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ALLIED BRANDS LIMITED (ASX:ABQ)

ALLIED BRANDS TO ACQUIRE VILLA & HUT, CAPITAL RAISING, AND MARKET UPDATE

Key facts summary

- Allied Brands intends to acquire the business “Villa & Hut” and 100% of the shares in a number of companies associated with the Villa & Hut Group.
- The cash cost of the acquisition will be approximately \$1,000,000 and together with the assumption of debts associated with the business brings the total cost to approximately \$2,800,000.
- This price includes significant tangible assets including stock, fixtures and fittings and all debtors along with intellectual property developed by the Company. .
- Villa & Hut currently comprises 16 outlets in Melbourne, Brisbane, Cairns, Adelaide, and Hobart with a further 6 already committed for the 2009/10 financial year. Villa & Hut outlets include both a licensed “Kafe” and in many cases a homeware section.
- The acquisition is expected to be completed before the 30th June 2009 and will be immediately cash flow positive and earnings per share accretive. Earning expectation for Villa & Hut is approximately \$1.5million NPBT in 2009-2010.
- Allied Brands has arranged a capital raising to ensure adequate working capital is available for the Villa & Hut acquisition and other activities
- Allied Brands reaffirms net profit before tax range of \$6.0m - \$7.0m

Acquisition of Villa & Hut

Leading owner, operator and developer of franchises Allied Brands Limited (ASX:ABQ) today announced it had entered into a binding heads of agreement to acquire the business of Villa & Hut (VH). The heads of agreement is subject to completion of legal and financial due diligence but is binding on the vendors. Due diligence has been conducted over the last 4 weeks and is due to be completed by 4 June 2009 with settlement expected to be completed prior to 30th June 2009.

VH was established in 1999 as an integrated homeware and cafe brand. It was founded on eco-friendly, sustainable, organic and fair trade principles. All products offered by the businesses adhere to these principles. (www.villaandhut.com)

The Kafe business includes 6 outlets spread through the Adelaide, Melbourne and Hobart airports (operated under franchise to Delaware North Ltd) as well as 10 additional outlets in shopping centres and DFO outlets, some in conjunction with VH homeware outlets.

The business of VH will be seamlessly integrated into ABQ's existing franchised food operations sharing many similar products and requiring similar franchise operational and marketing skills. Whilst the brands will continue to present an independent retail presence, the Allied Brands coffee roasting facility at Mt Kuring-Gai will, post acquisition, assume the production of the 32 tonnes of coffee used by VH as well as a proportion of the remaining food offering at the Kafes. Allied Brands will continue the founder's principles and provide eco friendly sustainable organic fair-trade coffee. This will double the coffee production of the group without increasing overheads

The VH business is forecast to earn NPBT of around \$1.5m in the 2009-2010.

Allied Brands managing director Peter Graham said the acquisition of Villa & Hut was consistent with Allied Brands continuing strategy of pursuing acquisitions that have strong five-year growth potential, have readily identifiable synergies with the company's other brands, and provide value for shareholders.

Share placement/Shareholder share Purchase plan

ABL advises that it has arranged a share placement to sophisticated investors of up to \$2.0m at 15c per share. Part of this placement forms part of the business of an extraordinary general meeting being called for 30 June 2009 and that part of the issue will be subject to shareholder approval.

Later this week, subject to the approval of the ASX, an offer will be made to existing shareholders to acquire up to \$10,000 of shares per shareholder at 15c per share through a shareholder share purchase plan being announced.

The share placement and the shareholders share offer are designed to ensure adequate capital is available for the VH acquisition and for the company's future working capital needs.

Additionally, CEO Shane Radbone is acquiring 5.0m fully paid ordinary shares in ABQ at a price of 15c per share. This purchase will be facilitated by the company through an executive loan on commercial terms. The issue of these shares will be subject to shareholder approval at the forthcoming EGM.

Market update

ABQ advises that the company's brands have traded in accordance with expectations to date for the current financial year. System sales growth over last year was 21.4% with like for like sales achieving growth of 7% to the end of April 2009. Additionally the Awesome group delivered 22.5% more units into businesses and homes during the same period.

There has continued to be pressure on margins due to the fluctuations in the \$AUD and increasing cost of raw materials during the year but these have shown signs of beginning to ease for the Company and its franchisees with the recent strengthening of the Australian dollar. Raw material rises in our Cookie Man business continue to cause pressure although these are being offset by cost sharing agreements between our brands.

CEO Shane Radbone commented that "the company is confident that the businesses will continue to show solid growth for the balance of the financial year after benefiting from the Government stimulus packages and from the market sectors in which we operate. These sectors traditionally continue to show growth even in times of financial uncertainty."

Mr Radbone said that across the group ABL will have approximately 330 stores and territories operating at 30th June 2009.

The company reaffirms that the current forecast net profit before tax of a range of \$6.0m - \$7.0m remains on foot.

ENDS

For further information please contact:

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