# RETAILFOODGROUP LIMITED

## APPENDIX4D
## INTERIMFINANCIALREPORT

### HALF YEAR ENDED – 31 DECEMBER 2010

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3

## CONTENTS

| | REPORTED | | | | | CORE OPERATIONS [1] | |
|---|---|---|---|---|---|---|---|
| | 1H07 | 1H08 | 1H09 | 1H10 | 1H11 | 1H10 | 1H11 |
| **Financial** | | | | | | | |
| Network Sales [2] | $79.2m | $306.3m | $320.9m | $321.2m | $326.7m | | |
| Total Revenue [3] | $12.4m | $50.2m | $69.7m | $61.3m | $60.3m | $61.3m | $60.3m |
| Adjusted Revenue [4] | | | | $32.7m | $38.6m | | |
| EBITDA | $6.4m | $17.2m | $20.6m | $22.0m | $22.6m | $22.1m | $23.3m |
| EBIT | $6.3m | $16.8m | $19.8m | $21.5m | $22.2m | $21.5m | $22.9m |
| NPAT | $3.9m | $8.9m | $10.6m | $12.5m | $13.6m | $12.6m | $14.1m |
| Basic EPS | 5.5 cps | 11.2 cps | 10.7 cps | 12.4 cps | 12.8 cps | 12.4 cps | 13.2 cps |
| **Operating** | | | | | | | |
| Network Sales Growth | 12.0% | 286.7% | 4.8% | 0.1% | 1.7% | | |
| Total Revenue Growth | 20.4% | 304.8% | 38.8% | (12.1%) | (1.6%) | (12.1%) | (1.6%) |
| Adjusted Revenue Growth | | | | | 18.0% | | |
| EBITDA Growth | 20.8% | 168.8% | 19.8% | 6.8% | 2.6% | 5.7% | 5.6% |
| EBIT Growth | 21.2% | 166.7% | 17.9% | 8.6% | 3.3% | 7.0% | 6.4% |
| NPAT Growth | 39.3% | 128.2% | 19.1% | 18.3% | 8.9% | 13.5% | 12.6% |
| Basic EPS Growth | 34.1% | 103.6% | (4.7%) | 15.9% | 3.2% | 10.7% | 6.5% |
| Dividend (interim) | 3.125 cps | 4.0 cps | 4.5 cps | 5.25 cps | 7.0 cps | | |
| Outlet Population | 349 | 1,051 | 1,066 | 1,055 | 1,102 | | |
| New Outlets | 24 | 41 | 37 | 20 | 20 | | |

(1) Results from 'Core Operations' exclude amounts recognised in the income statement relating to the pre-tax impact of:
- derivative financial instruments (interest rate swaps) (1H11: $0.9m loss; 1H10: $0.1m loss); and,
- derivative financial instruments (foreign exchange forward contract) (1H11: $0.1m gain; 1H10: $nil).

(2) Derived from financial information including franchisee-reported turnover and not subject to audit.

(3) Excludes revenue derived from marketing activities (1H11: $7.1m; 1H10: $8.1m; 1H09: $6.9m; 1H08: $5.2m; 1H07: $3.3m).

(4) Adjusted Revenue excludes sales revenue derived from the wholesale bakery supply to Michel's Patisserie outlets which is transitioning from a wholesale supply and distribution model to a traditional royalty based model (1H11: $21.7m; 1H10: $28.6m).

# APPENDIX 4D - SECTION A
## RESULTS FOR ANNOUNCEMENT TO THE MARKET

**Reporting Period**

Current Reporting Period: Half Year Ended 31 December 2010

Previous Corresponding Period: Half Year Ended 31 December 2009

**Revenue and Net Profit**

| Details | | Growth PCP % | | 1H11 $'000 |
|---|---|---|---|---|
| Revenue from operations | down | 2.8% | to | 67,464 |
| Profit from ordinary activities after tax attributable to members | up | 8.9% | to | 13,617 |
| Net profit attributable to members | up | 8.9% | to | 13,617 |

**Dividends**

| Details | Cents Per Share | Total Amount $'000 | Franked / Unfranked | Payment Date |
|---|---|---|---|---|
| **Declared and paid during the half-year** | | | | |
| Final FY10 dividend | 6.50 | 6,934 | 100% Franked | 7 October 2010 |
| **Declared after the end of the half-year** | | | | |
| Interim FY11 dividend | 7.00 | 7,511 | 100% Franked | 6 April 2011 |

Record date for determining entitlements to the interim FY11 dividend: 23 March 2011

**Net Tangible Assets Per Security**

| Details | 31 December 2010 | 30 June 2010 |
|---|---|---|
| Net tangible assets (liabilities) per security (1) | (54.0 cents)(2) | (64.4 cents) (3) |

(1) Net tangible assets defined as net assets less intangible assets.

(2) 31 December 2010 calculation based on 107,275,258 shares.

(3) 30 June 2010 calculation based on 106,020,137 shares.

# APPENDIX 4D - SECTION B
## COMMENTARY ON THE RESULTS

For comments on trading performance during the half-year, refer to the 1H11 media release and the Directors' Report.

The interim fully franked dividend of 7.0 cents per share was approved by the Directors on 17 February 2011. In complying with accounting standards, as the dividend was not approved prior to period end, no provision has been taken up for this dividend in the half-year financial statements. The Board also resolved that the abovementioned final dividend will constitute an eligible dividend for the purposes of the Company's Dividend Reinvestment Plan ('DRP'). Shares issued under the DRP will be issued at a 2.5% discount to the volume weighted market price for all RFG shares sold on ASX during the period of 5 trading days immediately preceding and inclusive of the record date.

# RETAIL FOOD GROUP LIMITED

## CONDENSED FINANCIAL REPORT

## HALF YEAR ENDED – 31 DECEMBER 2010

### INDEX

The Directors of Retail Food Group Limited submit herewith the financial report of Retail Food Group Limited (referred to hereafter as the Company) and its subsidiaries (referred to hereafter as the Group) for the half-year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Information About The Directors

The names of the Directors of the Company during or since the end of the half-year are:

| Name | Title |
|---|---|
| Mr John Thomas Cowley | Chairman & Independent Director |
| Mr Anthony James Alford | Managing Director & Chief Executive Officer |
| Mr Nigel Norman Nixon | Executive Director & Corporate Counsel |
| Mr Colin Cameron Archer | Independent Director |
| Mr Bruce Alan Hancox | Independent Director |

The above named Directors held office during the whole of the half-year.

### Principal Activities

The Group's principal activities during the course of the half-year were:

- the intellectual property ownership of the Donut King, bb's café, Brumby's Bakeries (including Big Dad's Pies) and Michel's Patisserie franchise systems;
- the development and management of the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie franchise systems throughout Australia and New Zealand together with international licensing activities connected with those brands; and,
- the development and management of the Coffee Roasting Facility and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie franchise systems.

### Changes In State Of Affairs

No significant changes in the nature of the Group's core business activities occurred during the half-year.

### Review Of Operations And Financial Condition

Group Overview

Retail Food Group's franchise systems continued to perform solidly in 1H11 despite challenging retail and economic conditions, resulting in the achievement of continuing record profits.

Net Profit After Tax (NPAT) of $13.6 million was up 8.9% (or $1.1 million) on 1H10.

NPAT from Core Operations of $14.1 million was up 12.6% (or $1.6 million) on 1H10.

Network Sales across the Group's franchise systems for 1H11 were $326.7 million, an increase of $5.5 million (1.7%) over the previous corresponding period (pcp).

Network Sales increased as a consequence of:

- moderate increases in weighted average weekly sales (AWS) and average transaction values (ATV) across all brands;
- contribution from the DCM Coffee & Donuts and Big Dad's Pies franchise systems acquired during 2H10; and,
- organic outlet growth (i.e. new outlet commissionings);

but was partially offset by:

- a softening in weighted average customer counts, reflecting reduced shopping centre foot traffic;
- the impact of unfavourable foreign currency conversion on the Group's 42 New Zealand franchised outlets; and,
- outlet closures.

Earnings per share (EPS) for the half-year increased 3.2% (or 0.4 cents) to 12.8 cents.

In recognition of the Company's record first half result, the Directors determined to pay a fully franked interim ordinary dividend of 7.0 cents per share, an increase of 33.3% on the pcp. The interim dividend was approved by the Directors following conclusion of 1H11 and is therefore not provided for in the half-year financial statements.

**Review Of Operations And Financial Condition (cont.)**

Earnings Performance

Total Revenue (excluding marketing) for 1H11 was $60.3 million, or $1.0 million (1.6%) less than 1H10.

The decrease in Total Revenue is a consequence of the continuing transition of the Michel's Patisserie franchise system from a wholesale bakery supply and distribution model to a traditional royalty model adopted by the Group's other franchise systems.

Adjusted Revenue, which excludes sales revenue derived from the wholesale bakery sales (relating to Michel's Patisserie outlets), was $38.6 million, an increase of $5.9 million (18.0%) compared to pcp.

*Consolidated Result*

Net Profit After Tax (NPAT) of $13.6 million was up 8.9% (or $1.1 million) on 1H10.

Ignoring the impacts of derivative financial instruments, NPAT from Core Operations of $14.1 million represents a 12.6% increase on underlying NPAT achieved in 1H10.

Other highlights included:

- gross margin increased to 66.5% (based on combined performance of wholesale/retail and franchising operation segments) reflecting ongoing benefits of Michel's Patisserie system conversion and related distribution economies, as well as increasing contribution from coffee operations;
- Senior Debt Facility refinancing during August 2010 contributed $0.6 million to EBT and supports the Group's active debt and capital management strategies; and,
- strong earnings performance supporting cash flows and facilitating an increased dividend payout ratio of 55.2%.

The Group is organised into two major operating divisions – franchising operations and wholesale / retail operations.

*Franchising Operations*

Franchising Operations incorporates the development and management of the Group's retail franchise systems – Donut King, bb's café, Brumby's Bakeries (including Big Dad's Pies) and Michel's Patisserie – and involves the following principal activities:

- the establishment and grant of new franchises;
- the administration of royalties collection, supplier licensing, franchisee compliance, franchisee training and administration; and,
- the performance of marketing and promotional activities, brand development and awareness, product research and development.

Segment revenue for 1H11 was $33.6 million (1H10: $30.7 million), representing growth of $2.9 million (or 9.4%), and was driven by the continuing transition of Michel's Patisserie outlets to the traditional royalty model, new outlet commissionings and maintenance of positive growth in average weekly sales (upon which the Group earns a royalty), and the additional business attributable to four acquisitions completed by the Group during 2H10.

Segment revenue includes revenues derived from marketing activities of $7.1 million (1H10: $8.1 million).

*Wholesale / Retail Operations*

Wholesale / Retail Operations incorporates the development and management of the Group's Procurement & Distribution division, Wholesale & Manufacturing division and Non-Voluntary Company Store division. These divisions are managed and reported separately to the Franchising Operations segment, and involve the following principal activities:

- the procurement, sale and distribution of bakery and other related items to Michel's Patisserie franchisees;
- the manufacture and sale of roasted coffee and related products to franchisees and external customers;
- the interim operation of non-voluntary company owned or company managed stores across each of the franchise systems; and,
- the sale of company owned stores.

Segment revenue for 1H11 was $33.7 million (1H10: $38.6 million), representing a decline of $4.9 million.

The decline reflects the continuing transition of the Michel's Patisserie franchise system from a wholesale bakery supply and distribution model to a traditional royalty based model typically operated by the Group.

Excluding sales revenue derived from the wholesale bakery sales (referred to above), adjusted segment revenue for 1H11 was $12.0 million (1H10: $10.0 million).

**Review Of Operations And Financial Condition (cont.)**

Earnings Performance (cont.)

A review of consolidated revenues and results by segment is set out below:

| Segment | Segment Revenues | | | Segment Result | |
|---|---|---|---|---|---|
| | 1H11 $'000 | 1H10 $'000 | | 1H11 $'000 | 1H10 $'000 |
| Franchising Operations | 33,595 | 30,748 | | 17,201 | 14,296 |
| Wholesale / Retail Operations | 33,723 | 38,568 | | 6,220 | 7,873 |
| | 67,318 | 69,316 | | 23,421 | 22,169 |
| Unallocated | 146 | 115 | | (4,448) | (4,455) |
| Profit before tax | | | | 18,973 | 17,714 |
| Income tax expense | | | | (5,356) | (5,205) |
| Revenue and NPAT for the year | 67,464 | 69,431 | | 13,617 | 12,509 |

Financial Position and Cash Flows

Net Assets of $149.2 million have increased by $10.4 million (7.5%) from 30 June 2010 reflecting the Group's reduced working capital requirements and well managed debt and equity structures.

Cash inflows from operating activities for 1H11 remain strong at $13.3 million reflecting a conversion to EBITDA of 101.3% (1H10: 98.6%).

Surplus free cash from operations was used to fund:

- further voluntary debt reduction of $9.0 million; and,
- the initial acquisition and partial development of the Company's new national office, training and research and development facility. As of 31 December 2010, acquisition, refurbishment and fitout costs incurred totaled $3.0 million.

Debt

Notably, during 1H11, the Group's net debt reduced by $5.2 million (7.1%) to $67.7 million.

During 1H11, the Company completed the refinance of its $85.0 million Senior Debt Facility, with the appointment of the National Australia Bank (NAB) as its debt facility provider and transaction banker. The refinance and transfer of the Company's banking facility was completed on 31 August 2010.

As at 31 December 2010, the Group's total debt was $77.3 million, following further voluntary repayments of $9.0 million during 1H11, funded from free operating cash flows. The Group's core debt is shown as a non-current liability in the Statement of Financial Position, reflecting its maturity date of 31 August 2013.

The Group's leverage ratio (net debt / core EBITDA) of 1.45 times and gearing ratio (total debt / (total debt + equity)) of 31.1% are comfortably within its banking covenants.

The Group holds interest rate swaps to manage interest rate exposure.

On 7 July 2010, as part of the Group's Debt Facility management strategy, the Group terminated the following financial instruments:

- interest rate swap with a notional principal value of $22.8 million (as at 30 June 2010) and a termination date of 31 March 2011; and,
- interest rate cap with a notional principal value of $7.8 million (as at 30 June 2010) and a termination date of 30 June 2012.

At 31 December 2010, two interest rate swaps remain with a notional principal of $67.7 million and a weighted average interest rate of 7.4%.

The aggregate fair value of the Group's interest rate swaps at 31 December 2010 was $2.3 million payable (30 June 2010: $3.7 million payable).

**Review Of Operations And Financial Condition (cont.)**

Operational Performance

*Outlet Population*

During 1H11, total outlet population across the Group's franchise systems experienced a net decline of 20 outlets. Placed in perspective, the net decline represents a decrease of 1.8% over total outlet population as at 30 June 2010 and arose as a consequence of:

- the insolvency and subsequent closure of 7 Big Dad's Pies outlets (associated with the original owner and vendor of the Big Dad's Pies franchise system);
- continuing stagnant new shopping centre development, together with limited redevelopment amongst existing shopping centres, which results in reduced new site opportunities;
- a reduction in premium site opportunities within traditional trading spheres; and,
- rationalization of non-performing outlets (due to various reasons including site location, servicing costs, franchisee suitability and debt servicing capability) including those identified for potential future closure during due diligence investigations into the Michel's Patisserie, Brumby's Bakeries and Big Dad's Pies systems.

Note: The 46 outlets acquired as a result of the Group's acquisition of Esquires Coffee Houses (announced in December 2010 but which settled in February 2011) have not been included in 1H11 outlet population metrics.

| | Donut King | bb's café | Brumby's Bakeries (inc BDP) | Michel's Patisserie | Total |
|---|---|---|---|---|---|
| Outlets (as at 30 June 2010) | 358 | 60 | 367 | 337 | 1,122 |
| Commissionings | 7 | - | 7 | 6 | 20 |
| Closures | (9) | (2) | (20) | (9) | (40) |
| Net outlet increase / decrease | (2) | (2) | (13) | (3) | (20) |
| Outlets (as at 31 December 2010) | 356 | 58 | 354 | 334 | 1,102 |

| Franchise System | Details |
|---|---|
| Donut King | 7 outlet commissionings (1H10: 9) and 9 closures (1H10: 7) resulting in Donut King net system reduction during 1H11 of 2.<br>As at 31 December 2010, there were 356 Donut King outlets (1H10: 327), of which 10 are located in China (1H10: 7). |
| bb's café | Nil commissionings (1H10: nil) and 2 closures (1H10: 2) resulting in bb's cafe net system reduction during 1H11 of 2.<br>As at 31 December 2010, there were 58 bb's cafe outlets (1H10: 60), of which 21 are located in New Zealand (1H10: 21). |
| Brumby's Bakeries<br>(including Big Dad's Pies) | 7 outlet commissionings (1H10: 7) and 20 closures (1H10: 7) resulting in Brumby's Bakeries net system reduction during 1H11 of 13.<br>Of these, 1 new commissioning and 13 closures related to the Big Dad's Pies franchise system.<br>As at 31 December 2010, there were 354 Brumby's Bakeries outlets (1H10: 332), of which 17 are located in New Zealand (1H10: 19). |
| Michel's Patisserie | 6 outlet commissionings (1H10: 4) and 9 closures (1H10: 12) resulting in Michel's Patisserie net system reduction during 1H11 of 3.<br>As at 31 December 2010, there were 334 Michel's Patisserie outlets (1H10: 332), of which 4 are located in New Zealand (1H10: 5). |

**Review Of Operations And Financial Condition (cont.)**

Operational Performance (cont.)

*Outlet Average Weekly Sales (AWS) & Average Transaction Values (ATV)*

| Franchise System | Average Weekly Sales (AWS) | | | Average Transaction Value (ATV) | | |
|---|---|---|---|---|---|---|
| | 1H09 $ | 1H10 $ | 1H11 $ | 1H09 $ | 1H10 $ | 1H11 $ |
| Donut King | 9,653 | 9,716 | 9,853 | 4.87 | 5.08 | 5.25 |
| *Growth* | *-0.3%* | *0.7%* | *1.4%* | *6.3%* | *4.3%* | *3.4%* |
| bb's café | 11,382 | 11,408 | 11,715 | 7.16 | 7.37 | 7.59 |
| *Growth* | *8.8%* | *0.2%* | *2.7%* | *6.1%* | *2.9%* | *3.0%* |
| Brumby's Bakeries | 13,582 | 13,731 | 13,766 | 5.62 | 5.85 | 5.94 |
| *Growth* | 6.3% | 1.1% | *0.3%* | 7.3% | 4.1% | *1.6%* |
| Michel's Patisserie | 12,336 | 12,517 | 12,881 | 6.42 | 6.43 | 6.55 |
| *Growth* | *4.4%* | *1.5%* | *2.9%* | *6.5%* | *0.2%* | *1.8%* |

The Group's franchise systems exhibited positive:

- weighted average weekly sales (AWS) growth of 2.3%; and
- weighted average transaction value (ATV) growth of 2.4%;

compared to 1H10 displaying acceptable performance given the constraining and difficult retail trading conditions and depressed consumer sentiment.

Donut King outlet average weekly sales growth of 1.4% was assisted by a 3.4% increase in average transaction values reflecting the success of key promotional activity and improved bundling offers.

bb's café outlet average weekly sales growth for Australian outlets was 2.7% on 1H10 reflecting customer recognition of the brand's quality coffee offer and new light meals menu options.

Brumby's Bakeries outlet average weekly sales growth of 0.3% was assisted by a 1.6% increase in average transaction values reflecting improved product bundling and the introduction of a new premium product range.

Michel's Patisserie outlet average weekly sales growth of 2.9% was assisted by a 1.8% increase in average transaction values reflecting a number of successful coffee promotions, the introduction of a new online cake ordering website facility for consumers and greater customer frequency of purchase.

Donut King, bb's café and Michel's Patisserie outlets are predominantly located in shopping centres, where the Group has focused on initiatives which drive average transaction values to compensate for lower traffic flows and depressed consumer sentiment over the past 2 to 3 years.

Acquisitions

*Esquires Coffee Houses Franchise System*

On 29 December 2010, the Group announced that it had reached an agreement, subject to normal contractual terms and finalisation of due diligence enquiry, by which the New Zealand master franchise business for the Esquires Coffee Houses (ECH) franchise system would be acquired ('the MF Contract').

The MF Contract transaction was conditional upon the contemporaneous settlement of a separate agreement ('the IP Contract') pursuant to which RFG would also acquire the intellectual property rights for the ECH system for the territories of Australia and New Zealand from the owners thereof.

The ECH system originated in Canada and was first established in New Zealand by way of master franchise in 2001. At the time of acquisition, the New Zealand network has a footprint of 46 outlets and is the largest franchised coffee chain within that country. The ECH system is similar to, and is a direct competitor of, the bb's cafe system in New Zealand. Through an alignment of marketing, procurement and personnel resources, the acquisition of ECH is initially intended to support the Company's existing bb's café operations (21 outlets) in New Zealand. ECH is yet to be established within Australia.

Settlement was completed on 7 February 2011, with control of the New Zealand master franchise business (MF Contract) and the intellectual property rights for the ECH system for the territories of Australia and New Zealand (IP Contract), transferring to the Group at that time.

### Review Of Operations And Financial Condition (cont.)

Acquisitions (cont.)

*Esquires Coffee Houses Franchise System (cont.)*

The purchase price for the ECH business (under the MF Contract) comprises:

- $6.9 million (NZD$9.1 million) cash paid to the vendor on settlement; and,
- an earnout payable in scrip in the Company to a maximum value of NZD$0.6 million.

The earnout component of the purchase price is payable on 7 August 2011 and is subject to a sliding scale mechanism dependent upon the vendor meeting certain performance conditions with regard to the establishment of additional ECH outlets.

The consideration paid under the IP Contract was $1.4 million (NZD$1.9 million).

The cash settlement of both the MF Contract and IP Contract was supported by a foreign exchange forward contract arranged during December 2010.

The outlets acquired as a result of this transaction have not been included in 1H11 outlet population metrics.

### Significant Events After The Balance Date

There has not been any matter or circumstance occurring, other than that referred to in this Directors' Report, the financial statements or notes thereto, that has arisen since the end of the half-year, that has significantly affected, or in the reasonable opinion of the Directors, may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the group in future financial periods, other than the following:

Interim Dividend

On 17 February 2011, the Board of Directors determined to pay an interim dividend in respect of profits of the financial year ending 30 June 2011. The interim dividend of 7.0 cents per share (based on 107,301,926 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 6 April 2011. The interim dividend was approved by the Directors following the conclusion of 1H11 and therefore was not provided for in the half-year financial report. The Board also resolved that the abovementioned final dividend will constitute an eligible dividend for the purposes of the Company's Dividend Reinvestment Plan ('DRP'). Shares issued under the DRP will be issued at a 2.5% discount to the volume weighted market price for all RFG shares sold on ASX during the period of 5 trading days immediately preceding and inclusive of the record date.

Settlement of ECH Acquisition (MF Contract & IP Contract)

Settlement was completed on 7 February 2011, with control of the New Zealand master franchise business (MF Contract) and the intellectual property rights for the ECH system for the territories of Australia and New Zealand (IP Contract), transferring to the Group at that time.

The purchase price for the ECH business (under the MF Contract) comprises:

- $6.9 million (NZD$9.1 million) cash paid to the vendor on settlement; and,
- an earnout payable in scrip in the Company to a maximum value of NZD$0.6 million.

The earnout component of the purchase price is payable on 7 August 2011 and is subject to a sliding scale mechanism dependent upon the vendor meeting certain performance conditions with regard to the establishment of additional ECH outlets.

The consideration paid under the IP Contract was $1.4 million (NZD$1.9 million).

The cash settlement of both the MF Contract and IP Contract was supported by a foreign exchange forward contract arranged during December 2010.

The outlets acquired as a result of this transaction have not been included in 1H11 outlet population metrics.

Through an alignment of marketing, procurement and personnel resources, the acquisition of ECH is initially intended to support the Company's existing bb's café operations (21 outlets) in New Zealand.

*Provisional Acquisition Accounting*

The acquisition of ECH as described above involved the purchase of intangible assets only; no tangible assets or liabilities have been acquired. At the date of this report, it is impracticable to disclose information relating to the provisional acquisition accounting due to the fair value computations for the intangible assets acquired being incomplete.

## Significant Events After The Balance Date (cont.)

Flooding Event – South-East Queensland & Northern New South Wales

On 18 January 2011, the Company provided the market with an update concerning the impact of flood events affecting Queensland and Northern New South Wales franchisees during the later portion of December 2010 and early January 2011.

A total of 108 franchised outlets were directly affected which resulted in outlet closures as follows:

- 31 Donut King outlets;
- 7 bb's café outlets;
- 56 Brumby's Bakeries outlets; and,
- 14 Michel's Patisserie outlets.

On 7 February 2011, the Company announced that, save for 5 Brumby's Bakeries stores (including 4 Big Dad's Pies stores), all outlets impacted by the aforesaid events were operational.

Of the 5 outlets which continue to be closed, the Company is assessing the damage sustained and cost of reinstatement. The Company believes an opportunity for significantly damaged Big Dad's Pies outlets exists to more closely realign to the Brumby's Bakeries brand. The Company continues to investigate these opportunities with the franchisees in question.

The financial impact on the Group continues to be assessed.

Cyclone Event – Far North and Central Queensland

On 7 February 2011, the Company provided the market with an update concerning the impact of Severe Tropical Cyclone Yasi affecting Far North and Central Queensland franchisees.

A total of 44 franchised outlets were directly affected which resulted in outlet closures (the majority of closures being deliberate and premeditated given safety concerns) as follows:

- 9 Donut King outlets;
- 2 bb's café outlets; and,
- 33 Brumby's outlets.

Only one Brumby's Bakeries outlet sustained significant damage which will result in prolonged outlet closure. The damage suffered by that outlet, together with the timeframe for reinstatement, continues to be reassessed. The remainder of outlets affected essentially suffered loss of stock and stock outages together with an inability to trade for up to 7 days.

The financial impact of Severe Tropical Cyclone Yasi on the Group continues to be assessed.

Debt Facility

On the 27 January 2011, the Company executed an amendment to its existing debt facilities with National Australia Bank. The amendment provided for an increase in the Company's debt facility of $10.0 million, increasing the overall debt facility limit to $95.0 million. Banking covenants and margins remained unchanged.

The increased facility provides for headroom following the settlement of the ECH acquisition and partial completion of refurbishment works relating to the Group's new national head office, training and research and development facility.

### Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

| Dividend Details | Cents Per Share | Total Amount $'000 | Franked / Unfranked | Payment Date |
|---|---|---|---|---|
| **Declared and paid during the half-year** | | | | |
| Final FY10 dividend | 6.50 | 6,934 | 100% Franked | 7 October 2010 |
| **Declared after the end of the half-year** | | | | |
| Interim FY11 dividend | 7.00 | 7,511 | 100% Franked | 6 April 2011 |

In respect of the financial year ended 30 June 2010, as detailed in the Directors' report for that financial year, a final dividend of 6.50 cents per share (based on 106,680,807 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 7 October 2010. The final dividend was approved by the Directors following the conclusion of the 30 June 2010 financial year and therefore was not provided for in the Company's financial report. It was resolved that the final dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

In respect of profits of the financial year ending 30 June 2011, an interim dividend of 7.00 cents per share (based on 107,301,926 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 6 April 2011. The interim dividend was approved by the Directors following the conclusion of 1H11 and therefore was not provided for in the Company's half-year financial report. The Board also resolved that the abovementioned final dividend will constitute an eligible dividend for the purposes of the Company's Dividend Reinvestment Plan ('DRP'). Shares issued under the DRP will be issued at a 2.5% discount to the volume weighted market price for all RFG shares sold on ASX during the period of 5 trading days immediately preceding and inclusive of the record date.

### Auditor's Independence Declaration

The auditor's independence declaration is included on page 13 of the half-year condensed financial report.

### Rounding Off Of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This Directors' report is signed in accordance with a resolution of Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors

RETAIL FOOD GROUP LIMITED

A J (TONY) ALFORD
Managing Director and CEO
Southport, 17 February 2011

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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17 February 2011

The Board of Directors
Retail Food Group Limited
RFG House
26 Railway Street
Southport QLD 4215

Dear Board Members,

**Retail Food Group Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Retail Food Group Limited.

As lead audit partner for the review of the financial statements of Retail Food Group Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Sheerin

M G Sheerin
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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# Independent Auditor's Review Report to the Members of Retail Food Group Limited

We have reviewed the accompanying half-year financial report of Retail Food Group Limited, which comprises the condensed statement of financial position as at 31 December 2010, the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the half-year ended on that date, selected explanatory notes and the Directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 16 to 27.

*Directors' Responsibility for the Half-Year Financial Report*

The Directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Retail Food Group Limited's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Retail Food Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Retail Food Group Limited, would be in the same terms if given to the Directors as at the time of this auditor's review report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Retail Food Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Sheerin

M G Sheerin
Partner
Chartered Accountants
Brisbane, 17 February 2011

The Directors declare that:

(i) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(ii) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

RETAIL FOOD GROUP LIMITED

A J (TONY) ALFORD
Managing Director and CEO
Southport, 17 February 2011

# CONDENSED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE HALF YEAR ENDED 31 DECEMBER 2010

| Consolidated | Note | 1H11 $'000 | 1H10 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from sale of goods | 4 | 33,723 | 38,568 |
| Cost of sales | 6 | (22,651) | (25,885) |
| Gross profit | | 11,072 | 12,683 |
| Other revenue | 4 | 33,741 | 30,863 |
| Other gains and losses | 5 | (742) | (65) |
| Selling expenses | | (3,172) | (1,992) |
| Marketing expenses | | (7,102) | (8,102) |
| Occupancy expenses | | (1,128) | (1,007) |
| Administration expenses | | (2,495) | (2,865) |
| Operating expenses | | (6,547) | (6,724) |
| Finance costs | | (3,441) | (3,956) |
| Other expenses | | (1,213) | (1,121) |
| Profit before tax | | 18,973 | 17,714 |
| Income tax expense | | (5,356) | (5,205) |
| Profit for the year from continuing operations | | 13,617 | 12,509 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | | - | - |
| **Profit for the year** | | 13,617 | 12,509 |
| **Other comprehensive income** | | | |
| Net gain on cash flow hedges | | 1,430 | 1,174 |
| Other comprehensive income for the year, net of tax | | 1,430 | 1,174 |
| **Total comprehensive income for the year** | | 15,047 | 13,683 |
| Profit attributable to: | | | |
| Equity holders of the parent | | 13,617 | 12,509 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | | 15,047 | 13,683 |
| **Earnings per share** | | | |
| From continuing and discontinued operations: | | | |
| Basic (cents per share) | | 12.8 | 12.4 |
| Diluted (cents per share) | | 12.7 | 12.2 |
| From continuing operations: | | | |
| Basic (cents per share) | | 12.8 | 12.4 |
| Diluted (cents per share) | | 12.7 | 12.2 |

The financial statements should be read in conjunction with the accompanying notes.

# CONDENSED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2010

| Consolidated | Note | 1H11 $'000 | FY10 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 9,591 | 13,105 |
| Trade and other receivables | | 11,843 | 13,094 |
| Other financial assets | | 3,027 | 2,591 |
| Inventories | | 2,091 | 2,299 |
| Other | | 508 | 432 |
| **Total current assets** | | 27,060 | 31,521 |
| **Non-current assets** | | | |
| Property, plant and equipment | | 5,330 | 2,749 |
| Deferred tax assets | | 1,678 | 2,104 |
| Intangible assets | | 207,118 | 207,118 |
| **Total non-current assets** | | 214,126 | 211,971 |
| **Total assets** | | 241,186 | 243,492 |
| **Current liabilities** | | | |
| Trade and other payables | | 5,844 | 7,474 |
| Borrowings | 7 | - | 85,852 |
| Current tax liabilities | | 3,642 | 4,963 |
| Provisions | | 1,887 | 1,855 |
| Other | | 728 | 788 |
| **Total current liabilities** | | 12,101 | 100,932 |
| **Non-current liabilities** | | | |
| Borrowings | 7 | 77,338 | - |
| Provisions | | 303 | 293 |
| Other | | 2,253 | 3,462 |
| **Total non-current liabilities** | | 79,894 | 3,755 |
| **Total liabilities** | | 91,995 | 104,687 |
| **Net assets** | | 149,191 | 138,805 |
| **Equity** | | | |
| Issued capital | 8 | 97,491 | 95,146 |
| Reserves | 9 | (1,114) | (2,472) |
| Retained earnings | 10 | 52,814 | 46,131 |
| **Total equity** | | 149,191 | 138,805 |

The financial statements should be read in conjunction with the accompanying notes.

# CONDENSED STATEMENT OF CHANGES IN EQUITY
## FOR THE HALF YEAR ENDED 31 DECEMBER 2010

| Consolidated | Fully Paid Ordinary Shares | Equity Settled Employee Benefits Reserve | Hedging Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance as at 1 July 2009 | 80,959 | 606 | (4,867) | 30,318 | 107,016 |
| Profit for the year | - | - | - | 12,509 | 12,509 |
| Other comprehensive income | - | - | 1,174 | - | 1,174 |
| Total comprehensive income | - | - | 1,174 | 12,509 | 13,683 |
| Issue of ordinary shares | 4,336 | - | - | - | 4,336 |
| Share issue costs | (93) | - | - | - | (93) |
| Related income tax | 28 | - | - | - | 28 |
| Issue of ordinary shares under DRP | 526 | - | - | - | 526 |
| Recognition of share-based payments | - | 44 | - | - | 44 |
| Issue of shares under executive share option plan | 375 | - | - | - | 375 |
| Transfer from equity-settled employee benefits reserve | 94 | (94) | - | - | - |
| Payment of dividends | - | - | - | (4,765) | (4,765) |
| **Balance as at 31 December 2009** | 86,225 | 556 | (3,693) | 38,062 | 121,150 |
| Balance as at 1 July 2010 | 95,146 | 779 | (3,251) | 46,131 | 138,805 |
| Profit for the year | - | - | - | 13,617 | 13,617 |
| Other comprehensive income | - | - | 1,430 | - | 1,430 |
| Total comprehensive income | - | - | 1,430 | 13,617 | 15,047 |
| Share issue costs | (17) | - | - | - | (17) |
| Related income tax | 5 | - | - | - | 5 |
| Issue of ordinary shares under DRP | 1,369 | - | - | - | 1,369 |
| Recognition of share-based payments | - | 140 | - | - | 140 |
| Issue of shares under executive share option plan | 776 | - | - | - | 776 |
| Transfer from equity-settled employee benefits reserve | 212 | (212) | - | - | - |
| Payment of dividends | - | - | - | (6,934) | (6,934) |
| **Balance as at 31 December 2010** | 97,491 | 707 | (1,821) | 52,814 | 149,191 |

The financial statements should be read in conjunction with the accompanying notes.

# CONDENSED STATEMENT OF CASH FLOWS
## FOR THE HALF YEAR ENDED 31 DECEMBER 2010

| Consolidated | Note | 1H11 $'000 | 1H10 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 74,836 | 75,530 |
| Payments to suppliers and employees | | (51,914) | (53,849) |
| Interest and other costs of finance paid | | (2,720) | (3,416) |
| Income taxes paid | | (6,909) | (4,503) |
| **Net cash provided by operating activities** | | 13,293 | 13,762 |
| **Cash flows from investing activities** | | | |
| Interest received | | 146 | 77 |
| Proceeds from repayment of related party loans | | 11 | 3 |
| Amounts advanced to other entities | | (287) | (168) |
| Payments for property, plant and equipment | | (3,014) | (300) |
| Proceeds from sale of property, plant and equipment | | 13 | 19 |
| Payment for intangible assets | | - | (100) |
| **Net cash used in investing activities** | | (3,131) | (469) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of equity securities | | 776 | 4,711 |
| Payment for share issue costs | | (17) | (93) |
| Proceeds from borrowings | | 338 | - |
| Payment for debt costs | | (208) | (157) |
| Repayment of borrowings | | (9,000) | (10,000) |
| Dividends paid | | (5,565) | (4,239) |
| **Net cash used in financing activities** | | (13,676) | (9,778) |
| Net (decrease) / increase in cash and cash equivalents | | (3,514) | 3,515 |
| Cash and cash equivalents at the beginning of the half year | | 13,105 | 5,414 |
| **Cash and cash equivalents at the end of the half year** | | 9,591 | 8,929 |

The financial statements should be read in conjunction with the accompanying notes.

## 1. General Information

Retail Food Group Limited (the Company) is a public company listed on the Australian Securities Exchange (ASX: RFG), incorporated in Australia and operating in Australia and New Zealand. Retail Food Group Limited's registered office and its principal place of business are as follows:

| Registered Office | Principal Administration Office |
|---|---|
| Level 1 HQ Robina<br>58 Riverwalk Avenue<br>Robina QLD 4226 | RFG House<br>26 Railway Street<br>Southport QLD 4215 |

The Group's principal activities during the course of the half-year were:

- the intellectual property ownership of the Donut King, bb's café, Brumby's Bakeries (including Big Dad's Pies) and Michel's Patisserie franchise systems;
- the development and management of the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie franchise systems throughout Australia and New Zealand together with international licensing activities connected with those brands; and,
- the development and management of the Coffee Roasting Facility and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie franchise systems.

## 2. Significant Accounting Policies

### 2.1 Statement Of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The half year financial report was authorised for issue by the Directors on 17 February 2011.

### 2.2 Basis Of Preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2010 annual financial report for the financial year ended 30 June 2010, except for the impact of the Standards and Interpretations described below. The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 5, 8, 101, 117, 118, 136 and 139 as a consequence of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no affect on the amounts reported for the current or prior periods.

### 2.3 Reassessment of Cash-Generating Units

Previously, the Group has determined the existence of 5 cash-generating units based on the operation of 5 identifiable franchise systems. As a result of the realignment of the Big Dad's Pies outlets to the Brumby's Bakeries brand, the Group has reassessed the number of identifiable cash-generating units to 4, with the carrying value of the Big Dad's Pies CGU ($3.1 million) to be incorporated in the Brumby's Bakeries CGU for the purpose of future impairment testing.

### 3. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the group that are reviewed regularly by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

For management purposes, the Group is organised into two major operating divisions – franchising operations and wholesale / retail operations. These divisions are the basis on which the Group reports its primary segment information. The Group's reportable segments under AASB 8, and the principal products and services of each, are as follows:

| Segment | Description |
|---|---|
| Franchising Operations | Franchising Operations incorporates the development and management of the Group's retail franchise systems – Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie – and involves the following principal activities:<br>▪ the establishment and grant of new franchises;<br>▪ the administration of royalties collection, supplier licensing, franchise compliance, franchise training and administration; and,<br>▪ the performance of marketing and promotional activities, brand development and awareness, and product research and development. |
| Wholesale / Retail Operations | Wholesale / Retail Operations incorporates the development and management of the Group's Procurement & Distribution division, Wholesale & Manufacturing division and Non-Voluntary Company Store division. These divisions are managed and reported separate to the Franchising Operations segment, and involve the following principal activities:<br>▪ the procurement, sale and distribution of bakery and other related items to Michel's Patisserie franchisees;<br>▪ the manufacture and sale of roasted coffee and related products to franchisees and external customers;<br>▪ the interim operation of non-voluntary company owned or company managed stores across each of the franchise systems; and,<br>▪ the sale of company owned stores. |

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

| Segment | Segment Revenues | | | Segment Profit | |
|---|---|---|---|---|---|
| | 1H11<br>$'000 | 1H10<br>$'000 | | 1H11<br>$'000 | 1H10<br>$'000 |
| Franchising Operations | 33,595 | 30,748 | | 17,201 | 14,296 |
| Wholesale / Retail Operations | 33,723 | 38,568 | | 6,220 | 7,873 |
| | 67,318 | 69,316 | | 23,421 | 22,169 |
| Other gains and losses | | | | (742) | (65) |
| Interest revenue | 146 | 77 | | 146 | 77 |
| Finance costs | | | | (3,441) | (3,956) |
| Unallocated | - | 38 | | (411) | (511) |
| Profit before tax | | | | 18,973 | 17,714 |
| Income tax expense | | | | (5,356) | (5,205) |
| Revenue and profit for the period | 67,464 | 69,431 | | 13,617 | 12,509 |

Revenue reported above represents revenue generated from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Segment profit represents the profit earned by each segment without allocation of gains derived / losses incurred from derivative financial instruments, interest revenue, finance costs, depreciation, corporate expenses and income tax expense. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

An insignificant portion of the Group's activities are located outside of Australia, and hence no geographical information has been disclosed.

### 4. Revenue

An analysis of the Group's revenue for the half-year, from continuing operations, is as follows:

| Consolidated | 1H11 $'000 | 1H10 $'000 |
|---|---|---|
| Revenue from the sale of goods [1] | 33,723 | 38,568 |
| Revenue from the rendering of services | 33,595 | 30,748 |
| | 67,318 | 69,316 |
| Interest revenue – bank deposits | 146 | 77 |
| Rental revenue – operating lease rental revenue | - | 38 |
| | 67,464 | 69,431 |

(1) Revenue from the sale of goods is impacted by the continuing transition of the Michel's Patisserie franchise system from a wholesale bakery supply and distribution model to a traditional royalty based model typically operated by the Group. Excluding sales revenue derived from the wholesale bakery sales (relating to Michel's Patisserie outlets), adjusted revenue from the sale of goods for 1H11 was $12.0 million (1H10: $10.0 million).

### 5. Other Gains And Losses

| Consolidated | 1H11 $'000 | 1H10 $'000 |
|---|---|---|
| Loss on disposal of property, plant and equipment | (9) | - |
| Loss on cash flow hedges | (852) | (65) |
| Gain on foreign exchange forward contract | 119 | - |
| | (742) | (65) |

### 6. Profit For The Half-Year From Continuing Operations

Profit for the half-year from continuing operations has been arrived at after charging (crediting):

| Consolidated | 1H11 $'000 | 1H10 $'000 |
|---|---|---|
| Cost of sales | 22,651 | 25,885 |
| Inventory write-down of inventory to net realisable value | 100 | 325 |
| Impairment of trade receivables | 691 | 218 |
| Depreciation of property, plant and equipment | 411 | 549 |
| Employee benefits expenses: | | |
| Post employment benefits (defined contribution plans) | 672 | 587 |
| Share-based payments (equity-settled share-based payments) | 140 | 45 |
| Termination benefits | 6 | 94 |
| Other employee benefits (wages and salaries) | 10,237 | 9,134 |
| | 11,055 | 9,860 |

## 7. Borrowings

| Consolidated | 1H11 $'000 | FY10 $'000 |
|---|---|---|
| **Secured at amortised cost** | | |
| **Current** | | |
| Bank loans | - | 85,852 |
| | - | 85,852 |
| **Non-current** | | |
| Bank loans | 77,338 | - |
| | 77,338 | - |
| | 77,338 | 85,852 |

During 1H11, the Company completed the refinance of its $85.0m Senior Debt Facility, with the appointment of the National Australia Bank (NAB) as its debt facility provider and transaction banker. The refinance and transfer of the Company's banking facility was completed on 31 August 2010. The Group's core debt is shown as a non-current liability, reflecting its maturity date of 31 August 2013.

## 8. Issued Capital

| Consolidated | 1H11 $'000 | FY10 $'000 |
|---|---|---|
| 107,275,258 fully paid ordinary shares (FY10: 106,020,137) | 97,491 | 95,146 |
| | 97,491 | 95,146 |

| | 1H11 | | FY10 | |
|---|---|---|---|---|
| | No. '000 | $'000 | No. '000 | $'000 |
| **Fully paid ordinary shares** (1) | | | | |
| Balance at beginning of period | 106,020 | 95,146 | 100,263 | 80,959 |
| Issue of ordinary shares | - | - | 4,601 | 12,124 |
| Share issue costs | - | (17) | - | (204) |
| Related income tax | - | 5 | - | 61 |
| Issue of ordinary shares under DRP (2) | 566 | 1,369 | 516 | 1,326 |
| Issue of shares under executive share option plan (3) | 689 | 776 | 640 | 690 |
| Transfer from equity-settled employee benefits reserve | - | 212 | - | 190 |
| Balance at end of period | 107,275 | 97,491 | 106,020 | 95,146 |

(1) Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(2) Issue of ordinary shares under Dividend Reinvestment Plan (DRP):

- On 7 October 2010, the Company issued a total of 566,118 fully-paid ordinary shares in accordance with the DRP, attributable to the payment of the final dividend for the financial year ended 30 June 2010. The issue price of the shares was $2.42 per share.

(3) Issue of ordinary shares under Executive Share Option Plan (ESOP):

- During the period a total of 689,003 shares were issued following the exercise of options.

## 9. Reserves

| Consolidated | 1H11 $'000 | FY10 $'000 |
|---|---|---|
| Equity-settled employee benefits reserve | 707 | 779 |
| Hedging reserve | (1,821) | (3,251) |
| | (1,114) | (2,472) |

| Equity-settled employee benefits reserve | 1H11 $'000 | FY10 $'000 |
|---|---|---|
| Balance at beginning of period | 779 | 606 |
| Share-based payments | 140 | 363 |
| Transfer to share capital | (212) | (190) |
| Balance at end of period | 707 | 779 |

| Hedging reserve | 1H11 $'000 | FY10 $'000 |
|---|---|---|
| Balance at beginning of period | (3,251) | (4,867) |
| Gain recognised on cash flow hedges (interest rate swaps) | 2,043 | 2,309 |
| Income tax related to amounts recognised in equity | (613) | (693) |
| Balance at end of period | (1,821) | (3,251) |

## 10. Retained Earnings

| Consolidated | 1H11 $'000 | FY10 $'000 |
|---|---|---|
| Balance at beginning of period | 46,131 | 30,318 |
| Net profit attributable to members of the parent entity | 13,617 | 26,019 |
| Dividends provided for or paid | (6,934) | (10,206) |
| Balance at end of period | 52,814 | 46,131 |

## 11. Dividends

| Company | 1H11 | | 1H10 | |
|---|---|---|---|---|
| | Cents Per Share | Total $'000 | Cents Per Share | Total $'000 |
| **Recognised amounts** | | | | |
| Fully paid ordinary shares | | | | |
| Final dividend – fully franked at 30% tax rate | 6.500 | 6,934 | 4.750 | 4,765 |
| **Unrecognised amounts** | | | | |
| Fully paid ordinary shares | | | | |
| Interim dividend – fully franked at 30% tax rate (1) | 7.00 | 7,511 | 5.250 | 5,441 |

(1) In respect of profits of the financial year ending 30 June 2011, an interim dividend of 7.00 cents per share (based on 107,301,926 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 6 April 2011. The interim dividend was approved by the Directors following the conclusion of 1H11 and therefore was not provided for in the Company's half-year financial report. The Board also resolved that the abovementioned final dividend will constitute an eligible dividend for the purposes of the Company's Dividend Reinvestment Plan ('DRP'). Shares issued under the DRP will be issued at a 2.5% discount to the volume weighted market price for all RFG shares sold on ASX during the period of 5 trading days immediately preceding and inclusive of the record date.

## 12. Events After The Reporting Period

Interim Dividend

On 17 February 2011, the Board of Directors determined to pay an interim dividend in respect of profits of the financial year ending 30 June 2011. The interim dividend of 7.0 cents per share (based on 107,301,926 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 6 April 2011. The interim dividend was approved by the Directors following the conclusion of 1H11 and therefore was not provided for in the half-year financial report. The Board also resolved that the abovementioned final dividend will constitute an eligible dividend for the purposes of the Company's Dividend Reinvestment Plan ('DRP'). Shares issued under the DRP will be issued at a 2.5% discount to the volume weighted market price for all RFG shares sold on ASX during the period of 5 trading days immediately preceding and inclusive of the record date.

Settlement of ECH Acquisition (MF Contract & IP Contract)

Settlement was completed on 7 February 2011, with control of the New Zealand master franchise business (MF Contract) and the intellectual property rights for the ECH system for the territories of Australia and New Zealand (IP Contract), transferring to the Group at that time.

The purchase price for the ECH business (under the MF Contract) comprises:
- $6.9 million (NZD$9.1 million) cash paid to the vendor on settlement; and,
- an earnout payable in scrip in the Company to a maximum value of NZD$0.6 million.

The earnout component of the purchase price is payable on 7 August 2011 and is subject to a sliding scale mechanism dependent upon the vendor meeting certain performance conditions with regard to the establishment of additional ECH outlets.

The consideration paid under the IP Contract was $1.4 million (NZD$1.9 million).

The cash settlement of both the MF Contract and IP Contract was supported by a foreign exchange forward contract arranged during December 2010.

The outlets acquired as a result of this transaction have not been included in 1H11 outlet population metrics.

Through an alignment of marketing, procurement and personnel resources, the acquisition of ECH is initially intended to support the Company's existing bb's café operations (21 outlets) in New Zealand.

*Provisional Acquisition Accounting*

The acquisition of ECH as described above involved the purchase of intangible assets only; no tangible assets or liabilities have been acquired. At the date of this report, it is impracticable to disclose information relating to the provisional acquisition accounting due to the fair value computations for the intangible assets acquired being incomplete.

Flooding Event – South-East Queensland & Northern New South Wales

On 18 January 2011, the Company provided the market with an update concerning the impact of flood events affecting Queensland and Northern New South Wales franchisees during the later portion of December 2010 and early January 2011.

A total of 108 franchised outlets were directly affected which resulted in outlet closures as follows:
- 31 Donut King outlets;
- 7 bb's café outlets;
- 56 Brumby's Bakeries outlets; and,
- 14 Michel's Patisserie outlets.

On 7 February 2011, the Company announced that, save for 5 Brumby's Bakeries stores (including 4 Big Dad's Pies stores), all outlets impacted by the aforesaid events were operational.

Of the 5 outlets which continue to be closed, the Company is assessing the damage sustained and cost of reinstatement. The Company believes an opportunity for significantly damaged Big Dad's Pies outlets exists to more closely realign to the Brumby's Bakeries brand. The Company continues to investigate these opportunities with the franchisees in question.

The financial impact on the Group continues to be assessed.

## 12. Events After The Reporting Period (cont.)

Cyclone Event – Far North and Central Queensland

On 7 February 2011, the Company provided the market with an update concerning the impact of Severe Tropical Cyclone Yasi affecting Far North and Central Queensland franchisees.

A total of 44 franchised outlets were directly affected which resulted in outlet closures (the majority of closures being deliberate and premeditated given safety concerns) as follows:

- 9 Donut King outlets;
- 2 bb's café outlets; and,
- 33 Brumby's outlets.

Only one Brumby's Bakeries outlet sustained significant damage which will result in prolonged outlet closure. The damage suffered by that outlet, together with the timeframe for reinstatement, continues to be reassessed. The remainder of outlets affected essentially suffered loss of stock and stock outages together with an inability to trade for up to 7 days.

The financial impact of Severe Tropical Cyclone Yasi on the Group continues to be assessed.

Debt Facility

On the 27 January 2011, the Company executed an amendment to its existing debt facilities with National Australia Bank. The amendment provided for an increase in the Company's debt facility of $10.0 million, increasing the overall debt facility limit to $95.0 million. Banking covenants and margins remained unchanged.

The increased facility provides for headroom following the settlement of the ECH acquisition and partial completion of refurbishment works relating to the Group's new national head office, training and research and development facility.

| Company Secretary | Registered Office | Principal Administration Office | Share Registry |
|---|---|---|---|
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