty) Ltd ³	200	100	100	6 243	6 243	24	24	870	747
The Famous Brands Share Incentive Trust ¹	–	100	100	–	–	6 118	(3)	–	(27)
30.2 Indirect									
4 E Holdings (Pty) Ltd ³	120	100	70					(44)	232
BC Hospitality (Lupa) ¹	100	51	–					76	–
Cater Chain Foodservices (Pty) Ltd ¹	100	75	75					6 998	(4 330)
City Deep Cold Storage (Pty) Ltd ¹	100	75	75					1 899	3 635
Coega Concentrate (Pty) Ltd ¹	100	–	–					(4 474)	–
Chilango (Pty) Ltd ¹	1 025 462	51	–					2 670	–
Creative Coffee Franchising (Pty) Ltd ¹	100	100	100					5 339	4 954
Famous Brands Cheese Company (Pty) Ltd ^{1,5}	100	51	51					40 782	20 585
Famous Brands Coffee Company (Pty) Ltd ¹	100	62	62					28 745	15 591
Famous Brands Great Bakery (Pty) Ltd ¹	100	51	51					3 986	2 827
Famous Brands Lilongwe (Pty) Ltd	–	100	–					–	–
Famous Brands UK Limited ²	5 434 185	100	100					11 429	23 357
Gorilla Holdings Limited ²	–	–	–					1 518	–
Hawk Like Trade and Invest (Pty) Ltd ¹	32 000 000	51	51					3 842	1 074
Lamberts Bay Foods Limited ¹	52 700	100	–					(339)	–
Marathon Holdings (Pty) Ltd ¹	–	100	100					(6 666)	(765)
Mountain Rush Trading 4 (Pty) Ltd ¹	100	51	51					7 334	7 474
Pink Potato Trading 103 (Pty) Ltd ¹	100	51	51					9 260	3 694
Quantum International Franchising (Pty) Ltd ⁴	1 000	100	100					–	–
Quickstep Investment 10 (Pty) Ltd ⁴	1 000	100	100					–	–
Retail Group Botswana ¹	122	51	51					18 637	11 687
Souldance Holdings 11 (Pty) Ltd ¹	100	100	51					47	589
Steers Holdings (Jersey) Limited ²	19	100	100					(7 537)	1 768
Vovo Telo Bakery and Café (Pty) Ltd ¹	1 000	100	100					2 280	(87)
Venus Solutions Limited ²	9 584	100	100					1 659	2 042
Wakaberry™ Holdings (Pty) Ltd ¹	1 000	100	70					58	(834)
Wimpy Marketing Fund (Pty) Ltd ¹	2	100	100					–	–
				1 961 460	347 864	(1 840 693)	(145 249)	496 777	575 572
Total losses								(19 060)	(10 528)
Total profits								515 837	586 100

All the above subsidiaries are incorporated in South Africa, except for Famous Brands UK Limited, GBK Limited and Venus Solutions Limited (incorporated in the United Kingdom); Famous Brands Cyprus Limited (incorporated in Cyprus), Steers Holdings (Jersey) Limited (incorporated in Jersey) and Retail Group Botswana (incorporated in Botswana). Famous Brands Cyprus Limited is in the process of being deregistered.

Main business

¹ Franchisor, product manufacture, distribution, management and/or administration.

² Offshore holding company.

³ Trademark owner.

⁴ Dormant.

⁵ Previously Coega Cheese (Pty) Ltd.

Notes to the Audited Annual Financial Statements continued

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30 Schedule of investments in subsidiaries continued

30.3 Investment in subsidiaries with material non-controlling interests

Famous Brands Coffee Company (Pty) Ltd

Famous Brands Limited has an indirect interest of 62% in Famous Brands Coffee Company (Pty) Ltd, a company involved in the production of coffee. The information below summarises the financial position and performance of the subsidiary:

	2017 R000	2016 R000
Current assets	48 650	64 151
Non-current assets	11 915	11 683
Current liabilities	(5 193)	(38 333)
Non-current liabilities	(593)	(479)
Net assets of the subsidiary	54 779	37 022
Revenue	151 227	123 528
Profit from continuing operations	39 296	21 309
Profit for the year	28 745	15 617
Total comprehensive loss for the year	28 745	15 617

Coega Cheese (Pty) Ltd

Famous Brands Limited has an indirect interest of 51% in Coega Cheese (Pty) Ltd, a company involved in the production of cheese. The information below summarises the financial position and performance of the subsidiary:

	2017 R000	2016 R000
Current assets	14 772	39 924
Non-current assets	88 738	53 821
Current liabilities	(29 129)	(58 092)
Non-current liabilities	(8 154)	(8 154)
Net assets of the subsidiary	66 227	27 499
Revenue	367 720	268 303
Profit from continuing operations	58 231	30 566
Profit for the year	40 782	20 585
Total comprehensive income	40 782	20 585

31. Risk management

The Board of Directors has approved strategies for the management of financial risks, which are in line with corporate objectives. These guidelines set up the short-term and long-term objectives and actions to be taken in order to manage the financial risks that the Group faces.

The major guidelines of this policy are the following:

- minimise interest rate, currency and market risk for all transactions;
- all financial risk management activities are carried out and monitored at a central level; and
- all financial risk management activities are carried out on a prudent and consistent basis.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and capital risk.

Accounting classifications and fair values

The table on page 59 sets out the Group and Company 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.

For level 2 financial instruments, the fair value of all external over-the-counter derivatives is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes to the credit profile of the involved parties.

31. Risk management continued

Level	Group				Company			
	2017 Carrying amount R000	2017 Fair value R000	2016 Carrying amount R000	2016 Fair value R000	2017 Carrying amount R000	2017 Fair value R000	2016 Carrying amount R000	2016 Fair value R000
Financial assets								
Loans and receivables:								
Trade and other receivables	551 844	551 844	444 069	444 069	139	139	–	–
Cash and cash equivalents	428 820	428 820	146 134	146 134	908	908	428	428
Fair value through profit or loss:								
Receivables from Group companies	–	–	–	–	242 540	242 540	3 679	3 679
Derivative financial instruments (foreign currency options)	2	–	100	100	–	–	–	–
	980 664	980 664	590 303	590 303	243 587	243 587	4 107	4 107
Financial liabilities								
Measured at amortised cost:								
Trade and other payables	648 162	648 162	367 494	367 494	89	89	–	–
Shareholders for dividends	2 221	2 221	1 873	1 873	2 221	2 221	1 873	1 873
Lease liabilities	86 671	86 671	12 547	12 547	–	–	–	–
Non-controlling shareholder loans	22 130	22 130	24 988	24 988	–	–	–	–
Borrowings	2 855 597	2 855 597	–	–	–	–	–	–
Bank overdrafts	23 626	23 626	140 250	140 250	–	–	–	–
Fair value through profit or loss:								
Payables to Group companies	–	–	–	–	2 068 377	2 068 377	148 928	148 928
Derivative financial instruments (put options over non-controlling interests)	3	211 239	124 821	124 821	60 447	60 447	–	–
Fair value through other comprehensive income								
Derivative financial instruments (foreign currency swaps and foreign exchange contracts)	3	102	–	–	–	–	–	–
Derivative financial instruments (interest rate swaps)	2	8 509	–	–	–	–	–	–
	3 858 257	3 858 257	671 973	671 973	2 131 134	2 131 134	150 801	150 801

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31. Risk management continued

Level 3 sensitivity information

The fair values of the level 3 financial liabilities of R211 million (2016: R125 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 instrument include the probability of achieving set profit targets and the discount rates. An increase/(decrease) of 1% in the discount rate would result in a decrease/(increase) of R7 million (2016: R5 million).

Level	Group				Company			
	2017 Carrying amount R000	2017 Fair value R000	2016 Carrying amount R000	2016 Fair value R000	2017 Carrying amount R000	2017 Fair value R000	2016 Carrying amount R000	2016 Fair value R000
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:								
Put options over non-controlling interests:								
Carrying value at the beginning of the year	124 821	124 821	–	–	–	–	–	–
Initial recognition in equity for new acquisitions	73 233	73 233	118 426	118 426	59 592	59 592	–	–
Unwinding of discount	14 813	14 813	6 395	6 395	2 483	2 483	–	–
Remeasurements	(1 628)	(1 628)	–	–	(1 628)	(1 628)	–	–
Carrying value at the end of the year	211 239	211 239	124 821	124 821	60 447	60 447	–	–

31. Risk management continued

31.1 Liquidity risk

The Group manages liquidity risk on the basis of expected maturity dates, through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared, adequate borrowing facilities are secured and utilisation monitored.

The following table analyses financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

	2017			2016		
	Less than 1 year R000	1 – 5 years R000	Total R000	Less than 1 year R000	1 – 5 years R000	Total R000
Group						
Borrowings	114 853	2 740 744	2 855 597	–	–	–
Trade and other payables	648 162	–	648 162	367 494	–	367 494
Payables to Group companies	–	–	–	–	–	–
Non-controlling shareholder loans	22 130	–	22 130	24 988	–	24 988
Shareholders for dividends	2 221	–	2 221	1 873	–	1 873
Lease liabilities	6 548	80 122	86 670	1 689	10 858	12 547
Derivative financial instruments (put options over non-controlling interests)	23 381	187 858	211 239	–	124 821	124 821
Derivative financial instruments (interest rate swaps)	–	8 509	8 509	–	–	–
Bank overdrafts	23 626	–	23 626	140 250	–	140 250
	840 921	3 017 233	3 017 233	536 294	135 679	671 973
Company						
Trade and other payables	89	–	89	–	–	–
Payables to Group companies	2 068 377	–	2 068 377	148 928	–	148 928
Shareholders for dividends	2 221	–	2 221	1 873	–	1 873
	2 070 687	–	2 070 687	150 801	–	150 801

The carrying amount of the financial liabilities is considered to be in line with the fair value at the reporting date.

At present the Group expects to pay all liabilities at their contractual maturity. In order to meet such cash commitments the Group expects operating activities to generate sufficient cash inflows. In addition, the Group holds financial assets for which there is a liquid market and that are readily available to meet liquidity needs.

The Group has access to financing facilities, of which R166 million (2016: R110 million) were unused at the end of the reporting period. The Group expects to meet its obligations from operating cash flows.

31.2 Interest rate risk

The Group's exposure to interest rate risk mainly concerns financial liabilities and interest-bearing liabilities (refer to Note 13).

The following table analyses the breakdown of liabilities by type of interest rate.

	Notes	Group		Company	
		2017 R000	2016 R000	2017 R000	2016 R000
Variable rate instruments					
Derivative financial instruments					
Put options written over the equity of non-controlling interests	7	211 239	124 821	60 447	–
Interest rate swap liabilities	7	8 509	–	–	–
Borrowings	13	2 855 597	–	–	–
Bank overdraft		23 626	140 250	–	–
Fixed rate instruments					
Lease liabilities	12	86 671	12 547	–	–
Non-controlling shareholder loans	14	22 130	24 988	–	–
		3 207 772	302 606	60 447	–

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31. Risk management continued

31.2 Interest rate risk continued

Sensitivity analysis

A hypothetical increase/decrease in interest rates by 100 basis points, with all other variables remaining constant, would increase/decrease profit after tax by R17 million (2016: R5 million).

The analysis has been performed for variable interest rate financial liabilities. The impact of a change in interest rates on floating interest rate financial liabilities has been assessed in terms of the changing of their cash flows and net expenses.

The Group's operating income and operating cash flows are substantially independent of changes in market interest rates.

31.3 Foreign currency risk

Since the Group operates internationally, it is exposed to foreign currency risk in its normal industrial and commercial businesses. On occasion, the Group hedges transactional foreign exchange exposures.

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk.

Financial assets and financial liabilities are analysed by currency as follows:

	GB Pound CU000*	Euro CU000*	US Dollar CU000*	Zam- bian Kwacha CU000*	Pula CU000*	GB Pound CU000*	Euro CU000*	US Dollar CU000*	Zam- bian Kwacha CU000*	Pula CU000*
Financial assets										
Trade and other receivables	3 502	81	–	4 379	4 730	309	–	–	3 526	2 945
Cash and cash equivalents	8 384	648	1 117	8 282	11 355	4 921	23	1 134	5 012	11 342
Financial liabilities										
Borrowings	(30 008)	–	–	–	–	–	–	–	–	–
Trade and other payables	(19 190)	(792)	–	(2 356)	(12 920)	(846)	(5)	–	(872)	(13 532)
Derivative financial instruments (foreign currency options)	–	–	–	–	–	–	–	–	–	–
Bank overdraft	–	(577)	–	–	–	–	–	–	–	–
	(37 312)	(640)	1 117	10 305	3 165	4 384	18	1 134	7 666	755
Exchange rates used for conversion of foreign amounts to the South African Rand were (R):	16.19	13.80	13.02	1.37	1.22	22.25	17.47	16.03	1.40	1.39
Sensitivity analysis										
At 28 February 2017, if the Rand had weakened/strengthened by 10% against any currency above, with all other variables held constant, profit after tax for the year would have decreased/ increased as follows (R000):	(60 389)	(882)	1 455	1 411	387.16	9 754	31	1 818	1 155	105

* Currency unit thousands.

31. Risk management continued

31.4 Credit risk

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to retail customers are settled in cash or using major credit cards. Refer to Note 8 for details on the quality and provision for impairment of trade receivables.

	Group		Company	
	2017 R000	2016 R000	2017 R000	2016 R000
Trade and other receivables	551 844	444 069	139	–
Receivables from Group companies	–	–	242 540	3 679
Cash and cash equivalents	428 820	146 134	908	428
	980 664	590 203	243 587	4 107

31.5 Capital risk

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 (Note 9) and equity as disclosed in the statement of financial position. There are no externally imposed capital requirements.

There have been no material changes to the Group's management of capital, the strategy for capital maintenance or externally imposed capital requirements from the previous years.

32. Subsequent events

There were no material events after the reporting period.

Shareholder spread

	2017				2016			
	Number of share-holdings	% of total share-holdings	Number of shares	% of issued capital	Number of share-holdings	% of total share-holdings	Number of shares	% of issued capital
1 – 10 000	10 326	95.10	10 780 911	10.80	9 694	95.57	10 467 115	10.49
10 001 – 50 000	359	3.31	7 806 411	7.82	320	3.15	6 663 808	6.68
50 001 – 100 000	56	0.52	3 803 295	3.81	41	0.40	3 018 865	3.02
100 001 – 1 000 000	104	0.96	30 157 526	30.20	74	0.73	22 551 384	22.59
Over 1 000 000	13	0.12	47 314 292	47.38	14	0.14	57 111 263	57.22
Total	10 858	100.00	99 862 435	100.00	10 143	100.00	99 812 435	100.00
Distribution of shareholders								
Individuals	8 424	77.58	29 742 785	29.78	7 844	77.33	33 009 672	33.07
Insurance companies	12	0.11	203 682	0.20	14	0.14	508 779	0.51
Investment trusts	1 333	12.28	11 577 385	11.59	1 345	13.26	18 082 174	18.12
Other companies and corporate bodies	1 089	10.03	58 338 583	58.42	940	9.27	48 211 810	48.30
Total	10 858	100.00	99 862 435	100.00	10 143	100.00	99 812 435	100.00
Shareholder type								
Non-public shareholders	17	0.16	34 703 520	34.75	18	0.18	38 803 982	38.88
Directors and associates	13	0.12	23 450 356	23.48	15	0.15	28 191 108	28.24
Government Employees Pension Fund (holders > 10%)	4	0.04	11 253 164	11.27	3	0.03	10 612 874	10.63
Public shareholders	10 841	99.84	65 158 915	65.25	10 125	99.82	61 008 453	61.12
Total	10 858	100.00	99 862 435	100.00	10 143	100.00	99 812 435	100.00
Fund managers greater than 5% of the issued shares								
Public Investment Corporation			8 839 996	8.85			9 358 853	9.38
Coronation Fund Managers			6 075 661	6.08			2 096 060	2.10
Total			14 915 657	14.94			11 454 913	11.48
Beneficial shareholders greater than 5% of the issued shares (excluding directors)								
Government Employees Pension Fund			11 253 164	11.27			10 612 874	10.63
Total			11 253 164	11.27			10 612 874	10.63
Total number of shareholdings	10 858				10 143			
Total number of shares in issue	99 862 435				99 812 435			



Administration

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 Boule, P Halamandaris, P Halamandaris (Jnr), T Halamandaris,
JL Halamandres, RM Kgosana,
DP Hele (Chief Executive Officer)*,
K Ntlha (Group Financial Director)*, BL Sibiya, T Skweyiya and
KA Hedderwick
**Executive*

Company Secretary

IWM Isdale

Registered office

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Transfer secretaries

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Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
PO Box 61051, Marshalltown, 2107

Sponsor

The Standard Bank of South Africa Limited
Registration number: 1969/017128/06
30 Baker Street, Rosebank, 2196

Auditors

Deloitte & Touche

Bankers

Absa Bank Limited
Bidvest Bank Limited
FirstRand Bank Limited
Investec Bank Limited



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