

# A PLATFORM FOR GROWTH

## INNOVATION & EVOLUTION



# RETAILFOODGROUP

ANNUAL REPORT 2013

Retail Food Group is one of Australia's largest retail food brand managers, franchisors and wholesale coffee roasters. It designs, develops and manages Brand Systems and complementary businesses, and is the intellectual property owner and manager of the following retail and coffee brands: Donut King, Brumby's Bakery, Crust Gourmet Pizza Bar, Pizza Capers Gourmet Kitchen, Michel's Patisserie, Esquires Coffee, bb's café, The Coffee Guy, Evil Child Beverage Company, Roasted Addiqtion, Caffe Coffee and Barista's Choice.

*"The Board remains confident that increasing dividend returns, together with robust share price performance post RFG's admission to the S&P/ASX300 Index in March 2013, continue to elevate RFG as an attractive and reliable investment, well able to deliver positive outcomes for shareholders notwithstanding the continuation of both economic and retail trading headwinds", Colin Archer, Chairman of the Board, Retail Food Group Limited.*

## FY13 HIGHLIGHTS

---

### TOTAL REVENUE

\$117.0 m (FY13)

\$101.9m (FY12)

**14.8%**



---

### CORE NPAT

\$34.3m (FY13)

\$30.3m (FY12)

**13.3%**



---

### FRANCHISED OUTLETS

1,374 (FY13)

1,251 (FY12)

**123** OUTLETS



---

### DIVIDENDS PAID

19.75cps (FY13)

17.5cps (FY12)

**12.9%**



# RETAILFOODGROUP

**We strive to grow a fortress of strong, vibrant & profitable Brand Systems and complementary businesses.**

Retail Food Group has established a well-earned reputation as a long standing and innovative participant in the development and management of retail food franchising systems throughout Australia and New Zealand.

## STRENGTH IN BRANDS DELIVERS

- Economies of scale
- Cross pollination of products
- Collaborative marketing initiatives
- Co-branding & leveraging RFG's proven management systems

## OUR PHILOSOPHY

To continue to develop as a leader and innovator in food systems management in order to provide benefits for all stakeholders through maximising complementary opportunities and delivering real value for our customers.

## OUR RECIPE FOR SUCCESS

Is derived from the strength of our iconic Brand Systems and the many franchisees that operate under them.

## WE BELIEVE

By assembling, enhancing and growing a fortress of retail food Brand Systems whose menus are consumer relevant, inventive and demand patronage, supported by complementary businesses which provide scale and vertical integration opportunity, we will safeguard our brands, franchisees and the future of RFG.



## DONUT KING

FY13 constituted a watershed year for the Donut King Brand System during which it established its first EVO concept 'store of the future' at Marsden (QLD), in December 2012.

Representing the culmination of several years' investment of dedicated resources, research and development, the EVO outlet introduced a new store design and livery, menu extensions (including new savoury categories), fun and interactive customer experiences via digital technologies and innovative brand communication, and a menu built on 'make it your way'.

The EVO concept extends Donut King's position to 'more than just donuts', providing a blueprint for new outlet development and existing network refurbishment positioned to drive enhanced outcomes for the Brand System and its franchisees.

Importantly, EVO has afforded Donut King the ability to:

- be destination driven, a characteristic which will be further explored via the Brand System's first drive thru outlet, scheduled for commissioning in 3Q14; and
- proliferate outside of the traditional enclosed shopping centre environment.

One of 22 forecast new outlet openings for FY14, the drive thru concept will incorporate additional Brand System advancements, including a play park and further menu extension.

Where relevant, EVO initiatives (such as 'toasties' which are now offered in c.60% of outlets) have been backfilled into the network pending proliferation of the full EVO model within existing outlets.

Concurrently with the EVO process, Donut King has continued to elevate its coffee profile, driving awareness of its Royal Bean coffee blend and the significant training afforded its expert barista complement, which has grown 20% since FY12. This focus facilitated a 4.7% increase in coffee kilos sold, and delivered Donut King the Roy Morgan 'Coffee Shop of the Month' award on four separate occasions during CY12.

The foregoing initiatives have driven FY13 Average Weekly Sales (AWS) growth of 4.4%, a record for the Brand System since RFG's Listing on the ASX in 2006, and strong Average Transaction Value (ATV) growth of 6.5%.

Donut King's success over 32 years of operation is a product of the Brand System's resilience and ability to adapt and maintain relevancy within a dynamic and constantly changing retail treat market. It has now truly cemented itself as an icon within the Australian retail food landscape.



## CRUST GOURMET PIZZA

Acquired in late CY12 to complement the Pizza Capers Brand System, Crust provided the additional national footprint necessary to position RFG as the undisputed market leader in the niche gourmet pizza Quick Service Restaurant (QSR) segment.

Appealing to an affluent and trend centric consumer, Crust has carved a distinctive position within the QSR market through the uncompromised adoption of high quality ingredients to create on-trend flavour combinations that are viewed by consumers as exciting and unique.

Taking advantage of RFG's cross functional resources and franchising expertise, the Brand System boasted an exceptional FY13, with net new outlet growth post acquisition of 22 outlets and FY13 network sales growth of c.8%.

FY13 witnessed implementation of a new 'degustation' themed menu which included unique pizzas, lamb ribs, black forest crumble and the introduction of new pasta options.

Supported by the subsequent 'Sensational' marketing campaign, the Brand System's most successful, Crust has reaffirmed its market position and brand identity whilst encouraging online ordering platforms, resulting in record digital orders representing c.29% of sales during the promotional period.

The success of this campaign will influence FY14 strategy, with marketing plans poised to drive further consumer engagement with the Crust Brand System, whilst also recruiting new customers via increased spend on above and below the line activities.

An enhanced customer loyalty program, coupled with additional new product development which ensures continuing market relevance, will also be features of the Brand System's FY14 strategy.

Having finished FY13 with a network population of 141 outlets across Australia, New Zealand, Singapore and the USA, Crust is positioned to build upon its market share via aggressive organic outlet growth and a renewed focus on exploiting international markets.



## BRUMBY'S BAKERY

Brumby's delivered a commendable FY13 result having regard to the significant impact of third party (savory product) supply-side challenges which impacted trading for the majority of the financial year.

A 1.1% decline in Average Weekly Sales (AWS) for the six months ending 31 December 2012, was converted to full year AWS growth of 0.4%, supported by FY13 Average Transaction Value (ATV) growth of 5.1%.

FY13 AWS and ATV were driven by a robust Easter campaign, which facilitated a 50% sales increment on the prior year, and an innovative national savory promotion throughout May and June which propelled the Brand System to a 13% unit increase across hot cabinet, beverage and sweet categories.

FY13 highlights also included the Brand System's most successful Go! concept new outlet launch, with a peak retail sales week of \$55,000, and the roll-out of ready-made sandwiches and rolls across the network, fortifying Brumby's 'grab and go' lunchtime offer.

Pending launch of its EVO concept outlets in December 2013 (traditional) and June 2014 (Go!), Brumby's has focused on new product development, enhanced 'above the line marketing' and operational excellence.

Emphasising the health and wellbeing benefits of Brumby's preservative free bread range, these initiatives have been supported by the introduction of kilojoule labelling at store level, and the launch of a redesigned website that incorporates a new look and feel, consumer friendly navigation systems and extensive product information. Brumby's fresh, new style has also been adapted to social media platforms, resonating with customers.

In order to further authenticate Brumby's new strategic direction, in September 2013 the Brand System unveiled an exciting partnership with Australian sporting hero and food craftsman, Matthew Hayden, who has assumed the role of Brumby's 'Bread Ambassador'.

The foregoing initiatives have reinvigorated Brumby's, instilling a fresh, new direction and strong momentum for FY14 that will continue to keep the Brand System top of mind and well ahead of consumer trends.



## PIZZA CAPERS GOURMET KITCHEN

The winner of Canstar Blue's 'Most Satisfied Customers' in the pizza category for the third year running, and one of the more recent Brand Systems to reside under RFG's banner, Pizza Capers achieved a number of milestones during FY13.

These included the launch of an innovative new menu, enhancement of the Pizza Capers' dessert platform, pilot of the 'Slice' concept and completion of the Brand System's integration within RFG, with all support staff and franchisee training resources having now been assimilated within the Company's National Office.

Pizza Capers' new menu represented the biggest product offer change in the Brand System's history, introducing four defined price points, a new lunch-time 'artisan' range, innovative toppings (including 'pork belly, scallops & chorizo' and 'bourbon chicken & bacon') and enhancement of franchisee gross margin.

Importantly, the new menu cemented Pizza Capers' reputation for generosity of toppings, with all pizzas loaded with premium ingredients.

Launched in conjunction with an upgrade to the Brand System's online ordering platform and point of sale systems, the foregoing initiative enabled Pizza Capers' to realise strong sales results, including a doubling of online sales to 16% of network sales, and FY13 Average Transaction Value (ATV) growth of 5.7%.

Introduction of the Little Ice Cream Shoppe within Pizza Capers' dessert range resulted in a 142% increase in category sales, the interesting and quirky ice-cream flavours (including 'Salted Caramel & Malt Crunch' and 'The Flavour So Crazy It Doesn't Even Have a Name') proving a hit with consumers.

Collaborating with the Esquires Brand System, Pizza Capers launched its first 'Slice' bar within the Esquires Coomera outlet during 2H13. Serving as a pilot for the Brand System to investigate further options to partner with complementary businesses, concept results have to date been encouraging.

FY14 will witness Pizza Capers' acceleration of digital platform enhancements, with the launch of mobile and digital ordering applications offering consumer convenience, together with further pizza and dessert new product development which will complement pizza led promotions, to create a clear competitive point of difference for the Brand System.

These initiatives will be supported by strong organic outlet growth driven by RFG's Project QSR400 program, with Pizza Capers set to exceed FY13 new outlet growth of 17 stores.



## MICHEL'S PATISSERIE

Having been named Roy Morgan 'Coffee Shop of the Year' for the second year running, as well as being a finalist in the Australian Retailer Association's 'Retailer of the Year' awards, Michel's Patisserie has established itself as one of Australia's favourite coffee destinations and its leading patisserie chain.

These accolades provide a constant reminder of Michel's strong coffee credentials, further reinforced during FY13 by the Brand System's most successful coffee campaign, 'Judgment June', which facilitated a 3.9% increase in customer count and provided a 4.5 out of 5 consumer rating for the Brand System's coffee offer.

Implementation of the Michel's Patisserie National Bakery Solution was expedited during FY13, with establishment of the new Tullamarine (Victoria) facility in December 2012. Incorporating freezer, cool room and finishing stations, the new facility enables rollout of in-store freezers to selected outlets together with realisation of the Michel's EVO concept.

This initiative was supported by RFG's acquisition in May of its Yatala facility, which underpins the National Bakery Solution in Queensland. Now commissioned, the Yatala facility allows for development and centralisation of the Queensland warehousing and supply chain, and incorporates extensive cold and frozen storage, manufacturing and specialised delivery docks.

These 'back of house' advancements will enable ultimate migration of the Brand System to a frozen supply model, and significant development of the Michel's large and small cake platform, affording scope for promotion of in-store customisation (personalised cakes) and range modernisation.

This vision was realised in July following establishment of the Michel's EVO 'store of the future' in Lilydale (Victoria), where new concepts are presently being piloted. Developed in collaboration with the Michel's Patisserie Franchise Advisory Council, EVO marks a significant departure from historical store designs, menu offer and brand identity.

Having performed exceptionally well since establishment, the Michel's EVO outlet provides a model well able to penetrate non-traditional shopping centre locations whilst affording a blueprint for existing network reinvigoration.

During FY14, Michel's Patisserie will further build on momentum gained by introducing a national sandwich range and day part promotions, as well as the launch of a new e-commerce platform and enhancement of digital and social media channels.

Supported by strong operational procedures and customer service initiatives, which have direct correlation to enhanced sales and profitability at outlet level, Michel's Patisserie has positioned itself for a strong future.





## ESQUIRES COFFEE

Having been an early recipient of Project EVO initiatives, the Esquires Coffee Brand System has been reformulated on leading trends, coffee excellence, technology and sustainability.

Esquires now represents RFG's premium coffee Brand System, serving only organic Fair Trade coffee limited to two distinct signature blends, the 'dark roast', a full bodied blend with creamy caramel profile, and 'premium roast', a lighter blend having a smooth, rich, nutty finish.

Complemented by a fresh food offering that includes gourmet breads, wraps, melts, muffins and Turkish sandwiches made in-store daily, together with an innovative store design that highlights the Brand System's position on sustainability, Esquires affords consumers a modern and relaxed environment.

The Esquires footprint is heavily weighted to New Zealand, with the Brand System still in its infancy within the Australian market, where it consists of four outlets across Queensland and NSW. Notwithstanding this, Esquires showed promising results with Australian FY13 Average Weekly Sales (AWS) ranking third amongst RFG's Brand Systems.

The first of RFG's Brand Systems to embark on 'drive-thru' and 'hole in the wall' formats, Esquires also represents an innovator amongst its Brand System peers. Introduction of the Pizza Capers 'Slice' bar pilot concept within the Esquires Coomera (Qld) outlet, further affirms this position.

Increasing brand awareness, and development of a loyal customer base, remains a focus for the Brand System in FY14 as it endeavours to establish six new outlets for the year. These will be complemented by a continued focus on converting bb's café outlets to Esquires.



## COFFEE: A CORNERSTONE OF RFG'S BUSINESS

RFG's annualised coffee and allied beverages' throughput now exceeds 1,350 tonnes per annum, positioning coffee and allied beverages as a fundamental platform of the Company's existing business model and growth opportunity.

Testimony to its importance is the c.9.5% increase in coffee contribution to FY13 EBITDA (to \$19.7m), which now represents c.21% of Group EBITDA.

Exclusively servicing RFG's franchised outlet population, together with a growing third party clientele which now accounts for c.20% of coffee sales, the Company presently operates two roasting facilities.

The Granville (NSW) facility, operated by RFG's Caffe Coffee business, accounted for c.73% of FY13 production, with the balance throughput attended by the Company's New Zealand domiciled Evolution Coffee Roasters (based in Auckland).

The Company's coffee and beverage pursuits are supported by innovative marketing initiatives and a proprietary barista training platform, which facilitated the FY13 entry of a record 1,990 certified coffee makers (including baristas) into RFG's franchise networks.

Notwithstanding excellent growth amongst its coffee operations, coffee is considered a relatively untapped growth opportunity for RFG. The Company maintains there exists meaningful scope to leverage RFG's coffee expertise, roasting capacity and distribution networks to drive enhanced performance via implementation of vertical integration opportunities, boutique roasting blends, convenience driven channels and an expanded third party wholesale customer base.

RFG's acquisition of The Coffee Guy Brand System in late 1H13 evidences one element of this strategy.

As New Zealand's largest mobile and portable coffee franchise system, The Coffee Guy features over 50 mobile units supported by 'drive thru' and 'hole in the wall' outlets.

The system combines an innovative vehicle design coupled with low upfront and ongoing costs, enabling RFG to unlock new franchisee candidate markets whilst providing a further platform for distribution of its coffee products. Having been established domestically in late FY13, the Company will pursue the further Australian rollout of The Coffee Guy throughout FY14 and succeeding years.

This initiative will be supported by:

- The programmed commissioning of a second Australian coffee roasting facility at RFG's recently established Yatala (Qld) facility, enhancing the Company's roasting capacity and allowing pursuit of an increased third party wholesale clientele;
- Enhanced Brand System coffee expertise via improved training modules and delivery techniques;
- Vertical integration of new and existing products (including Australian introduction of RFG's New Zealand domiciled Evil Child drinking chocolate, powders and syrups); and
- Development or acquisition of new businesses/brands which complement RFG's growing coffee business and provide opportunity to leverage scale.

# CHAIRMAN'S LETTER

Innovation and evolution - Retail Food Group remains focused to ensure these words continue to represent the principal descriptors of the Company's operations and, in doing so, it remains at the forefront of retail food franchising in Australasia.

RFG succinctly appreciates that in order to achieve legitimacy in this endeavour, the aforementioned focus must translate into tangible outcomes for all stakeholders. We consider the Company's achievements during FY13 demonstrate, and genuinely satisfy, this test.

FY13 has truly been a year of innovation during which the Company and its Brand Systems have evolved, delivering shareholders, franchisees and other stakeholders tangible rewards and a significant platform for future sustainable growth.

At a corporate level, RFG completed its acquisition of the Crust Gourmet Pizza and The Coffee Guy Brand Systems, respectively cementing its position as market leader in the gourmet pizza segment of the QSR industry, and expanding its operations to include new channels for delivery of its coffee products to customers via mobile vending.

In 1H13, the Company completed a \$53.5m capital raising via a Share Purchase Plan and Institutional Placement, both of which were well over-subscribed.

These transactions catapulted RFG market capitalisation, scale and trading volumes, and as a consequence, RFG was admitted to the S&P/ASX300 in March 2013, exerting a positive influence on the Company's share price.

At Brand System level, Project EVO, which has now been applied to the Donut King, Esquires, and most recently, Michel's Patisserie Brand Systems, has delivered exceptional results which have ensured continuing brand relevance and modernity within an increasingly competitive retail landscape. As EVO platforms are commissioned amongst the Company's outlet networks, and the EVO process is applied to the Company's remaining Brand Systems, enhanced opportunity for increased outlet penetration, franchisee profitability and outlet sustainability crystalizes.

Coffee continues to represent an increasing relevance with significant growth in FY13, driven by intelligent marketing, increased third party wholesaling activity and shrewd acquisitions.

In August this year, RFG announced a 13.3% increase in FY13 Core Net Profit After Tax (NPAT) to \$34.3m. Statutory NPAT rose 12.1% to \$32m, facilitating the payment of a record 10.25 cent per share fully franked dividend for shareholders. Total Shareholder Return (TSR) for the 12 months to 30 June 2013 was 59.7%.

These outcomes are truly impressive.

Having regard to the constrained retail marketplace in which RFG's Brand Systems operate, they clearly vindicate the 'strength in brands' philosophy underpinning the Company's growth since admission to the ASX in 2006, and demonstrate a resilient business model which has been fortified by astute acquisitions.

The robust outcomes described above are a credit to the vision, hard work and dedication applied to their roles by the Company's management and staff, and importantly, are a consequence of the efforts of a motivated and well-supported franchisee community. On behalf of the Board of Directors, I sincerely thank each of them for their valued contribution to RFG's success.

It is an opportune time to thank Bruce Hancox, who departed as Chairman in April 2013 following more than five years' service as a Director, for his contribution to RFG, and to welcome Stephen Lonie who brings considerable experience to the RFG Board.

In closing, I would like to take this opportunity to thank you, as a valued shareholder, for your support and commitment to Retail Food Group. It is truly a privilege to be afforded the opportunity to serve as Chairman of your Company.



**COLIN ARCHER**

Chairman, Retail Food Group Limited



# MANAGING DIRECTOR'S REPORT

## A.J. (TONY) ALFORD

### RFG'S EVOLUTION

When introducing Retail Food Group's May 2006 Prospectus, the Company's then Chairman observed that there existed 'a genuine market opportunity for an experienced franchisor with proven management, training and support systems to consolidate a number of franchise systems [and that RFG was] ideally positioned to leverage its franchise management systems and national presence to achieve and take advantage of economies of scale through multi-brand ownership'.

The foregoing statement has proven remarkably prophetic, with RFG having now assembled a stable of quality, high profile, synergistic Brand Systems that have driven sustainable growth amongst all key metrics since the Company's admission to the Official List. Indeed, never before has the rationale for RFG's embarkation on its 'strength in brands' journey been so amply demonstrated than during the financial year ending 30 June 2013.



---

Never before has the rationale  
for RFG's embarkation on its  
'strength in brands' journey been  
so amply demonstrated than  
during the financial year ending  
30 June 2013.

---

## HEADLINE RESULTS

FY13 represented the eighth consecutive year since Listing that RFG has delivered annual profit growth. Statutory Net Profit After Tax (NPAT) increased 12.1% to \$32.0m, reflecting a cumulative annual growth rate (CAGR) of 28.9% during the above period.

At a Core level, NPAT grew 13.3% to \$34.3m, driven by a 14.8% increase in Total Revenues to \$117.0m. Core Earnings Before Interest & Tax (EBIT) of \$55.9m, an increase of 11.7% on the prior period, was the product of a resilient business model fortified by astute acquisitions and a growing wholesale coffee business.

Operationally, weighted Average Weekly Sales (AWS) and Average Transaction Values (ATV) amongst the Company's traditional Brand Systems respectively grew 1.3% and 4.2% on the prior year. The Company's QSR Brand Systems experienced similar growth, with weighted store sales<sup>1</sup> and ATV growth of 1.5% and 3.3% respectively.

During the year, a record 73 new outlets were commissioned, supported by 175 additional outlets derived from acquisitive activity, providing for a final outlet population of 1,374 at financial year end.

## DELIVERING SHAREHOLDER VALUE

Net cash inflows from FY13 operating activities of \$31.1m facilitated the payment of a final, fully franked dividend for the financial year of 10.25 cents per share, an increase of 13.9% over FY12.

The FY13 final dividend represented the 14th consecutive bi-annual dividend increase delivered to shareholders since Listing. Of note, the Company increased its dividend payout ratio to over 80% of statutory NPAT, and 75% of core NPAT, up from 66% and 63% in FY12 respectively.

The dividends paid in respect to FY13, together with the support afforded RFG's share price since its admission to the S&P/ASX300 Index, contributed to a Total Shareholder Return (TSR) of 59.7% for the year.

Having regard to the third party supply-side challenges, outside of RFG control, which adversely impacted the Michel's Patisserie and Brumby's Bakery Brand Systems during FY13, these outcomes represent an exceptional achievement, which affirms RFG as an attractive and reliable investment proposition, well able to deliver positive and enduring outcomes for shareholders within a challenging environment.

## STRUCTURAL ENHANCEMENT

During FY13, the Company furthered the enhancement of its Brand System organisational structure. Supported by the introduction of an over-arching Executive Management Team, whose combined association with RFG or its Brand Systems exceeds 70 years' experience, the realisation of these structural improvements embellishes RFG's capacity for future growth. This in turn facilitates the pursuit of acquisitive activity, organic development, and internal growth initiatives, in the knowledge that appropriate infrastructure exists to support continuing operations as well as the seamless integration of new business.

That said, the foregoing enhancements represent only a portion of the many platforms RFG has laid for future exploitation or commercialisation:

## QSR DIVISION

The CY12 acquisitions of Pizza Capers and Crust provided RFG with an immediate national footprint and market leadership in the niche gourmet pizza QSR segment. Significantly, these Brand Systems provide a unique and compelling opportunity for RFG to leverage economies of scale, its franchising expertise and diverse resources to accelerate QSR outlet growth.

Through implementation of its 'Project QSR400' initiative, RFG will seek to capitalise on this opportunity by expediting FY14 outlet growth via various initiatives which will assist franchisee recruitment and the interim commissioning of corporately owned and operated outlets, pending their franchising.

Having identified over 100 additional territories for potential establishment of gourmet pizza outlets, RFG is well advanced with outlet development initiatives and confident of increasing its QSR footprint to c.340 outlets by 30 June 2014, and ultimately, c.400 outlets by 3Q15.

Over the Project's lifespan, the Company forecasts a gross investment commitment of c.\$18m with a net investment peak of c.\$12m (in 1Q15). This investment includes costs associated with certain outlets which will be initially operated under RFG stewardship.

On a net per outlet cost basis (of c.\$50K per outlet<sup>2</sup>), the investment quantum compares favourably with the per outlet acquisition investment made by the Company in the Pizza Capers (c.\$270K) and Crust (c.\$370K) Brand Systems.

Whilst Project QSR400 represents a short term departure from RFG's traditional 'franchise only' strategy, the tangible benefits are demonstrably apparent with the initiative set to deliver approximately 130 outlets within new markets, generating additional revenues which would not otherwise be available within comparable timeframes.

---

The CY12 acquisitions of Pizza Capers and Crust provided RFG with an immediate national footprint and market leadership in the niche gourmet pizza QSR segment.

---

# MANAGING DIRECTOR'S REPORT

## A.J. (TONY) ALFORD

### PROJECT EVOLUTION (EVO)

Representing the development and execution of franchise system evolution initiatives, Project Evolution (EVO) provides a pathway for renewed customer engagement, menu enhancement, re-invigoration of store liveries, sustainable expansion into non-traditional sites and an increased focus on digital and social media platforms.

Considerable resources, product and design R&D, supported by exhaustive market research, have been invested to ensure EVO's success, with commendable traction having been achieved during FY13. Significantly, EVO continues to provide a strong foundation for future Brand System relevance as well as growth:

**Donut King:** The first EVO concept retail outlet was established in December 2012, providing a blueprint which has since been applied to a number of new and refurbished outlets. Results to date have been encouraging, with AWS amongst new outlets in excess of 60% above the national Brand System average, and refurbished outlets trending c.16% above pre-refurbishment AWS.

EVO also incorporates a variety of other initiatives which have been (and will continue to be) backfilled into the remaining Brand System network. These have contributed to Donut King's FY13 AWS and ATV growth over FY12 of 4.4% and 6.5% respectively.

Now endowed with the ability to be destination driven, Donut King will pilot its first drive-thru concept outlet in 3Q14. This will represent one of c.22 new Donut King outlets anticipated for FY14.

**Michel's Patisserie:** Michel's Patisserie launched its concept 'store of the future' in July 2013. Showcasing the majority of the Project EVO initiatives, including the 'frozen model' which underpins the Michel's National Bakery Solution, the Lilydale outlet has performed exceptionally well with year to date AWS trending c.40% above the FY13 Brand System national average.

The EVO model is now mandated for all future outlets, of which 14 are budgeted for FY14, as well as being backfilled into the remainder of the Michel's network to drive additional AWS and ATV.

**Esquires & QSR:** Esquires' 'evolution' has enjoyed similar successes, with AWS amongst converted outlets performing well above redundant formats. Project EVO will be applied to the Pizza Capers Brand System in late 2014, with re-articulation of the Crust Brand System presently scheduled for 2H15.

**Brumby's Bakery:** In September 2013, the Brumby's Brand System unveiled implementation of a plethora of innovative new product and marketing initiatives, together with the appointment of legendary Australian cricketer, Matthew Hayden, as its national bread ambassador.

These initiatives will not only immediately drive the Brumby's Brand System, but be fully displayed when the traditional concept 'store of the future' is commissioned in December 2013. The Brumby's Go! EVO outlet is programmed for June 2014. Brumby's anticipates 14 new outlets in FY14, with refurbishments to increase the following year.

**Franchisee Financial Accommodation:** Accelerated conversion and new outlet growth constitute a significant opportunity for RFG to take full advantage of the benefits EVO represents for its Brand Systems. The Company is motivated to pursue this opportunity, and to that end, anticipates a gross investment (in franchisee financial assistance) of c.\$12m over the next 18 months, to ensure the realisation of expedited outlet conversions to the EVO standard, new outlet growth and franchisee transition to the Michel's Patisserie National Bakery Solution.

### COFFEE & ALLIED BEVERAGES

The growing importance of coffee to RFG is underscored by the fact that in FY13, coffee contribution to Group EBITDA was c.21%, driven by a \$1.7m increase (to \$19.7m) in coffee revenues.

Notwithstanding this growth, RFG considers that coffee remains a relatively unexploited opportunity with meaningful scope for growth. The Company intends to harness this opportunity via implementation of segmentation strategies incorporating boutique roasting blends, convenience driven channels, vertical integration of allied products and an expanded third party wholesale coffee business.

The Coffee Guy Brand System, acquired in late CY12 and recently introduced to Australia, represents one element of this focus, which will be supported by establishment of a second roasting facility at RFG's newly commissioned Yatala facility, on the Gold Coast.

---

RFG considers that  
coffee remains a  
relatively unexploited  
opportunity with  
meaningful scope  
for growth.

---



## ACQUISITIVE ACTIVITY

The pursuit of EPS accretive acquisitions remains a central feature of RFG's growth platform.

Whilst the Board has mandated a conservative approach to such activity, over the course of CY13, RFG has undertaken extensive due diligence inquiry concerning a number of acquisition or significant growth opportunities. Whereas these activities have not translated into formal transactions, the Company remains focused on further retail food penetration via acquisition of complementary businesses capable of driving supply-side scale and enhancing RFG earnings.

## PROPERTY & TRAINING

During 2H13, the Company concluded a number of strategic property acquisitions, the fitout and commissioning of which have now been completed.

RFG's Commercial Drive (Ashmore, Qld) property provides increased capacity to accommodate future acquisitive growth and relocation of personnel. This enables expansion of RFG's National Office state-of-the-art National Training Academy to support enhanced training demand. The purchase of four residential apartments also supports RFG's training activities, allowing for subsidised accommodation and flexible training solutions, whilst also providing scope for reduction of annual corporate travel costs.

RFG's remaining property acquisition, in Yatala (Qld), satisfies a number of strategic priorities by enabling the commissioning of a second coffee roaster, centralisation of RFG's Queensland bakery operations, and the introduction in Queensland of the Michel's National Bakery Solution.

## OUTLOOK

Whereas increasing competition, subdued retail trading and Brand System specific challenges continue to characterise FY14 as an unpredictable year, the Company has built tremendous momentum. Based on this, it remains both enthusiastic and confident of delivering enhanced growth and positive stakeholder outcomes. Indeed, the Company anticipates Statutory NPAT growth of c. 15%, skewed to 2H14, driven by organic growth initiatives including c. 140 new outlet commissionings.

**A.J. (TONY) ALFORD**

Managing Director & CEO









# RETAILFOODGROUP LIMITED

## FINANCIAL YEAR ENDED 30 JUNE 2013

ACN 106 840 082

Summary Financial Information .....	2
Corporate Directory .....	3
Corporate Governance Statement .....	4
Directors' Report .....	14
Auditor's Independence Declaration .....	34
Independent Auditor's Report .....	35
Directors' Declaration .....	37
Index To Financial Statements .....	38
Consolidated Statement Of Profit or Loss & Other Comprehensive Income .....	39
Consolidated Statement Of Financial Position .....	40
Consolidated Statement Of Changes In Equity .....	41
Consolidated Statement Of Cash Flows .....	42
Notes To The Financial Statements .....	43
Additional Stock Exchange Information .....	94

# SUMMARY

	REPORTED					CORE OPERATIONS <sup>(1)</sup>	
	FY09	FY10	FY11	FY12	FY13	FY12	FY13
<b>Financial</b>							
Total Revenue <sup>(2)</sup>	\$130.5m	\$118.6m	\$110.0m	\$101.9m	\$117.0m		
EBITDA	\$41.6m	\$44.9m	\$45.9m	\$48.4m	\$53.8m	\$50.9m	\$56.9m
EBIT	\$40.3m	\$43.8m	\$45.1m	\$47.5m	\$52.8m	\$50.1m	\$55.9m
NPAT	\$23.5m	\$26.0m	\$27.2m	\$28.5m	\$32.0m	\$30.3m	\$34.3m
Basic EPS	23.7 cps	25.3 cps	25.4 cps	26.4 cps	26.0 cps	28.0 cps	27.9 cps
Dividend	9.25 cps	11.75 cps	14.5 cps	17.5 cps	19.75 cps		
<b>Operating Performance</b>							
Revenue Growth	14.4%	(9.1%)	(7.3%)	(7.4%)	14.8%		
EBITDA Growth	16.5%	7.9%	2.2%	5.4%	11.2%	8.9%	11.8%
EBIT Growth	17.2%	8.7%	3.0%	5.3%	11.3%	8.8%	11.7%
NPAT Growth	33.4%	10.6%	4.6%	4.9%	12.1%	8.9%	13.3%
Basic EPS Growth	19.1%	6.8%	0.4%	3.9%	(1.5%)	7.7%	(0.3%)
Outlets	1,063	1,122	1,148	1,209	1,374		

(1) EBIT results from 'Core Operations' exclude the pre-tax impact of the following amounts recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

#### EBIT - REPORTED

Administration of failed Michel's Patisserie supplier operations, including direct financial assistance provided to franchisees

Corporate restructuring and redundancy costs

Loss on cash flow hedges (interest rate swaps)

Acquisition transaction costs

Other

#### EBIT - CORE OPERATIONS

NPAT results from 'Core Operations'

#### NPAT - REPORTED

Post-tax impact of non-core EBIT adjustments

#### NPAT - CORE OPERATIONS

	FY12	FY13
EBIT - REPORTED	\$47.5m	\$52.8m
Administration of failed Michel's Patisserie supplier operations, including direct financial assistance provided to franchisees	\$1.7m	\$2.1m
Corporate restructuring and redundancy costs	\$0.7m	\$0.2m
Loss on cash flow hedges (interest rate swaps)	\$0.2m	-
Acquisition transaction costs	-	\$0.7m
Other	-	\$0.1m
EBIT - CORE OPERATIONS	\$50.1m	\$55.9m
NPAT - REPORTED	\$28.5m	\$32.0m
Post-tax impact of non-core EBIT adjustments	\$1.8m	\$2.3m
NPAT - CORE OPERATIONS	\$30.3m	\$34.3m

Core EBIT & Core NPAT are non-IFRS profit measures used by the Directors and management to assess the underlying performance of the Group.

(2) Total Revenue excludes revenue derived from marketing activities (FY13: \$24.0m; FY12: \$14.5m; FY11: \$15.7m; FY10: \$15.4m; FY09: \$12.6m).

# CORPORATE DIRECTORY

---

<b>Directors</b>	Mr Colin Cameron Archer <i>Chairman &amp; Independent Non-Executive Director</i>
	Mr Anthony James Alford <i>Managing Director &amp; Chief Executive Officer</i>
	Ms Jessica Buchanan <i>Independent Non-Executive Director</i>
	Mr Stephen Edward Lonie <i>Independent Non-Executive Director</i>
<b>Company Secretary</b>	Mr Anthony Mark Connors
<b>Registered Office</b>	RFG House 1 Olympic Circuit Southport QLD 4215
<b>Principal Place Of Business</b>	RFG House 1 Olympic Circuit Southport QLD 4215
<b>Share Register</b>	Computershare Investor Services Level 19, 307 Queen Street Brisbane QLD 4000
<b>Solicitors</b>	McCullough Robertson Lawyers Level 11, 66 Eagle Street Brisbane QLD 4000
<b>Auditors</b>	Deloitte Touche Tohmatsu Level 25, 123 Eagle Street Brisbane QLD 4000
<b>Bankers</b>	National Australia Bank Limited Level 20, 100 Creek Street Brisbane QLD 4000
<b>Stock Exchange Listings</b>	Retail Food Group Limited shares are listed on the Australian Securities Exchange (ASX: RFG).
<b>Website Address</b>	<a href="http://www.rfg.com.au">www.rfg.com.au</a>

---

# CORPORATE GOVERNANCE STATEMENT

## Overview

Retail Food Group Limited (the Company), the Board of Directors (the Board), and executive management are committed to achieving and demonstrating the highest standards of corporate governance. The Board endorses the 2<sup>nd</sup> edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles) amended by the ASX Corporate Governance Council in January 2011.

The following table describes the various ASX Principles and statements and the Group's compliance or otherwise with them. Terms used in the table have the meanings given to them in the ASX Principles unless otherwise defined.

Principle Number	Best Practice Recommendation	Compliance	Reason For Non-Compliance
<b>1.</b>	<b>Lay Solid Foundations For Management And Oversight</b>		
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose these functions.	Refer page 6	Complied
1.2	Disclose the process for evaluating the performance of senior executives.	Refer page 26	Complied
1.3	Provide the information in the Guide to reporting on Principle 1.	Refer pages 6, 26	Complied
<b>2.</b>	<b>Structure The Board To Add Value</b>		
2.1	A majority of the Board should be independent non-executive Directors.	Refer page 7, 8, 9	Complied
2.2	The Chair should be an independent non-executive Director.	Refer page 7	Complied
2.3	The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.	Refer page 8	Complied
2.4	The Board should establish a nomination committee.	Refer page 8	Complied
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Refer page 8	Complied
2.6	Provide the information in the Guide to reporting on Principle 2.	Refer page 9	Complied
<b>3.</b>	<b>Promote Ethical And Responsible Decision-Making</b>		
3.1	Establish a code of conduct and disclose the code or summary of the code as to: <ul style="list-style-type: none"> <li>▪ the practices necessary to maintain confidence in the Company's integrity;</li> <li>▪ the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Refer page 9, 10	Complied
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy.	Refer page 10	Complied
3.3	Disclose in each Annual Report the measurable objectives for achieving gender diversity set by the Board in accordance with the Diversity Policy and progress towards achieving them.	Refer page 10	Complied
3.4	Disclose in each Annual Report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Refer page 10	Complied
3.5	Provide the information in the Guide to reporting on Principle 3.	Refer page 9	Complied

# CORPORATE GOVERNANCE STATEMENT

Principle Number	Best Practice Recommendation	Compliance	Reason For Non-Compliance
<b>4.</b>	<b>Safeguard Integrity In Financial Reporting</b>		
4.1	The Board should establish an audit committee.	Refer page 10	Complied
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>▪ consists only of non-executive Directors;</li> <li>▪ consists of a majority of independent non-executive Directors;</li> <li>▪ is chaired by an independent non-executive Director, who is not Chair of the Board; and</li> <li>▪ has at least three members.</li> </ul>	Refer page 10	Complied
4.3	The audit committee should have a formal Charter.	Refer page 10	Complied
4.4	Provide the information in the Guide to reporting on Principle 4.	Refer page 10	Complied
<b>5.</b>	<b>Make Timely And Balanced Disclosures</b>		
5.1	Establish written procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Refer page 11	Complied
5.2	Provide the information in the Guide to reporting on Principle 5.	Refer page 11	Complied
<b>6.</b>	<b>Respect The Rights Of Shareholders</b>		
6.1	Design a communication policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Refer page 11	Complied
6.2	Provide the information in the Guide to reporting on Principle 6.	Refer page 11	Complied
<b>7.</b>	<b>Recognise And Manage Risk</b>		
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Refer page 12	Complied
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Refer page 12	Complied
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Refer page 12	Complied
7.4	Provide the information in the Guide to reporting on Principle 7.	Refer page 12	Complied
<b>8.</b>	<b>Remunerate Fairly And Responsibly</b>		
8.1	The Board should establish a remuneration committee.	Refer page 12	Complied
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>▪ consists of a majority of independent non-executive Directors;</li> <li>▪ is chaired by an independent non-executive Director; and</li> <li>▪ has at least three members.</li> </ul>	Refer page 12, 13	Complied
8.3	Clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	Refer page 13	Complied
8.4	Provide the information in the Guide to reporting on Principle 8.	Refer page 12	Complied

# CORPORATE GOVERNANCE STATEMENT

The Board has in place Corporate Governance practices that it considers to be the most appropriate for the Company and its controlled entities (together referred to as the 'Group' in this statement). The Board continues to review its governance framework and practices to ensure they meet the interests of shareholders. This statement describes the main Corporate Governance practices in place during the year.

The Board maintains a comprehensive set of policies to assist in the discharge of its Corporate Governance responsibilities, including:

- Code of Conduct;
- Board Charter;
- Nomination Committee Charter;
- Audit & Risk Management Committee Charter;
- Remuneration Committee Charter;
- Standing Rules of Committee Charter;
- Continuous Disclosure Policy;
- Remuneration Policy;
- Appointment of Directors Policy;
- Share Trading Policy; and
- Shareholder Communications Policy.

Copies are available from the Company's registered office or may be downloaded from the Company's website under the Investor Media section.

## **Principle 1: Lay Solid Foundations For Management And Oversight**

The Directors are responsible to the shareholders for promoting and managing the performance of the Group in both the short and longer term. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The responsibilities of the Board include:

- chart strategy and set financial targets for the Group;
- monitor the implementation and execution of strategy and performance against financial targets;
- appoint and oversee the performance of senior executive management; and
- to take and fulfil an effective leadership role in relation to the Group.

The Board has reserved to itself, in addition to those matters reserved to it by law, the following matters and all power and authority in relation to those matters:

- composition of the Board itself (including appointment and retirement or removal of Directors);
- oversight of the Group, including its control and accountability systems;
- appointing and removing the Chief Executive Officer;
- ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer and the Company Secretary;
- reviewing and overseeing the operation of systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and regulatory compliance;
- input into and final approval of management's development of corporate strategy and performance objectives;
- monitoring senior executive management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- performance of investment and treasury functions;
- monitoring industry developments relevant to the Group and its business;
- developing suitable key indicators of financial performance for the Group and its business;
- the overall corporate governance of the Group, including strategic direction, establishing goals for management and monitoring the achievement of these goals; and
- oversight of committees.

The Board has delegated specific responsibilities to various Board Committees who act, subject to the terms of their respective charters, in an advisory capacity, subject to the oversight of the Board.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior executive management of the Group. These delegations are reviewed at least annually, and otherwise as appropriate.



# CORPORATE GOVERNANCE STATEMENT

## Principle 1: Lay Solid Foundations For Management And Oversight (cont.)

The Board generally meets on a monthly basis. On an annual basis, the Board sets financial and non-financial performance targets for the Chief Executive Officer and senior executive management and performance is assessed against these performance targets. A performance assessment for the Chief Executive Officer and senior executive management last took place in September 2013.

## Principle 2: Structure The Board To Add Value

The Board operates in accordance with the broad principles set out in its charter. The charter details the Board's composition and responsibilities.

### Board Composition

The composition of the Board is determined according to the following principles:

- the Board must comprise members with a broad range of experience, expertise, skills and contacts relevant to the Group and its business;
- there must be at least four Directors;
- the number of Directors may be increased where the Board considers that additional expertise is required in specific areas or when an outstanding candidate is identified;
- the Chairman must be a non-executive Director who is also independent; and
- at least half of the Board must be non-executive Directors, at least two of whom must also be independent.

### Directors' Independence

The Board has adopted specific principles in relation to Directors' independence, which state that, when determining independence, a Director must be a non-executive and the Board should consider whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company, and there has not been a period of at least three (3) years between ceasing such employment and serving on the Board;
- has, within the last three (3) years, been a principal of a professional advisor or a significant consultant to the Group, or an employee significantly associated with the service provided, except in circumstances where the advisor might be considered to be independent, notwithstanding their position as a professional advisor, due to the fact that fees payable by the Group to the advisor's firm represents an insignificant component of its overall revenue;
- is a significant supplier or customer of the Group, or an officer of or otherwise associated directly or indirectly with a significant supplier or customer of the Group;
- has a material contractual relationship with the Group other than as a Director;
- is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group; and
- has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group.

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment.

### Board Members

The names, skills and experience of the Directors in office at the date of this Statement, and the period of office of each Director, are set out in the Directors' Report. At the date of signing the Directors' Report, the Board comprised one executive Director and three non-executive Directors, including the Chairman. The three non-executive Directors have no relationships adversely affecting independence and are deemed independent under these principles.

Mr Anthony (Tony) Alford, an executive Director, is a substantial shareholder of the Company and accordingly is not considered to be independent of the Group based on the ASX guidelines. Mr Alford has a long association with Retail Food Group and the Board considers that it is in the best interests of all shareholders to have a Director with Mr Alford's industry and business expertise and Group history as a member of the Board.

### Term Of Office

The Company's Constitution requires that one third (or the nearest number thereto but not less than one third) of the Directors, other than the Managing Director, must retire from office at each Annual General Meeting of the Company. The Director/s who must retire is that Director/s who has been in office longest since last being elected. Director/s retiring by rotation are eligible for re-election.

# CORPORATE GOVERNANCE STATEMENT

## Chairman And Chief Executive Officer

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Group's senior executive management. In accepting the position, the Chairman has acknowledged that it will require significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of the Chairman.

The Chief Executive Officer is responsible for implementing Group strategies and policies.

The Board Charter requires that the Chairman must be a non-executive Director who is also independent, and therefore, is unable to act as Chief Executive Officer.

## Induction

The induction provided to new Directors enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of the Group's financial position, strategies, operations and risk management policies. It also explains the respective rights, duties, responsibilities and roles of the Board.

## Commitment

The Board held sixteen (16) Board meetings during FY13.

Non-executive Directors are expected to spend at least 20 days a year preparing for and attending Board and Committee meetings and associated activities.

The number of meetings of the Company's Board of Directors and each Board Committee held during the year ended 30 June 2013, and the number of meetings attended by each Director, is disclosed on page 15.

The commitments of non-executive Directors are considered by the Nominations Committee prior to the Director's appointment to the Board and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive Director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

## Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required, but this approval will not be unreasonably withheld. The advice obtained must be made available to all Board members in due course, where appropriate.

## Board Performance

The Board undertakes an annual self-assessment of the performance of the Board as a whole, its Committees, the Chairman, individual Directors and governance processes that support Board activities.

Performance of individual Directors is assessed against a range of dimensions including the ability of the Director to consistently create shareholder value, to contribute to the development of strategies and risk identification, to provide clarity of direction to senior executive management, to listen to the views of fellow Directors and members of management and key third party stakeholders and to provide the time commitment to ensure the discharge of duties and obligations to the Group.

## Board Committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Nominations, Remuneration and Audit and Risk Management Committees. The Nominations, Remuneration and Audit and Risk Management Committees are all entirely comprised of non-executive Directors.

Each Committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All matters determined by the committees are submitted to the Board as recommendations for Board consideration.

## Nominations Committee

The Board has a Nominations Committee to assist the Board and make recommendations to it in relation to the appointment of new Directors (both executive and non-executive) and senior executive management. The Nominations Committee consists of the following Directors:

- Mr Colin Archer (Committee Chairman);
- Mr Stephen Lonie; and
- Ms Jessica Buchanan.

# CORPORATE GOVERNANCE STATEMENT

## Nominations Committee (cont.)

Details of these Directors' attendance at Nominations Committee meetings are set out in the Directors' Report on page 15.

Functions performed by the Committee include the following:

- developing of suitable criteria (as regards experience, expertise, skills, qualifications, diversity, contacts or other qualities) for Board candidates;
- identifying individuals who, by virtue of their experience, expertise, skills, qualifications, contacts or other qualities, are suitable candidates for appointment to the Board or to any relevant management position;
- recommending individuals accordingly for consideration by the Board;
- establishing procedures, for recommendation to the Chairman, for the proper oversight of the Board and senior executive management; and
- ensuring that the performance of each Director, and of all members of senior executive management, is reviewed and assessed each year in accordance with procedures adopted by the Board.

When a new Director is to be appointed, the Committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice may be sought from independent search consultants. The Board then appoints the most suitable candidate who must submit themselves to shareholders for election at the first Annual General Meeting following their appointment.

New Directors are provided with a letter of appointment setting out the Company's expectations including involvement with committee work, their responsibilities, remuneration, including superannuation and expenses, requirement to disclose their interests and any matters which affect the Director's independence.

New Directors are also provided with all relevant policies, including the Company's share trading policy, a copy of the Company's Constitution, organisational chart and details of indemnity and insurance arrangements. A formal induction program, which covers the operation of the Board and its Committees and financial, strategic, operations and risk management issues, is also provided to ensure that Directors have significant knowledge about the Group and the industry within which it operates.

New Directors are advised of the time commitment required of them in order to appropriately discharge their responsibilities as a Director of the Company. Directors are required to confirm that they have sufficient time to meet this requirement.

The Committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

The Committee has an advisory role, consistent with its purpose of assisting the Board in relation to the matters with which it is charged with responsibility, and does not have any power to commit the Board to any recommendation or decision made by it but may, nevertheless, consult independent external expert advisers as it may consider appropriate for the proper performance of its function and charge the costs to the Group.

## Principle 3: Promote Ethical And Responsible Decision-Making

### Code Of Conduct

The Company has developed a Code of Conduct (the Code) which has been endorsed by the Board and applies to all Directors and employees. The Code is reviewed by the Board and updated as necessary. The Code draws together all of the Group's practices and policies. The Code reflects the Group's values of:

- respect for others;
- honesty, integrity and accountability;
- leadership and teamwork;
- diligence and care in the performance of duties; and
- an acknowledgement of the service orientated nature of the Group's core franchising business.

It reinforces the need for Directors, employees, consultants and all other representatives of the Group to always act in good faith, in the Group's best interests and in accordance with all applicable policies, procedures, laws and regulations relevant to the regions in which the Group operates.

### Trading In Company Securities By Directors, Senior Executive Management And Employees

The Company has a detailed Trading Policy which regulates dealings by Directors, senior executive management and employees in shares, options and other securities issued in the Company.

The Trading Policy provides that Restricted Persons, including the Directors and senior executive management, are normally precluded from trading in the Company's securities during Closed Periods. Under the Trading Policy, the Closed Periods are the period from 1 January until publication of the Company's Half Year Report and the period from 1 July until publication of the Company's Preliminary Final Report. The Trading Policy also imposes an over-riding restriction whereby officers and employees may not trade in the Company's securities whilst in possession of price sensitive information.

# CORPORATE GOVERNANCE STATEMENT

## Trading In Company Securities By Directors, Senior Executive Management And Employees (cont.)

Trading in the Company's securities during Closed Periods may be authorised under the Trading Policy where the Restricted Person is in severe financial hardship or there are other exceptional circumstances, provided that the Restricted Person is not in possession of price sensitive information, such trading would not otherwise be contrary to law and such trading does not relate to financial products issued or created over or in respect of the Company's securities. There are also limited situations where trading in the Company's securities is not subject to the Trading Policy (for example, exercising options granted under an employee incentive scheme).

## Diversity policy

The Board is committed to having an appropriate blend of diversity at all levels of employment within the Group. To achieve this objective, the Company has established employment, reward and recognition policies with reference and adherence to relevant provisions of the *Fair Work Act 2009* and the *Equal Opportunity Act 2010*. Appointment or promotion to positions vacant within the Group are based on merit, without regard to the gender, age, cultural background or ethnicity of candidates.

The following table shows the proportional representation of women at various levels within the Group as at 30 June 2013:

Gender representation	Women %
	Actual
Board representation	25%
Key executive management personnel representation (excluding CEO)	33%
Group representation	69%

## Principle 4: Safeguard Integrity In Financial Reporting

### Audit And Risk Management Committee

The Board has an Audit and Risk Management Committee to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. The Audit and Risk Management Committee consists of the following Directors:

- Mr Stephen Lonie (Committee Chairman);
- Mr Colin Archer; and
- Ms Jessica Buchanan.

Details of these Directors' qualifications and attendance at Audit and Risk Management Committee meetings are set out in the Directors' Report on pages 14 and 15 respectively.

All members of the Audit and Risk Management Committee are financially literate and have an appropriate understanding of the Group's business.

The Audit and Risk Management Committee has a formal charter and internal control framework. The Committee charter requires that Committee meetings are convened at least four (4) times each year.

The Committee has responsibility for the following:

- ensuring an appropriate Board and Committee structure is in place so as to facilitate a proper review function by the Board;
- monitoring the establishment of an appropriate internal control framework, including information systems, and its operation and considering enhancements;
- monitoring corporate risk assessment and compliance with internal controls;
- overseeing business continuity planning and risk mitigation arrangements;
- assessing the objectivity and performance of the internal audit function and considering enhancements;
- reviewing reports on any material defalcations, frauds and thefts from the Group;
- reviewing reports on the adequacy of insurance coverage;
- reviewing financial statements and other financial information distributed externally;
- preparing and recommending for approval by the Board the corporate governance statement for inclusion in the annual report or any other public document;
- reviewing external audit reports to ensure that, where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management; and
- reviewing and monitoring compliance with the Code of Ethics.

# CORPORATE GOVERNANCE STATEMENT

## Audit And Risk Management Committee (cont.)

In fulfilling its responsibilities, the Audit and Risk Management Committee:

- receives regular reports from management and the external auditor;
- meets with the external auditor at least twice a year, or more frequently if necessary;
- reviews any significant disagreements between the external auditor and management, irrespective of whether they have been resolved; and
- meets separately with the external auditor at least twice a year without the presence of management.

The Audit and Risk Management Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Audit and Risk Management Committee reports to, and makes recommendations to, the Board in relation to each of its functions.

The Audit and Risk Management Committee charter is available on the Group's corporate website.

## External Auditor

The Company and Audit and Risk Management Committee policy is to appoint an external auditor who clearly demonstrates quality and independence. The performance of the external auditor is reviewed annually. Deloitte Touche Tohmatsu (Deloitte) was appointed as the external auditor in 2003. It is Deloitte's policy to rotate audit engagement partners on listed companies at least every five years, and, in accordance with that policy, a new audit engagement partner was introduced for the year ended 30 June 2012.

An analysis of fees paid to the external auditor, including a break-down of fees for non-audit services, is provided in the notes to the financial statements. It is the policy of the external auditor to provide an annual declaration of their independence to the Audit and Risk Management Committee.

The external auditor is requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

## Principle 5: Make Timely And Balanced Disclosures

The Group has an established policy and procedure for timely disclosure of material information concerning the Group. This policy includes internal reporting procedures to ensure that any required market announcements are reported to the Company Secretary in a timely manner.

The Company Secretary has been nominated as the person responsible for communication with the ASX. This role includes co-ordinating information disclosure to the ASX, and to analysts, brokers, shareholders, the media and the public, following confirmation from the ASX that such information has been released by it.

All information disclosed to the ASX is posted on the Group's corporate website as soon as it is disclosed to the ASX. When analysts are briefed following half year and full year results announcements, the material used in the presentations is released to the ASX prior to the commencement of the briefing. This information is also posted on the Group's corporate website.

Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market. The Group is committed to ensuring that all stakeholders and the market are provided with relevant and accurate information regarding its activities in a timely manner.

A copy of the Continuous Disclosure Policy is available on the Group's corporate website.

## Principle 6: Respect The Rights Of Shareholders

The Group aims to keep shareholders informed of the Group's performance and all major developments in an ongoing manner.

Information is communicated to shareholders through:

- the Annual Report and Financial Reports (including the Full Year Financial Report, the Preliminary Final Report, and the Half-Year Financial Report), which are published on the Group's corporate website and distributed to shareholders where nominated;
- the Annual General Meeting, and any other formally convened Company meetings; and
- all other information released to the ASX posted to the Group's corporate website.

The Group's corporate website maintains, at a minimum, information about the last three years' press releases or announcements.

A copy of the Shareholder Communications Policy is available on the Group's corporate website.

# CORPORATE GOVERNANCE STATEMENT

## Principle 7: Recognise And Manage Risk

The Board, through the Audit and Risk Management Committee, is responsible for ensuring the adequacy of the Group's risk management and compliance framework and system of internal controls and for regularly reviewing its effectiveness.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. The Board actively promotes a culture of quality and integrity.

The Group has implemented a risk management system based on ASX Corporate Governance Principles and Recommendations.

The framework is based around the following risk activities:

- risk identification: identify all significant foreseeable risks associated with business activities in a timely and consistent manner;
- risk evaluation: evaluate risks using an agreed risk assessment criteria;
- risk treatment/mitigation: develop mitigation plans for risk areas where the residual risk is greater than tolerable risk levels; and
- risk monitoring and reporting: report risk management activities and risk specific information to appropriate levels of management in a timely manner.

The Chief Executive Officer and Chief Financial Officer, and other senior executive management are responsible for identifying, evaluating and monitoring risk in accordance with the risk management framework. The senior executive management are responsible for the accuracy and validity of risk information reported to the Board and also for ensuring clear communication of the Board and senior executive management's position on risk throughout the Group.

In particular, at Board and senior executive management strategy planning sessions held throughout the year, the Chief Executive Officer and senior executive management review and identify key business and financial risks which could prevent the Group from achieving its objectives.

Additionally, a formal risk assessment process is part of each major capital acquisition with ongoing reviews undertaken of major business acquisitions, major capital expenditures or significant business initiatives.

## Certification Of Financial Reports

The Chief Executive Officer and Chief Financial Officer state in writing to the Board each reporting period that:

- the Group's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group and are in accordance with the relevant Accounting Standards; and
- this statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Group's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

## Principle 8: Remunerate Fairly And Responsibly

### Remuneration Committee

The Board has a Remuneration Committee to assist the Board and report to it on remuneration and issues relevant to remuneration policies and practices, including those policies and issues for senior executive management and non-executive Directors. Its current members are:

- Mr Colin Archer (Committee Chairman);
- Mr Stephen Lonie; and
- Ms Jessica Buchanan.

Details of these Directors' attendance at Remuneration Committee meetings are set out in the Directors' Report on page 15.

The Committee has responsibility for the following:

- reviewing and evaluating market practices and trends in relation to remuneration relevant to the Group;
- reviewing and making recommendations to the Board in relation to the Group's remuneration policies;
- reviewing and making recommendations to the Board in relation to the Group's remuneration practices;
- overseeing the performance of the Chief Executive Officer and Chief Financial Officer and other members of senior executive management and non-executive Directors;
- reviewing and making recommendations to the Board in relation to the remuneration of the Chief Executive Officer and Chief Financial Officer and other members of senior executive management and of non-executive Directors; and
- preparing for the Board any report that may be required under applicable legal or regulatory requirements in relation to remuneration matters.

The Committee reviews and sets key performance indicators (KPI's) relating to financial and non-financial targets for senior executive management at the commencement of each financial year.

The Remuneration Committee reports to, and makes recommendations to, the Board in relation to each of its functions.

# CORPORATE GOVERNANCE STATEMENT

## Remuneration Committee (cont.)

Further information of Directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration Report".

The Remuneration Committee charter is available on the Group's corporate website.

## Structure Of Remuneration

Details of the nature and amount of each element of remuneration for Directors and senior executive management of the Group are set out in the "Remuneration Report" section of the Directors' Report.

Remuneration for executive Directors and senior executive management are appropriately structured for each executive based on the duties allocated to them, the size of the Group's business and the industry in which the Group operates. Service contracts outline the components of compensation paid to the executives (including executive Directors), but do not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the executive and any changes required to meet the principles of the Remuneration Policy.

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. Non-executive Director remuneration takes the form of a set fee plus superannuation entitlements, however, may comprise other benefits or rewards in certain circumstances.

The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. The maximum amount which has been approved by the Company's shareholders for payment to non-executive Directors is \$400,000. Fees for non-executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

# DIRECTORS' REPORT

The Directors of Retail Food Group Limited (referred to hereafter as the Company) submit herewith the annual financial report of the Company for the financial year ended 30 June 2013. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

## Information About The Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Name	Particulars
Mr Colin Archer	Independent non-executive Chairman, Bachelor of Economics, CA. Mr Archer joined the Board on 12 April 2006. Mr Archer has been an accountant in public practice for in excess of 25 years and is a Chartered Accountant, registered auditor and tax agent. Mr Archer specialises in management and letting rights, property trusts, mergers and acquisitions and corporate governance. Mr Archer is a member of the Company's Audit and Risk Management Committee and Chairman of the Nominations and Remuneration Committees. Mr Archer was re-elected to the Board at the Company's AGM held on 30 November 2012, following retirement by rotation. Mr Archer was appointed as Chairman of the Board on 30 April 2013.
Mr Anthony (Tony) Alford	Chief Executive Officer and Managing Director, Bachelor of Business (Accountancy), CPA, CTA. Mr Alford joined the Board on 28 October 2003, having been a Chartered Accountant in public practice for in excess of 20 years. Mr Alford commenced his involvement with Retail Food Group in 1994 in an advisory role, thereafter becoming the Group Financial Controller. In December 1999, he was appointed Managing Director of the Group.
Ms Jessica Buchanan	Independent non-executive Director. Ms Buchanan joined the Board on 29 May 2012. Ms Buchanan has over 13 years' experience in branding, marketing and advertising, having commenced her career in the advertising industry working with multi-national agencies such as Wunderman, Young & Rubicam Mattingly and EHS Brann (UK). Ms Buchanan also managed campaigns for various blue chip companies including Ericsson, Tabcorp, Du Pont, Cadbury Schweppes, The Australian Defence Force, British Gas and BMW. Ms Buchanan is a member of the Company's Nominations and Remuneration, and Audit and Risk Management Committees.
Mr Stephen Lonie	Independent non-executive Director, Bachelor of Commerce, MBA, FCA, FFin, FAICD, FIMCA. Mr Lonie joined the Board on 24 June 2013. Mr Lonie is a Chartered Accountant by profession and director of listed corporations, MyState Limited and Corporate Travel Management Limited and chairman of Jellinbah Resources Pty Ltd. Mr Lonie is the chairman of the Company's Audit and Risk Management Committee and a member the Nomination and Remuneration Committees.
Mr Anthony Williams	Independent non-executive Director, joined the Board on 29 May 2012. Mr Williams was a member of the Audit and Risk Management Committee. Mr Williams resigned from the Board on 24 June 2013.
Mr Bruce Hancox	Independent non-executive Chairman, joined the Board on 14 December 2007. Mr Hancox was a member of the Company's Nominations, Remuneration and Audit and Risk Management Committees. Mr Hancox retired as Chairman and Director of the Board on 30 April 2013.

## Directorships Of Other Listed Companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period Of Directorship
Mr Colin Archer	Oaks Hotels and Resorts Limited	24 April 2005 to 26 May 2011
Mr Stephen Lonie	MyState Limited	12 December 2012 to present
	Corporate Travel Management Limited	23 June 2010 to present
	The Rock Building Society Limited	23 April 2010 to 1 December 2011
	Oaks Hotels and Resorts Limited	1 March 2011 to 26 May 2011
Mr Bruce Hancox	Neuren Pharmaceuticals Limited	8 March 2012 to present



## Directors' Shareholdings

The following table sets out each Director's relevant interest in shares and options in shares of the Company as at the date of this report:

Directors	Fully Paid Ordinary Shares	Executive Share Options
	Number	Number
Mr Anthony (Tony) Alford	22,524,548	-
Mr Colin Archer	374,793	-
Mr Stephen Lonie	30,000	-

## Remuneration Of Directors And Senior Executive Management

Information about the remuneration of Directors and senior executive management is set out in the "Remuneration Report" of this Directors' Report.

## Share Options Granted To Directors And Senior Executive Management

During and since the end of the financial year, there were no share options granted to the Directors and senior executive management of the Company as part of their remuneration.

## Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member). During the financial year, 16 Board meetings, 4 Audit and Risk Management Committee meetings, 6 Remuneration Committee meetings and 4 Nominations Committee meetings were held.

Directors	Board of Directors		Audit Committee		Remuneration Committee		Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Colin Archer	16	16	4	4	6	6	4	4
Mr Anthony (Tony) Alford	16	16	n/a	n/a	n/a	n/a	n/a	n/a
Ms Jessica Buchanan	16	15	n/a	n/a	6	6	4	4
Mr Stephen Lonie	1	1	n/a	n/a	n/a	n/a	n/a	n/a
Mr Anthony Williams	15	14	4	3	n/a	n/a	n/a	n/a
Mr Bruce Hancox	13	11	4	3	6	6	2	1

## Company Secretary

The Company Secretary is Mr Anthony Mark Connors. Mr Connors was appointed as Company Secretary on 26 April 2006, having prior to and since that time acted as the Company's Legal Counsel. Mr Connors is a Solicitor of the Supreme Court of Queensland.

## Principal Activities

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

- intellectual property ownership of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar and The Coffee Guy franchise systems;
- development and management of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses, Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar and The Coffee Guy franchise systems throughout Australia & New Zealand and international licensor throughout the rest of the world for all systems excluding Esquires Coffee Houses; and
- development and management of the Coffee Roasting Facilities and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses, Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar and The Coffee Guy franchise systems.

# DIRECTORS' REPORT

## Changes In State Of Affairs

No significant changes in the nature of the Group's core business activities occurred during the financial year other than with respect to:

- acquisition of the:
  - Crust Gourmet Pizza Bar franchise system on 19 October 2012; and
  - The Coffee Guy franchise system on 19 November 2012.

## Review Of Operations And Financial Condition

### Group Overview

The following table summarises the Group's results for the financial years 30 June 2013 and 2012:

	FY13	FY12	Change
Total Revenue <sup>(1)</sup>	\$117.0m	\$101.9m	14.8%
EBIT	\$52.8m	\$47.5m	11.3%
NPAT (Core Operations) <sup>(2)</sup>	\$34.3m	\$30.3m	13.3%
NPAT	\$32.0m	\$28.5m	12.1%
EPS (Core Operations)	27.9 cps	28.0 cps	(0.3%)
EPS (Basic)	26.0 cps	26.4 cps	(1.5%)
Final Dividend per Share (DPS)	10.25 cps	9.0 cps	13.9%
Franchised Outlets	1,374	1,209	+ 165 outlets
Net Debt	\$92.1m	\$98.0m	(6.1%)

(1) Total Revenue excludes revenue derived from marketing activities (FY13: \$24.0m; FY12: \$14.5m).

(2) Core NPAT is a non-IFRS profit measure used by the Directors and management to assess the underlying performance of the Group. A reconciliation of statutory NPAT and Core NPAT is provided on page 2 of this General Purpose Financial Report.

The results for the 2013 financial year reflect a continued solid performance from the Group's cash generating unit (CGU), notwithstanding the depressed retail environment and the unique challenges which confronted two of the Group's Brand Systems (Michel's and Brumby's).

The NPAT performance represents the eighth successive year that the Company has delivered a record annual profit, reflecting a cumulative average growth rate (CAGR) of 28.9% since ASX Listing in June 2006.

Growth in earnings was attributable to positive EBIT contributions from FY12 & 1H13 acquisitions, and resilient earnings from the franchise systems and coffee roasting activities. Of particular note was the \$10.1 million EBIT contribution from the QSR CGU and the 7.1% increase in EBIT contribution from the Group's coffee assets. The growth was achieved notwithstanding the additional costs of operating certain Michel's bakeries, increased financial assistance to Michel's franchisees affected by bakery supply issues, the programmed discounting of Initial Franchise Fees on new outlet sales, and an increase in the average number of Company owned stores operated during the period (Non-voluntary and Project Evo pilot outlets).

Total Shareholder Return (TSR) for the 12 months to 30 June 2013 was an impressive 59.7%.

Given the Group's continuing strong cash position, the Directors declared a fully franked final ordinary dividend of 10.25 cents per share, taking the full year dividend to 19.75 cents per share, an increase of 12.9% on the prior year.

### Acquisitions

#### Crust Gourmet Pizza Bar

On 23 August 2012, the Group announced its entry into a conditional Sale & Purchase Agreement (SPA), subject to normal contractual terms and finalisation of due diligence enquiry, by which the business and intellectual property assets of the Crust Gourmet Pizza Bar ('Crust') brand system would be acquired.

On 19 October 2012, the Group completed the acquisition of Crust for the following consideration:

- \$25 million on settlement in the form of \$22 million cash and the issue of RFG ordinary shares to the value of \$3 million;
- \$16 million in December 2012 in the form of \$12 million cash and the issue of RFG ordinary shares to the value of \$4 million; and

In addition the vendors are entitled to performance payments up to a maximum value of \$4 million cash, contingent upon the Crust business achieving defined future earnings performance targets.

The Crust acquisition, combined with the acquisition of the Pizza Capers franchise system in April 2012, positions the Group as the market leader in the Australian gourmet pizza QSR segment, both in terms of scale and menu offer.

# DIRECTORS' REPORT

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

### Acquisitions (cont.)

The Coffee Guy Group

On 19 November 2012, the Group completed the acquisition of the business and intellectual property assets of the New Zealand domiciled The Coffee Guy franchise system for cash consideration of \$4.2 million, paid at acquisition date.

The Coffee Guy acquisition further evidences the Group's investment commitment in New Zealand, increases penetration outside of shopping centres and fortifies the existing investment in coffee by facilitating entry into an allied sector (mobile vending), whilst assuring continued supply to The Coffee Guy franchisees of roasted coffee and allied products from the RFG owned Evolution Coffee Roasters.

### Earnings Performance

Total Revenue (excluding marketing) for FY13 was \$117.0 million, representing an increase of \$15.1 million (14.8%) on FY12.

The increase in revenue is attributable to the following key factors:

- contributions from acquisitions in 2H12 (Pizza Capers) and 1H13 (Crust & The Coffee Guy);
- a 7.2% increase in Coffee revenues;
- additional operating revenues from non-voluntary company owned stores and Project Evo pilot outlets; and
- increased revenues from the operation of bakeries supplying Michel's franchisees.

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

A review of consolidated revenues and results by segment is set out in the following table:

Segment	Segment Revenues		Segment Profit	
	FY13 \$'000	FY12 \$'000	FY13 \$'000	FY12 \$'000
Franchising Operations	95,580	78,651	50,602	44,657
Wholesale / Retail Operations	45,086	37,492	3,865	3,895
	140,666	116,143	54,467	48,552
Other gains and losses			(11)	(297)
Interest revenue	330	249	330	249
Finance costs			(7,389)	(7,031)
Unallocated	36	-	(1,864)	(1,015)
Profit before tax			45,533	40,458
Income tax expense			(13,527)	(11,912)
Revenue and profit for the year	141,032	116,392	32,006	28,546

### *Franchising Operations*

Franchising Operations incorporate the development and management of the Group's retail Franchise Systems (termed Brand System) – Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses, Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar and The Coffee Guy – and involve the following principal activities, being:

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

Segment revenue for FY13 was \$95.6 million (FY12: \$78.7 million), representing growth of \$16.9 million (or 21.5%). Revenue growth was primarily driven by an increase in Franchise Service Fee and licence fee revenue, and the additional business attributable to acquisitions completed by the Group during 2H12 (Pizza Capers) and 1H13 (Crust & The Coffee Guy).

Offsetting the revenue growth was the reduction in royalty and other revenue as a consequence of the reduced Michel's Average Weekly Sales (AWS), the financial assistance provided to Michel's franchisees consequential to bakery supply issues, and programmed increased discounting of Initial Franchise Fees to enhance new outlet and long-term growth.

# DIRECTORS' REPORT

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

### *Franchising Operations (cont.)*

The financial assistance to Michel's franchisees was provided in the form of royalty fee relief and other foregone revenue, the majority of which was delivered during 1H13.

The benefits of discounting Initial Franchise Fees to enhance new outlet growth is expected to be received in the form of additional long term royalty and other revenues from new outlets growth.

Segment revenue includes revenues derived from marketing activities of \$24.0 million (FY12: \$14.5 million).

### *Wholesale / Retail Operations*

Wholesale / Retail Operations incorporates the development and management of the Group's Procurement, Wholesale & Manufacturing division (including coffee roasting activities), Non-Voluntary Company Store (NVCS) and Voluntary Company Stores (VCS), being Project Evo pilot outlets. These pursuits 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 NVCS and VCS across each of the franchise systems; and
- the return of NVCS to franchisee stewardship.

Segment revenue for FY13 was \$45.1 million (FY12: \$37.5 million), representing an increase of \$7.6 million (or 20.3%), driven by:

- a 7.2% increase in coffee revenues to \$19.7 million, attributable to underlying organic growth in coffee sales and a full year contribution from Evolution Coffee Roasters (acquired September 2011);
- an increase in revenue received from the sale of NVCS to franchisee stewardship; and
- an increase in revenues generated from NVCS and VCS due to the increased average number of stores operated by the Group in FY13.

The net decrease in the wholesale / retail operations segment earnings compared to the prior corresponding period (PCP) is primarily attributable to increased earnings from the coffee assets, offset by costs of operating Michel's bakeries and an increased number of NVCS and VCS.

### Financial Position and Cash Flows

Net Assets of \$240.5 million have increased by \$70.8 million (41.7%) from 30 June 2012, reflecting the Group's FY13 acquisitions, capital raising and other capital management activities.

Cash inflows from operating activities for FY13 remain strong at \$31.1 million (FY12: \$24.3 million), reflecting a conversion to EBITDA of 96.5% (FY12: 89.3%). The increased conversion to EBITDA margin on PCP is primarily attributable to increased net cash inflows from acquisitions offsetting the Michel's Bakery operations, franchisee support initiatives and short-term funding of marketing initiatives undertaken by the Brand Systems marketing funds.

The Group received \$51.8 million in cash arising from the Share Placement in October 2012 and Share Purchase Plan (SPP) completed in November 2012.

The combined proceeds of surplus free cash derived from operations, Share Placement and the SPP funded:

- acquisitions of Crust and The Coffee Guy;
- the \$11.1 million investment in property, plant and equipment including:
  - 4 apartments in Southport, QLD, providing accommodation to support franchise training initiatives;
  - the Commercial Drive Ashmore, QLD property, providing corporate office and franchise training capability;
  - the Octal Street Yatala, QLD property, providing a mixed use coffee roasting, freezer and distribution facility;
  - fit out of the leased bakery and distribution facility in Victoria; and
  - a continuing major corporate IT platform upgrade.
- an increased dividend payout ratio to 80.9% of reported NPAT (circa 75% on Core NPAT).

Working capital increases since 30 June 2012 are attributable to newly acquired franchise system debtors, increased short-term funding of marketing initiatives, payment terms provided to franchisees on new store openings and franchise renewal, and an increase in landlord contributions receivable on new outlets.

Non-current receivables and other financial assets since 30 June 2012 are attributable to increased long-term funding of marketing and innovation "Project Evo" initiatives, and payment terms provided to franchisees on new store openings.

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

### Debt Structure

As at 30 June 2013, the Group's total gross debt was \$108.9 million. This amount is presented as a non-current liability in the Statement of Financial Position, reflecting the maturity date of 30 September 2014 (as at 30 June 2013).

Consistent with the Group's stated capital management policies, the Group extended its senior debt facility with the National Australia Bank (NAB) on 1 August 2013, with the key features being:

- the maturity date extended to 30 March 2016;
- a reduced pricing structure, with margin over BBSY 1.7% - 2.25%; and
- the remaining covenants (interest cover and gearing) unchanged.

The Group's leverage ratio (net debt / trailing EBITDA) of 1.88 times and gearing ratio (net debt / (net debt + equity)) of 29.6% remain comfortably within the Group's banking covenants of 2.5 times and 50% respectively.

The Group's final interest rate swap contract with a notional principal of \$60.0 million and an average interest rate of 7.47% expired in December 2012, bringing a cessation to interest rate hedge accounting activities. As at 30 June 2013, 45.9% of the Group's gross debt was subject to fixed interest rates, with the remaining 54.1% subject to variable interest rates. The Group's weighted average interest rate, as at 26 September 2013 was 5.15%.

### Performance Indicators

New growth outlets for FY13 totalled 248 (FY12: 149) and were derived from:

- 175 through franchise system acquisitions during FY13 (FY12: 110), where the Group acquired the Crust Gourmet Pizza Bar and The Coffee Guy franchise systems;
- 73 through organic growth (FY12: 39);

Net outlet growth for FY13 was 165 after closure of 83 existing outlets.

The FY13 organic new outlet growth was reflective of growth in QSR stores (37 outlets) and non-QSR Brand Systems (36 outlets).

Whilst reduced premium site opportunities, tighter lending requirements among financiers and a cautious franchisee market broadly contributed to a modest increase in organic non-QSR Brand System outlet growth of 4. The Group intentionally deferred new store openings of the Donut King, Brumby's, Michel's Patisserie and Esquires Brand Systems in 2H13 due to the imminent commissioning of "Project Evo" outlet platforms, the majority of which will be mandated in 1H14. The "Project Evo" concept includes substantial store redesign and operational enhancements, thus necessitating the deferral of new store commissioning until completion of the new "Project Evo" store format for each of the Donut King, Brumby's, Michel's Patisserie and Esquires Brand Systems.

Outlet closures were predominantly a factor of the Group's rejection of sites, attributable to unacceptable lease renewal terms and/or an inability of the existing site to accommodate a "Project Evo" format refurbishment.

Franchise System	Details
Donut King	19 new outlet commissioning's (FY12: 10) and 23 outlet closures (FY12: 11).  As at 30 June 2013, there were 330 Donut King outlets operating in Australia and 15 outlets located internationally.
Brumby's Bakery	4 new outlet commissioning's (FY12: 10) and 26 outlet closures (FY12: 23).  As at 30 June 2013, there were 283 Brumby's Bakery outlets operating in Australia and 13 outlets located internationally.
Michel's Patisserie	7 new outlet commissioning's (FY12: 9) and 17 outlet closures (FY12: 9).  As at 30 June 2013, there were 314 Michel's Patisserie outlets operating in Australia, and 3 outlets located internationally.

# DIRECTORS' REPORT

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

### Performance Indicators (cont.)

Franchise System	Details
Esquire's Coffee Houses (including bb's café)	<p>5 new outlet commissioning's (FY12: 2) and 12 outlet closures (FY12: 3).</p> <p>As at 30 June 2013, there were 38 Esquire Coffee Houses outlets operating in Australia and 52 outlets located in New Zealand.</p>
Pizza Capers	<p>15 new outlet commissioning's (FY12: 8) and 4 outlet closures (FY12: nil).</p> <p>As at 30 June 2013, there were 128 outlets in Australia and 1 outlet located internationally.</p>
Crust Gourmet Pizza Bar	<p>The Crust franchise system was acquired on 19 October 2012. 119 outlets acquired on 19 October 2012, 22 new outlet commissioning's and nil outlet closures.</p> <p>As at 30 June 2013, there were 133 outlets in Australia and 8 outlets located internationally.</p>
The Coffee Guy	<p>The Coffee Guy franchise system was acquired on 19 November 2012. 56 outlets acquired on 19 November 2012, 1 new outlet commissioning and 1 outlet closure.</p> <p>As at 30 June 2013, 55 The Coffee Guy outlets were located in New Zealand.</p>

During preparation of the 1H13 interim reporting, management identified the requirement to restate the Group's FY12 closing Total Outlet count by 42 outlets (from 1,251 to 1,209), to account for cumulative end of period timing differences and other anomalies in respect of the period FY10 through FY12.

The restatement does not affect any other statistic, commercial or financial outcome previously published by the Group.

Closing outlet statistics detailed in this report have been appropriately restated.

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

Compared to FY12, the Group's franchise systems exhibited modest but positive:

- weighted average weekly sales (AWS) growth of 1.3%; and
- weighted average transaction value (ATV) growth of 4.0%.

Franchise System (Australia Only)	Average Weekly Sales (AWS) growth		Average Transaction Value (ATV) growth	
	FY12 %	FY13 %	FY12 %	FY13 %
Donut King	1.7%	4.4%	3.8%	6.5%
Esquires Coffee Houses (including bb's café)	0.3%	0.2%	3.4%	2.1%
Brumby's Bakery	0.2%	0.4%	3.2%	5.1%
Michel's Patisserie	(1.2%)	(1.3%) <sup>(1)</sup>	2.1%	1.4%
OSR (Pizza Capers & Crust)	-	1.5% <sup>(2)</sup>	-	3.3%

(1) Including Queensland operations: -2.2% growth.

(2) Weighted store sales – represents blended metric of Pizza Capers AWS and Crust Same Store Sales.

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

### Performance Indicators (cont.)

The Donut King Brand System average weekly sales growth of 4.4% was assisted by a 6.5% increase in average transaction values underpinned by 'Project Evo' inspired menu offerings and experiential retail concepts, complimenting the brand's aggressive promotional campaigns focusing on high growth sales categories such as coffee.

Esquires outlet average weekly sales growth for Australian outlets was 0.2% on PCP attributable to the continuing transition to the Esquires Franchise System, lower shopping centre foot traffic, albeit with a higher ATV reflecting the success of its combo and up-selling beverage strategies.

Brumby's Bakery outlet average weekly sales growth of 0.4% on PCP was a favourable turnaround on the 1.1% decline noted at 31 December 2012. Conservative AWS growth for FY13 can be attributed to significant supplier issues in respect of core savoury products which negatively impacted category sales and cross category bundle offers. Significant increase in ATV (5.1%) can be attributed to the highly successful Easter campaign netting 50% sales increment on PCP and the launch of sandwiches into the Brand System.

Michel's Patisserie outlet average weekly sales decline of 1.3% (excl Qld) was attributable to a reduced menu offer and range rationalization precipitated by 1H13 Bakery supply issues impacting on the Brand System. Michel's Queensland operations have been excluded due to the significant product supply issues in that State previously discussed. The Michel's Patisserie coffee offer continues to dominate in the market as evidenced by the 2nd consecutive attainment of the prestigious 'Roy Morgan Coffee Shop of the Year' award and successful execution of the 'Judgment June' promotion which resulted in a customer count increase of 3.9%.

QSR weighted store sales and ATV increases were fortified by menu reinvigoration and growth in online sales within the respective QSR brands.

## Future Developments

### Operational and Financial Targets

The Group announced its FY14 Growth Platform & Strategic Initiatives on 29 August 2013. The key platforms for FY14 are Project QSR 400 and the roll out of the Project Evo concepts for non-QSR Brand Systems.

#### *Project QSR 400*

Throughout FY13, the Group identified in excess of 100 additional territories for potential establishment of gourmet pizza outlets. Project QSR400 seeks to capitalise on this irreplaceable opportunity by expediting FY14 outlet commissioning's within these territories by:

- incentivised initial franchise fee arrangements and or financial accommodation to approved franchise applicants;
- stimulation of MSO (Multi-Site Owner) franchisee initiatives;
- initial direct investment in voluntary corporate owned and operated outlets, pending subsequent franchising of same; and
- 'bolt on' acquisitive activity.

The Group is confident of increasing its QSR footprint by 70 outlets to circa 340 by the end of FY14, and ultimately, extending that footprint to circa 400 outlets by 3Q15. At this juncture, the new outlet growth profile will be relatively even between Pizza Capers and Crust commissioning's. Furthermore, as a consequence of the segmentation strategy developed by the Group, minimal direct competition amongst outlets is anticipated.

Over the Project's lifespan, the Group forecasts a gross investment commitment of circa \$18 million, with an investment commitment peak of circa \$12 million (in 1Q15). The gross investment includes provision in an amount of \$3 million, which accounts for the normal 18 month outlet maturity profile of those outlets, which, will be operated under RFG stewardship (if applicable).

#### *Project Evo*

The Company's Project Evolution (or EVO) initiative achieved considerable traction during FY13 and will provide a strong platform for Brand System growth in FY14. Esquires, Donut King and Michel's Patisserie Project Evolution retail outlet concepts have now been commissioned, with Brumby's Bakery and Brumby's Go! scheduled for completion during FY14.

Having substantially completed the Project EVO initiatives in respect of three of the four non QSR Brand Systems, and Brumby's programmed to be completed this financial year, RFG is motivated to accelerate EVO conversion and new outlet growth.

In this respect, and as detailed during the Company's 2012 AGM, RFG will provide financial and other accommodations to franchisees to facilitate the reinvigoration process. The Company presently anticipates a gross investment quantum of c.\$12m over the next 18 months, to assist in the Project EVO platform conversion, new outlet development and franchisee transition to the Michel's National Bakery Solution.

#### *New Outlet Growth*

New outlet growth in FY14 will be underpinned by Project QSR 400 and Project Evo initiatives. The Group is forecasting organic new store growth of circa 140 outlets in FY14, including 70 QSR outlets, and 70 across the non-QSR franchise systems.

# DIRECTORS' REPORT

## Future Developments (cont.)

### *Other growth strategies - Coffee & Allied Beverages:*

The Group remains focused on establishing a second coffee roasting facility within the Yatala QLD complex in order to increase roasting capacity to underwrite existing operations and further leverage the Group's growing coffee business. Coffee's escalating importance to the Group is underscored by the fact that coffee contribution to FY13 Group EBITDA was circa 21%.

In FY14, coffee operations will be supported by renewed focus on:

- advancing the Company's third party wholesale coffee supply business (domestically and abroad);
- enhancing Brand System coffee expertise through improved training modules and delivery techniques;
- repositioning RFG and its Brand Systems as coffee 'experts';
- vertical integration of new and existing products (including domestic introduction of RFG's New Zealand domiciled Evil Child drinking chocolate, powders and syrups); and
- development or acquisition of new businesses/brands which complement RFG's growing coffee business and provide opportunity to optimise existing scale.

Other growth strategies will be directed towards:

- leveraging property acquisitions to expand training academy capabilities, including dedicated QSR training facilities and expansion of coffee focused training capabilities; and
- maximising supply-chain efficiencies across all systems, for the benefit of all stakeholders.

The Group continues to investigate and evaluate potential retail food franchise system and other complementary asset opportunities. Potential targets include both competitor and complementary systems which provide system growth opportunities, synergies, intellectual property enhancement, and are EPS accretive. In this respect, the Group will keep the market informed in accordance with its reporting obligations.

The Group also expects the strong cash flows of FY13 to continue in FY14. Given the Group's strong net free cash flow generation, supported by a robust share price, cash resources and Senior Debt Facility headroom (of circa \$40m), the Group has a number of potential capital management alternatives at its disposal. Absent execution of acquisition opportunity of significant scale, the Group presently intends to fund its growth initiatives from cash reserves and existing debt facilities.

Disclosure of further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report as the Directors consider that it would be likely to result in unreasonable prejudice to the Group.

## 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 financial 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 years, other than the following:

### Banking Facility

On 1 August 2013, the Group extended the present maturity date of its Senior Debt Facility with the National Australia Bank to 30 March 2016. The senior debt facility of \$135 million and all its covenants remain unchanged.

### Final Dividend

On 29 August 2013, the Board of Directors declared a final dividend in respect of profits of the financial year ending 30 June 2013. The final dividend of 10.25 cents per share (based on 130,301,190 shares on issue at 29 August 2013), franked to 100% at 30% corporate income tax rate will be paid on 11 October 2013. The final dividend was approved by the Directors following the conclusion of FY13 and, therefore, was not provided for in the year-end financial report. It was resolved that the final FY13 dividend would not constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan.

### Environmental Regulations

The Group, due to the nature of its operations, is not required to be environmentally licensed nor is it subject to any conditions which have been imposed by an environmental regulator specifically related to the Group or its operations.

In circumstances where the nature of the Group's operations requires, the Group is committed to compliance with all prescribed environmental laws and regulations.



# DIRECTORS' REPORT

## Dividends

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

Company	FY13		FY12	
	Cents Per Share	Total \$'000	Cents Per Share	Total \$'000
<b>Recognised amounts</b>				
Fully paid ordinary shares				
Final dividend – fully franked at 30% tax rate <sup>(1)</sup>	9.000	9,802	7.500	8,116
Interim dividend – fully franked at 30% tax rate <sup>(2)</sup>	9.500	12,372	8.500	9,216
	<b>18.500</b>	<b>22,174</b>	<b>16.000</b>	<b>17,332</b>
<b>Unrecognised amounts</b>				
Fully paid ordinary shares				
Final dividend – fully franked at 30% tax rate <sup>(3)</sup>	10.250	13,356	9.000	9,802

(1) In respect of the financial year ended 30 June 2012, as detailed in the Directors' Report for that financial year, a final dividend of 9.00 cents per share, based on 108,910,114 shares on issue at 13 September 2012, franked to 100% at 30% corporate income tax rate, was paid on 11 October 2012. The final dividend was approved by the Directors following the conclusion of the 30 June 2012 financial year and, therefore, was not provided for in the Company's financial report. It was resolved that the FY12 final dividend would not constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

(2) In respect of profits of the financial year ended 30 June 2013, an interim dividend of 9.50 cents per share, based on 130,227,856 shares on issue at 21 March 2013, franked to 100% at 30% corporate income tax rate, was paid on 9 April 2013. The interim dividend was approved by the Directors on 21 February 2013 and it was resolved that the interim dividend would not constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

(3) In respect of profits of the financial year ended 30 June 2013, a final dividend of 10.25 cents per share, based on 130,301,190 shares on issue at 29 August 2013, franked to 100% at 30% corporate income tax rate, will be paid on 11 October 2013. The final dividend was approved by the Directors on 29 August 2013 and, therefore, was not provided for in the Company's financial report. It was resolved that the FY13 final dividend would not constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

## Shares Under Option Or Issued On Exercise Of Options

Details of unissued shares or interests under option as at the date of this report are:

Issuing Entity	No. Of Shares Under Option	Class Of Shares	Exercise Price Of Options	Expiry Date Of Options
Retail Food Group Limited	10,000	Ordinary	\$ 1.32	31/07/14
Retail Food Group Limited	80,000	Ordinary	\$2.78	19/10/13

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company.

Details of shares or interests issued during or since the end of the financial year as a result of exercise of an option are:

Issuing Entity	No. Of Shares Under Option	Class Of Shares	Amount Paid For Shares	Amount Unpaid On Shares
Retail Food Group Limited	734,167	Ordinary	\$1,030,767	\$nil

# DIRECTORS' REPORT

## Indemnification Of Officers And Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a Director, Secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has also entered into a Deed Poll indemnifying the Directors, officers and certain other parties in respect of certain claims that may be raised against them relative to the operations of the Company, its former and current subsidiaries.

To the maximum permitted by the Corporations Act, the Deed Poll indemnifies those persons from liabilities incurred as a consequence of the acts of those persons, including the giving of personal guarantees on behalf of the Company and its former and current subsidiaries.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 37 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services, as disclosed in note 37 to the financial statements, do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence, as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## Auditor's Independence Declaration

The auditor's independence declaration is included on page 34 of the financial report.

## Rounding Off Of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/100, 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.

## Remuneration Report

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and its senior executive management for the financial year ended 30 June 2013.

The prescribed details for each person covered by this report are contained below under the following headings:

- Director and senior executive management details;
- remuneration policy;
- relationship between the remuneration policy and Group performance;
- remuneration of Directors and senior executive management; and
- key terms of employment contracts.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001.

### 1. Director And Senior Executive Management Details

The Company does not directly remunerate any of its Directors, key management personnel or specific executives. Rather, the Directors, key management personnel and specific executives are remunerated through subsidiaries of the Company.

The following persons acted as Directors of the Company during or since the end of the financial year:

- Mr Colin Archer (Chairman and Independent Non-Executive Director) (appointed as Chairman 30 April 2013)
- Mr Anthony (Tony) Alford (Managing Director and Chief Executive Officer)
- Ms Jessica Buchanan (Independent Non-Executive Director)
- Mr Stephen Lonie (Independent Non-Executive Director) (appointed 24 June 2013)
- Mr Bruce Hancox (Chairman and Independent Non-Executive Director) (retired as Chairman and Director 30 April 2013)
- Mr Anthony Williams (Independent Non-Executive Director) (resigned 24 June 2013)

The term 'senior executive management' is used in this remuneration report to refer to the following persons, and, except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

- Mr Peter McGettigan (Chief Financial Officer)
- Mr Andre Nell (Chief Operating Officer) (appointed to the position 21 February 2013)
- Mr Anthony Mark Connors (Chief Legal Officer and Company Secretary)
- Ms Tracey Catterall (Director of Marketing and Innovation)
- Mr Gary Alford (Director of Franchise) (appointed to position 21 February 2013)

### 2. Remuneration Policy

The Board considers it critical to its long term success, and the building of shareholder value, that it attracts, retains and motivates appropriate personnel to lead, manage and serve the Group in an increasingly competitive marketplace for senior executive talent.

The objectives of the Group's remuneration policy are to:

- motivate executive and non-executive personnel to successfully lead and manage the Group, with a focus on driving long term growth and shareholder value;
- drive successful performance and achievement of long and short term goals and otherwise reinforce the objectives of the Group;
- deliver competitive remuneration packages necessary to attract and retain appropriate personnel;
- ensure fair remuneration, having regard to duties, responsibilities and other demands;
- ensure flexibility, to enable the Group to cope with planned or unforeseen threats and opportunities;
- ensure compliance with relevant laws; and
- ensure sustainable value for all stakeholders.

# DIRECTORS' REPORT

## Remuneration Report (cont.)

### 2. Remuneration Policy (cont.)

When determining executive remuneration packages, the Board may have regard to:

- the need to attract, retain and motivate appropriate personnel;
- market practices;
- alternative benefits including incentive programs, fringe benefits and equity schemes;
- assessment of individual performance against set goals and targets; and
- the scope of responsibility, duties and other demands.

Executive remuneration shall generally take the form of a base salary plus superannuation, however, may comprise performance bonuses and other benefits or rewards in certain circumstances.

When determining non-executive remuneration packages, the Board may have regard to:

- the need to attract, retain and motivate appropriately qualified and experienced Directors with diverse backgrounds and experiences best suited to ensure the Board is comprised of a range of skills necessary to properly understand the business environment in which the Group operates;
- the scope and complexity of the responsibilities assumed by such Directors in connection with the oversight and leadership of the Group;
- comparative market practices; and
- alternative benefits, including equity schemes.

#### Role of the Remuneration Committee

The Board has a Remuneration Committee to assist the Board and report to it on remuneration and issues relevant to remuneration policies and practices, including those policies and practices for senior executive management and non-executive Directors.

The functions performed by the Committee are to:

- review and evaluate the market practices and trends on remuneration matters;
- make recommendations to the Board in relation to the Group's remuneration policies and practices;
- oversight of the performance of the Chief Executive Officer, Chief Financial Officer and other members of senior executive management and non-executive Directors; and
- make recommendations to the Board in relation to the remuneration of senior executive management and non-executive Directors.

The Remuneration Committee has adopted the following policies to which it will continue to have regard when determining the remuneration of executives and senior executive management members, being to:

- annually review executive and senior executive management member packages by reference to Group performance, executive performance, comparable information from industry sectors and other listed companies;
- reward performance which results in long-term growth in shareholder value;
- link all bonuses, options and incentives to pre-determined performance criteria; and
- reference any changes to measurable performance criteria.

### 3. Relationship Between Remuneration Policy And Group Performance

The following compensation structures are designed to attract suitably qualified executives, reward the achievement of strategic objectives, and to achieve the broader outcome of long-term success and the building of shareholder value. The compensation structures take into account:

- the capability and experience of the executive;
- the executive's ability to manage and deliver the Group's forecast results;
- the attainment of pre-determined KPIs developed specially for the executive's role;
- the Group's overall performance including:
  - the Group's earnings;
  - the growth in earnings per share and return on shareholder wealth; and
- the relative size incentives within each executive's remuneration package.

Remuneration packages include a mix of fixed and variable compensation and short-term and long-term performance-based incentives. The mix of these components is based on the role the individual performs.

In addition to their salaries, the Group also provides non-cash benefits to its executives and contributes to a post-employment superannuation plan on their behalf, in accordance with its statutory obligations.

## Remuneration Report (cont.)

### 3. Relationship Between Remuneration Policy And Group Performance (cont.)

#### Fixed Compensation

Fixed compensation consists of base compensation, which is calculated on a total cost basis and includes any fringe benefits tax (FBT) charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration Committee and the Chief Executive Officer, through a process that considers the individual responsibilities and the achievement of pre-determined KPIs, and the overall performance of the Group.

An executive's remuneration is also reviewed on promotion.

Executives receive a superannuation guarantee contribution required by the Government, which is currently 9.25% (FY13: 9.00%) and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice a further part of their salary to increase payments towards superannuation.

#### Performance-linked Compensation

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan (ESOP). In respect of the options granted, there is no performance criteria required to be achieved in order for the option to vest. Rather, the decision to grant options to executives is based on past performance.

#### Short-term Incentive Bonus

Each year, the Remuneration Committee sets pre-determined key performance indicators (KPIs) for certain key executives. The KPIs generally include performance measures relating to the Group and the individual and include financial, people, customer, strategy and risk measures. The measures chosen directly align the individual's reward to the KPIs of the Group and to its strategy and performance. The Group undertakes a rigorous and detailed annual forecasting and budget process. The Board considers that the achievement of the annual forecast and budget is, therefore, the most relevant short-term performance condition.

The financial performance objectives may include but not be limited to "Net Profit", "Revenue", "Franchise Revenue", "Corporate Expenditure" and "Minimum Earnings Per Share" compared to budget and forecast amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic objectives, compliance with governance and regulatory requirements, new store commissioning's, growth in network sales from effective brand marketing and promotions, growth in average weekly sales, growth in customer counts, customer satisfaction and staff development.

At the end of the financial year, the Remuneration Committee assesses the actual performance of the Group and the relevant individual against the KPIs set at the beginning of the financial year. No bonus is awarded where performance objectives are not achieved. The Chief Executive Officer recommends to the Remuneration Committee the performance bonus amounts of individuals for approval by the Board. This method of assessment was chosen as it provides the Remuneration Committee with an objective assessment of the individual's performance.

#### Long-term Incentive Bonus

Options can be issued over ordinary shares under the ESOP, in accordance with thresholds set in plans approved by the Board on 9 May 2006), as determined by the Board. Once granted, the ability to exercise the options is conditional upon the executive remaining an employee of the Group. The Remuneration Committee considers this equity performance-linked compensation structure to be appropriate as executives only receive a benefit where there is a corresponding benefit to shareholders.

# DIRECTORS' REPORT

## Remuneration Report (cont.)

### 3. Relationship Between Remuneration Policy And Group Performance (cont.)

The following table sets out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2013:

Metrics	FY09	FY10	FY11	FY12	FY13
EBIT	\$40.3m	\$43.8m	\$45.1m	\$47.5m	\$52.8m
NPAT	\$23.5m	\$26.0m	\$27.2m	\$28.5m	\$32.0m
Share price at start of financial year	\$1.27	\$1.60	\$2.65	\$2.41	\$2.65
Share price at end of financial year	\$1.60	\$2.65	\$2.41	\$2.65	\$3.95
Interim dividend	4.50 cps	5.25 cps	7.00 cps	8.50 cps	9.50 cps
Final dividend	4.75 cps	6.50 cps	7.50 cps	9.00 cps	10.25 cps
Basic EPS	23.7 cps	25.3 cps	25.4 cps	26.4 cps	26.0 cps
Diluted EPS	23.6 cps	25.0 cps	25.2 cps	26.3 cps	25.9 cps

### 4. Remuneration Of Directors And Senior Executive Management

FY13	Short-term Employment Benefits			Post-Employment Benefits	Share-based Payments	Total	Consisting of Options
	Salary & Fees	Bonus	Other	Super-annuation	Options		
	\$	\$	\$	\$	\$		
<b>Non-Executive Directors</b>							
Mr Colin Archer	64,587	-	-	5,813	-	70,400	-
Ms Jessica Buchanan	51,150	-	-	-	-	51,150	-
Mr Stephen Lonie	-	-	-	-	-	-	-
<b>Executive Directors</b>							
Mr Anthony (Tony) Alford	699,800	-	-	16,200	-	716,000	-
<b>Senior Executive Management</b>							
Mr Peter McGettigan	181,957	-	1,800	15,674	-	199,431	-
Mr Andre Nell	204,396	82,225	1,800	18,328	-	306,749	-
Mr Anthony Mark Connors	213,187	-	1,800	18,739	-	233,726	-
Ms Tracey Catterall	139,042	-	1,662	12,514	-	153,218	-
Mr Gary Alford	216,397	23,408	1,523	18,730	-	260,058	-
<b>Former</b>							
Mr Bruce Hancox	63,462	-	-	-	-	63,462	-
Mr Anthony Williams	51,150	-	-	-	-	51,150	-
Mr Nigel Nixon	379,286	-	-	6,048	-	385,334	-
Mr Gavin Nixon	237,604	-	3,669	5,086	-	246,359	-
	2,502,018	105,633	12,254	117,132	-	2,737,037	-

The Board resolved on 26 September 2013, subject to shareholder approval at the Retail Food Group Limited 2013 Annual General Meeting, to issue the CEO, Mr Tony Alford, with shares to the value of \$450,000 as an LTI bonus in respect of his performance for the 2013 financial year.

This LTI bonus has not been included in Mr Alford's FY13 remuneration presented in the preceding remuneration table.

## Remuneration Report (cont.)

### 4. Remuneration Of Directors And Senior Executive Management (cont.)

FY12	Short-term Employment Benefits			Post-Employment Benefits	Share-based Payments	Total	Consisting of Options
	Salary & Fees	Bonus	Other	Super-annuation	Options		
	\$	\$	\$	\$	\$	\$	%
<b>Non-Executive Directors</b>							
Mr Bruce Hancox	73,967	-	-	-	-	73,967	-
Mr Colin Archer	56,881	-	-	5,119	48	62,048	0.1
Ms Jessica Buchanan	4,263	-	-	-	-	4,263	-
Mr Anthony Williams	4,263	-	-	-	-	4,263	-
<b>Executive Directors</b>							
Mr Anthony (Tony) Alford	567,310	-	-	16,200	95	583,605	-
<b>Senior Executive Management</b>							
Mr Peter McGettigan	143,543	5,000	415	12,919	-	161,877	-
Mr Nigel Nixon	369,759	-	-	-	95	369,854	-
Mr Anthony Mark Connors	208,211	-	277	18,739	3,956	231,183	1.7
Ms Tracey Catterall	143,999	-	1,800	12,960	3,089	161,848	1.9
Mr Gary Alford	208,109	-	277	18,730	3,184	230,300	1.4
Mr Gavin Nixon	208,248	-	4,200	-	3,184	215,632	1.5
<b>Former</b>							
Mr John Cowley	29,111	-	-	2,620	48	31,779	0.1
Mr Damien Peters	161,635	-	-	11,495	6,178	179,308	3.4
Mr Gary Best	243,120	-	415	21,881	7,818	273,234	2.9
	<b>2,422,419</b>	<b>5,000</b>	<b>7,384</b>	<b>120,663</b>	<b>27,695</b>	<b>2,583,161</b>	<b>1.1</b>

No Director or senior executive management person appointed during the period received a payment as part of his or her remuneration for agreeing to hold the position.

# DIRECTORS' REPORT

## Remuneration Report (cont.)

### 4. Remuneration Of Directors And Senior Executive Management (cont.)

The relative proportions of remuneration that are linked to performance and those proportions that are fixed are as follows:

	Fixed		Short-Term Incentive		Long-Term Incentive	
	FY13	FY12	FY13	FY12	FY13	FY12
<b>Non-Executive Directors</b>						
Mr Colin Archer	100.0%	99.9%	-	-	-	0.1%
Ms Jessica Buchanan	100.0%	100.0%	-	-	-	-
Mr Stephen Lonie	-	-	-	-	-	-
<b>Executive Directors</b>						
Mr Anthony (Tony) Alford	100.0%	100.0%	-	-	-	-
<b>Senior Executive Management</b>						
Mr Peter McGettigan	100.0%	97.0%	-	3.0%	-	-
Mr Andre Nell	73.2%	-	26.8%	-	-	-
Mr Anthony Mark Connors	100.0%	98.3%	-	-	-	1.7%
Ms Tracey Catterall	100.0%	98.1%	-	-	-	1.9%
Mr Gary Alford	91.0%	98.6%	9.0%	-	-	1.4%
<b>Former</b>						
Mr Bruce Hancox	100.0%	100.0%	-	-	-	-
Mr Anthony Williams	100.0%	100.0%	-	-	-	-
Mr Nigel Nixon	100.0%	100.0%	-	-	-	-
Mr Gavin Nixon	100.0%	98.5%	-	-	-	1.5%

#### Bonuses

Mr Andre Nell and Mr Gary Alford were granted cash bonuses of \$82,225 and \$23,408 respectively for their performance during the year ended 30 June 2012. The bonuses were approved by the Board.

No other bonuses were granted during 2013.

#### Executive Share Option Plan

The Group has an ownership-based compensation scheme for Directors, executives and senior employees. In accordance with the provisions of 'ESOP', Directors, executives and senior employees may be granted options to purchase parcels of ordinary shares on terms resolved upon by the Board. Certain Directors and senior executive management have also been granted options pursuant to the terms of formal Option Deeds which are outside the scope of, but substantially in accordance with, the terms of the ESOP.

Each share option granted converts into one ordinary share on exercise. No amounts are paid or payable by the option-holder on grant of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. All share options are non-transferable in accordance with the provisions of the ESOP.

No options were granted during 2013 as the Remuneration Committee is reviewing the current LTI equity performance-linked compensation structure.



## Remuneration Report (cont.)

### 4. Remuneration Of Directors And Senior Executive Management (cont.)

#### Executive Share Option Plan (cont.)

During the financial year, the following share-based payment arrangements were in existence:

Option Series	Grant Date	Expiry Date	Grant Date Fair Value	Exercise Price	Vesting Date
Tier 1C	01/08/06	31/07/12	\$0.1849	\$1.00	01/08/09
Tier 2B	01/08/07	31/07/12	\$0.5918	\$1.15	01/08/09
Tier 2C	01/08/07	31/07/13	\$0.5927	\$1.15	01/08/10
Tier 3A	01/08/08	31/07/12	\$0.2768	\$1.32	01/08/09
Tier 3B	01/08/08	31/07/13	\$0.3068	\$1.32	01/08/10
Tier 3C	01/08/08	31/07/14	\$0.3250	\$1.32	01/08/11
Tier 8	01/12/10	30/11/12	\$1.0779	\$1.50	01/12/10
Tier 9	16/11/10	19/10/13	\$0.4661	\$2.78	20/10/11

There are no performance criteria that need to be met in relation to the options granted before the beneficial interest vests in the recipient, other than the continued service of the Director, executive or senior executive management to the Group. Options are forfeited if the Director, executive or senior executive management ceases to be employed by the Group prior to the exercise of the option.

During the financial year, the number of share options granted, vested, lapsed, cancelled and/or forfeited in respect of Directors and senior executive management were nil.

During the financial year, the following Directors and senior executive management exercised options that were granted to them as part of their remuneration. Each option converts into one ordinary share of Retail Food Group Limited.

Name	No. Of Options Exercised	No. Of Ordinary Shares Issued	Amount Paid	Amount Unpaid
Mr Andre Nell	20,000	20,000	\$55,600	\$nil
Mr Anthony Mark Connors	96,001	96,001	\$109,601	\$nil
Mr Gary Alford	86,667	86,667	\$91,867	\$nil
Mr Nigel Nixon	210,332	210,332	\$273,932	\$nil
Mr Gavin Nixon	123,666	123,666	\$172,866	\$nil

The following table summarises the value of options granted, exercised, lapsed or that were cancelled to Directors and senior executive management during the financial year:

	Value Of Options Granted At The Grant Date	Value Of Options Exercised At The Exercise Date <sup>(1)</sup>	Value Of Options Lapsed At The Date Of Lapse	Value Of Options Cancelled At The Date Of Cancellation
	\$	\$	\$	\$
<b>Senior Executive Management</b>				
Mr Andre Nell	-	18,000	-	-
Mr Anthony Mark Connors	-	179,269	-	-
Mr Gary Alford	-	142,134	-	-
<b>Former</b>				
Mr Nigel Nixon	-	327,298	-	-
Mr Gavin Nixon	-	208,499	-	-

(1) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

# DIRECTORS' REPORT

## Remuneration Report (cont.)

### 5. Key Terms Of Employment Contracts

The employment specifics of the non-executive Directors are as follows:

Name	Particulars
Mr Colin Archer	The letter of appointment entered into with the Company requires the Director to give notice of resignation in accordance with the Company's Constitution. The Company may also terminate the Director's appointment in accordance with the Company's Constitution.
Ms Jessica Buchanan	No written employment contract has been entered into with the Company.
Mr Stephen Lonie	No written employment contract has been entered into with the Company.

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. Non-executive Director remuneration takes the form of a set fee plus superannuation entitlements, however, may comprise other benefits or rewards in certain circumstances.

The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. The maximum amount which has been approved by the Company's shareholders for payment to non-executive Directors is \$400,000. Fees for non-executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are granted share options.

The employment details of the key executive Directors and senior executive management are as follows:

Name	Particulars
Mr Anthony (Tony) Alford	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of six (6) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least twelve (12) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Peter McGettigan	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of four (4) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least four (4) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Andre Nell	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least three (3) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Anthony Mark Connors	No written employment contract has been entered into with the Company or its subsidiaries.
Ms Tracey Catterall	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least three (3) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Gary Alford	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least three (3) months notice or payment of the equivalent salary of the required notice in lieu.

The Directors consider that the compensation for each executive is appropriate for the duties allocated to them, the size of the Group's business and the industry in which the Group operates. The service contracts outline the components of compensation paid to the executives (including executive Directors), but do not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any changes in the scope of the role performed by the executive and any changes required to meet the principles of the Remuneration Policy.

# DIRECTORS' REPORT

This Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

**RETAIL FOOD GROUP LIMITED**

A handwritten signature in black ink, consisting of a stylized 'A', a 'J', and a 'T' followed by a period and a flourish.

**A J (TONY) ALFORD**  
Managing Director and CEO  
Southport, 26th September 2013

# AUDITOR'S INDEPENDENCE DECLARATION

# Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Riverside Centre  
Level 25  
123 Eagle Street  
Brisbane QLD 4000  
GPO Box 1463  
Brisbane QLD 4001 Australia

DX 115  
Tel: +61 (0) 7 3308 7000  
Fax: +61 (0) 7 3308 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

The Board of Directors  
Retail Food Group Limited  
RFG House  
1 Olympic Circuit  
Southport QLD 4215

26 September 2013

Dear Directors,

## **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.

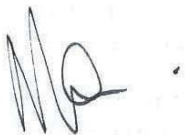
As lead audit partner for the audit of the financial statements of Retail Food Group Limited for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



T Mkwananzi  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
A member of Deloitte Touche Tohmatsu Limited



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Riverside Centre  
Level 25  
123 Eagle Street  
Brisbane QLD 4000  
GPO Box 1463  
Brisbane QLD 4001 Australia

DX 115  
Tel: +61 (0) 7 3308 7000  
Fax: +61 (0) 7 3308 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

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

### **Report on the Financial Report**

We have audited the accompanying financial report of Retail Food Group Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 37 to 93.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RETAIL FOOD GROUP LIMITED



## *Auditor's Independence Declaration*

In conducting our audit, 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 report.

## *Auditor's Opinion*

In our opinion:

- (a) the financial report of Retail Food Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 25 to 32 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Auditor's Opinion*

In our opinion the Remuneration Report of Retail Food Group Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

T Mkwanzani  
Partner  
Chartered Accountants  
Brisbane, 26 September 2013

# DIRECTORS' DECLARATION

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;
- (ii) in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;
- (iii) 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; and
- (iv) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

**RETAIL FOOD GROUP LIMITED**



**A J (TONY) ALFORD**  
Managing Director and CEO  
Southport, 26th September 2013

# INDEX TO FINANCIAL STATEMENTS

Contents	Page
Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	39
Consolidated Statement Of Financial Position	40
Consolidated Statement Of Changes In Equity	41
Consolidated Statement Of Cash Flows	42
Notes To The Financial Statements	43
1 General Information	43
2 Significant Accounting Policies	43
3 Adoption Of New And Revised Accounting Standards	53
4 Critical Accounting Judgments And Key Sources Of Estimation Uncertainty	54
5 Segment Information	55
6 Revenue	56
7 Other Gains And Losses	57
8 Finance Costs	57
9 Income Taxes	57
10 Profit For The Year From Continuing Operations	60
11 Earnings Per Share	61
12 Trade And Other Receivables	62
13 Other Financial Assets	63
14 Inventories	63
15 Other Assets	64
16 Property, Plant And Equipment	64
17 Intangible Assets	65
18 Assets Pledged As Security	67
19 Trade And Other Payables	67
20 Borrowings	67
21 Provisions	67
22 Other Liabilities	68
23 Issued Capital	68
24 Reserves	69
25 Retained Earnings	70
26 Dividends	71
27 Contingent Liabilities	71
28 Leases	72
29 Commitments For Expenditure	73
30 Subsidiaries	73
31 Acquisitions	75
32 Cash And Cash Equivalents	77
33 Financial Instruments	78
34 Share-based Payments	83
35 Key Management Personnel Compensation	87
36 Related Party Transactions	87
37 Remuneration Of Auditors	92
38 Events After The Reporting Period	92
39 Parent Entity Disclosures	93
Additional Stock Exchange Information	94



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	FY13 \$'000	FY12 \$'000
<b>Continuing operations</b>			
Revenue from sale of goods	6	45,086	37,492
Cost of sales	10	(22,773)	(20,109)
Gross profit		22,313	17,383
Other revenue	6	95,946	78,900
Other gains and losses	7	(11)	(298)
Selling expenses		(12,857)	(8,994)
Marketing expenses		(24,283)	(14,632)
Occupancy expenses		(2,556)	(3,024)
Administration expenses		(6,043)	(4,724)
Operating expenses		(16,541)	(14,410)
Finance costs	8	(7,389)	(7,031)
Other expenses		(3,046)	(2,712)
Profit before tax		45,533	40,458
Income tax expense	9	(13,527)	(11,912)
<b>Profit for the year from continuing operations</b>	10	32,006	28,546
<b>Other comprehensive income, net of tax</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Net gain on cash flow hedges		851	784
Net gain/(loss) on net investment hedge		(182)	86
Other comprehensive income for the year, net of tax		669	870
<b>Total comprehensive income for the year</b>		32,675	29,416
Profit attributable to:			
Equity holders of the parent		32,006	28,546
Total comprehensive income attributable to:			
Equity holders of the parent		32,675	29,416
<b>Earnings per share</b>			
From continuing operations:			
Basic (cents per share)	11	26.0	26.4
Diluted (cents per share)	11	25.9	26.3

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	FY13 \$'000	FY12 \$'000
<b>Current assets</b>			
Cash and cash equivalents	32	16,822	12,785
Trade and other receivables	12	18,602	16,545
Other financial assets	13	5,707	4,704
Inventories	14	5,180	3,654
Other	15	236	343
<b>Total current assets</b>		<b>46,547</b>	<b>38,031</b>
<b>Non-current assets</b>			
Trade and other receivables	12	444	77
Other financial assets	13	6,965	380
Property, plant and equipment	16	18,719	8,277
Deferred tax assets	9	1,310	1,008
Intangible assets	17	297,425	248,449
<b>Total non-current assets</b>		<b>324,863</b>	<b>258,191</b>
<b>Total assets</b>		<b>371,410</b>	<b>296,222</b>
<b>Current liabilities</b>			
Trade and other payables	19	9,977	6,372
Current tax liabilities	9	4,793	4,904
Provisions	21	1,607	1,506
Other	22	3,507	2,581
<b>Total current liabilities</b>		<b>19,884</b>	<b>15,363</b>
<b>Non-current liabilities</b>			
Borrowings	20	108,897	110,814
Provisions	21	373	363
Other	22	1,797	-
<b>Total non-current liabilities</b>		<b>111,067</b>	<b>111,177</b>
<b>Total liabilities</b>		<b>130,951</b>	<b>126,540</b>
<b>Net assets</b>		<b>240,459</b>	<b>169,682</b>
<b>Equity</b>			
Issued capital	23	160,469	99,876
Reserves	24	38	(314)
Retained earnings	25	79,952	70,120
<b>Total equity</b>		<b>240,459</b>	<b>169,682</b>

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

		Fully Paid Ordinary Shares	Equity Settled Employee Benefits Reserve	Hedging Reserve	Retained Earnings	Total
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2011		98,772	734	(1,563)	58,906	156,849
Profit for the year		-	-	-	28,546	28,546
Other comprehensive income		-	-	870	-	870
Total comprehensive income		-	-	870	28,546	29,416
Share issue costs		(14)	-	-	-	(14)
Related income tax		4	-	-	-	4
Issue of shares under executive share option plan	23	759	-	-	-	759
Transfer from equity-settled employee benefits reserve		355	(355)	-	-	-
Payment of dividends		-	-	-	(17,332)	(17,332)
<b>Balance as at 30 June 2012</b>		<b>99,876</b>	<b>379</b>	<b>(693)</b>	<b>70,120</b>	<b>169,682</b>
Balance as at 1 July 2012		99,876	379	(693)	70,120	169,682
Profit for the year		-	-	-	32,006	32,006
Other comprehensive income		-	-	669	-	669
Total comprehensive income		-	-	669	32,006	32,675
Issue of ordinary shares	23	60,540	-	-	-	60,540
Share issue costs		(1,809)	-	-	-	(1,809)
Related income tax		543	-	-	-	543
Issue of shares under executive share option plan	23	1,002	-	-	-	1,002
Transfer from equity-settled employee benefits reserve		317	(317)	-	-	-
Payment of dividends		-	-	-	(22,174)	(22,174)
<b>Balance as at 30 June 2013</b>		<b>160,469</b>	<b>62</b>	<b>(24)</b>	<b>79,952</b>	<b>240,459</b>

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	FY13 \$'000	FY12 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		150,317	120,612
Payments to suppliers and employees		(98,389)	(77,426)
Interest and other costs of finance paid		(7,050)	(7,213)
Income taxes paid		(13,761)	(11,691)
<b>Net cash provided by operating activities</b>	32	<b>31,117</b>	<b>24,282</b>
<b>Cash flows from investing activities</b>			
Interest received		330	249
Amounts advanced to other entities		(6,578)	(1,226)
Payments for property, plant and equipment		(11,123)	(1,004)
Proceeds from sale of property, plant and equipment		28	5
Payment for intangible assets		(104)	(32)
Payment for business	31	(38,193)	(33,196)
<b>Net cash used in investing activities</b>		<b>(55,640)</b>	<b>(35,204)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of equity securities	23	54,543	759
Payment for share issue costs		(1,809)	(14)
Proceeds from borrowings		9,000	35,362
Payment of transaction costs related to borrowings		-	(241)
Repayment of borrowings		(11,000)	(10,000)
Dividends paid		(22,174)	(17,332)
<b>Net cash provided by/(used in) financing activities</b>		<b>28,560</b>	<b>8,534</b>
Net (decrease) / increase in cash and cash equivalents		4,037	(2,388)
Cash and cash equivalents at the beginning of year		12,785	15,173
<b>Cash and cash equivalents at the end of year</b>	32	<b>16,822</b>	<b>12,785</b>

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

## 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
RFG House 1 Olympic Circuit Southport QLD 4215	RFG House 1 Olympic Circuit Southport QLD 4215

The principal activities of the Company and its subsidiaries (the Group) during the course of the financial year were the:

- intellectual property ownership of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia and New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar and The Coffee Guy franchise systems;
- development and management of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses, Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar and The Coffee Guy franchise systems throughout Australia and New Zealand and international licensor throughout the rest of the world for all systems excluding Esquires Coffee Houses; and
- development and management of the Coffee Roasting Facilities and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses, Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar and The Coffee Guy franchise systems.

## 2. Significant Accounting Policies

### 2.1 Statement Of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Group is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 26 September 2013.

### 2.2 Basis Of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain 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 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

#### Early Adoption Of Accounting Standards

The Directors have elected not to early adopt Accounting Standards that are not applicable to the reporting period ended 30 June 2013.

#### Going Concern Basis

The financial report has been prepared on a going concern basis.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

### (a) Basis Of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

### (b) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (c) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of the acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 'Share-based Payment'; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Business combinations that took place prior to 1 July 2009 were accounted for in accordance with the previous version of AASB 3.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

### (d) Cash And Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### (e) Derivative Financial Instruments

The Group has previously entered into interest rate swaps to manage its exposure to interest rate risk. The Group has not entered into any other derivative financial instruments. Further details of derivative financial instruments are disclosed in note 33.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset and a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### Hedge Accounting

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 33 sets out details of the fair values of the derivative instruments used for hedging purposes.

#### Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is separately disclosed.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedge instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### (f) Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

### (g) Financial Assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than for those financial assets classified as at FVTPL.

#### Loans And Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Impairment Of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

#### Derecognition Of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.



# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

### (h) Financial Liabilities And Equity Instruments Issued By The Group

#### Classification As Debt Or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds received, net of direct issue costs.

#### Financial Guarantee Contract Liabilities

Financial guarantee contract liabilities are measured initially at their fair values, and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; or
- the amount initially recognised less, where appropriate, cumulative amortisation, recognised in accordance with the revenue recognition policies set out at note 2(s).

#### Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### Financial Liabilities At FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or,
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 33.

#### Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### Derecognition Of Financial Liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

### (i) Foreign Currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

### (j) Goods And Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables, which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

### (k) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the 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. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

### (l) Impairment Of Tangible And Intangible Assets Excluding Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset (or cash generating unit) is carried at a revalued amount, in which case, the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (m) Intangible Assets

#### Intangible Assets Acquired Separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### Intangible Assets Acquired In A Business Combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

#### Franchise Networks And Intellectual Property

Intangible assets include franchise networks (consisting of identifiable franchise systems and brand names) and intellectual property (consisting of trademarks, recipes, manuals and systems).

Franchise networks are identified and recognised at the time of a business combination and recorded at their fair value, if their fair value can be measured reliably. Franchise networks acquired separately and intellectual property are recorded at cost.

Franchise networks and intellectual property are not amortised on the basis that they have an indefinite life and are reviewed annually in accordance with note 2(l).

Expenditure incurred in maintaining intangible assets is expensed in the period in which it is occurred.

### (n) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with all categories being valued on a first in first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

### (o) Leasing

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

#### Group As Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

#### Group As Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (p) Non-current Assets Held For Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### (q) Property, Plant And Equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Voluntary company stores (VCS) including leasehold improvements and fixtures and equipment are included as items of property, plant and equipment.

The following useful lives are used in the calculation of depreciation:

- buildings 40 years;
- leasehold improvements 5 – 10 years; and
- plant and equipment 2 – 20 years.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

### (r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Onerous Contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

#### Make-good

Make-good obligations arising under leases are recognised and measured as provisions. Make-good refer to obligations in respect of restoring sites to their original condition when the premises are vacated. Management has estimated the provision based on historical data in relation to store closure numbers and costs, as well as future trends that could differ from historical amounts.

#### Contingent Liabilities Acquired In A Business Combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation recognised in accordance with AASB 118 'Revenue'.

### (s) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

#### Sale Of Goods

Revenue from the sale of goods is recognised when all the following conditions are 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 entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Franchise Income

Franchisor income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

#### Dividend And Interest Income

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Significant Accounting Policies (cont.)

### (t) Share-based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 34.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### (u) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Current And Deferred Tax For The Year

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. Adoption Of New And Revised Accounting Standards

### 3.1 Standards And Interpretations Adopted In the Current Period

The Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period.

The adoption of new Standards and Interpretations during the current reporting period did not have any material effect on the reported results or financial position of the Group, or the presentation and disclosure of amounts in these financial statements.

### 3.2 Standards And Interpretations In Issue Not Yet Adopted

At the date of authorisation of the financial statements, the following Standards and Interpretations were in issue but not yet effective. Initial application is not expected to have any material impact on the financial statements of the Group.

Standard/Interpretation	Effective For Annual Reporting Periods Beginning On Or After	Expected To Be Initially Applied In The Financial Year Ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards''	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009 – 2011 Cycle	1 January 2013	30 June 2014
AASB 2012-9 'Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014
AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities	1 January 2014	30 June 2015

# NOTES TO THE FINANCIAL STATEMENTS

## 4. Critical Accounting Judgments And Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

### 4.1 Deferred Tax Assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

### 4.2 Taxation

The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those deferred tax assets arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows, which, in turn, depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

### 4.3 Impairment Of Non-financial Assets Other Than Goodwill And Indefinite Life Intangible Assets

The Group assesses impairment of all assets at the end of each reporting period by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These assessments include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

Management does not consider that there have been any indicators of impairment and as such these assets have not been tested for impairment in this financial period.

### 4.4 Impairment Of Goodwill And Indefinite Life Intangible Assets

The Group tests annually whether goodwill and indefinite life intangibles have suffered any impairment, in accordance with the accounting policy stated in note 2(k) and 2(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Note 17 sets out the details of these assumptions.

### 4.5 Share-based Payment Transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model, with the assumptions detailed in note 34. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

### 4.6 Estimation Of Useful Lives Of Assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. Critical Accounting Judgments And Key Sources of Estimation Uncertainty (cont.)

### 4.7 Contingent Consideration

The fair value of contingent consideration arising in a business combination is calculated using the income approach based on the expected payment amounts and their associated probabilities. When appropriate, it is discounted to present value.

### 4.8 Onerous Lease Provisions And Make-good Provisions

A provision has been made for the present value of future lease payments that the Group is presently obliged to make payments under non-cancellable onerous lease contracts relating to certain loss-making non-voluntary company stores. A provision has been made for the present value of the Director's best estimate of the future sacrifice of economic benefits that will be required to restore site occupied by the loss-making non-voluntary company stores that existed at the end of the reporting period, to a condition specified in the relevant lease agreement. The estimate has been made on the basis of quotes obtained from restoration specialists or past experience.

The calculation of both provisions requires assumptions such as the likelihood of sale of the non-voluntary company store, the estimated lease termination costs, and the expected costs of making-good the premises. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time.

## 5. 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.

### 5.1 Products And Services From Which Reportable Segments Derive Their Results

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	<p>Franchising Operations incorporate the development and management of the Group's retail franchise systems – Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses, Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar and The Coffee Guy – and involves the following principal activities:</p> <ul style="list-style-type: none"><li>▪ the establishment and grant of new franchises;</li><li>▪ the administration of royalties collection, supplier licensing, franchise compliance, franchise training and administration; and</li><li>▪ the performance of marketing and promotional activities, brand development and awareness, and product research and development.</li></ul>
Wholesale / Retail Operations	<p>Wholesale / Retail Operations incorporate the development and management of the Group's Procurement, Wholesale &amp; Manufacturing division, Non-Voluntary Company Store (NVCS) and Voluntary Company Stores (VCS), being Project Evo pilot outlets. These pursuits are managed and reported separately to the Franchising Operations segment, and involve the following principal activities:</p> <ul style="list-style-type: none"><li>▪ the procurement, sale and distribution of bakery and other related items to Michel's Patisserie franchisees;</li><li>▪ the manufacture and sale of roasted coffee and related products to franchisees and external customers;</li><li>▪ the interim operation of NVCS and VCS across each of the franchise systems; and</li><li>▪ the return of NVCS to franchisee stewardship.</li></ul>

# NOTES TO THE FINANCIAL STATEMENTS

## 5. Segment Information (cont.)

### 5.2 Segment Revenues And Results

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

Segment	Segment Revenues		Segment Profit	
	FY13 \$'000	FY12 \$'000	FY13 \$'000	FY12 \$'000
Franchising Operations	95,580	78,651	50,602	44,657
Wholesale / Retail Operations	45,086	37,492	3,865	3,895
	140,666	116,143	54,467	48,552
Other gains and losses			(11)	(297)
Interest revenue	330	249	330	249
Finance costs			(7,389)	(7,031)
Unallocated	36	-	(1,864)	(1,015)
Profit before tax			45,533	40,458
Income tax expense			(13,527)	(11,912)
Revenue and profit for the year	141,032	116,392	32,006	28,546

Revenue reported in this table represents revenue generated from external customers. Revenue from franchising operations includes marketing revenue of \$24.0m (FY12: \$14.5m).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

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

### 5.3 Geographical Information

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

## 6. Revenue

An analysis of the Group's revenue for the year, from continuing operations, is set out in the following table:

Consolidated	FY13 \$'000	FY12 \$'000
Revenue from the sale of goods	45,086	37,492
Revenue from the rendering of services	95,580	78,651
	140,666	116,143
Interest revenue:		
Bank deposits	304	238
Other loans and receivables	26	11
	330	249
Rental revenue	36	-
	141,032	116,392

# NOTES TO THE FINANCIAL STATEMENTS

## 7. Other Gains And Losses

Consolidated	FY13 \$'000	FY12 \$'000
Gain / (loss) on disposal of property, plant and equipment <sup>(1)</sup>	-	(103)
Loss on cash flow hedges	(11)	(195)
	(11)	(298)

(1) The FY12 loss represents the write down of leasehold improvements upon exiting the former corporate national office facility.

No other gains or losses have been recognised in respect of loans or receivables, other than impairment losses recognised / reversed in respect of trade receivables (see note 12).

## 8. Finance Costs

Consolidated	FY13 \$'000	FY12 \$'000
Interest on bank overdrafts and loans	7,306	7,018
Total interest expense	7,306	7,018
Other finance costs	83	13
	7,389	7,031

## 9. Income Taxes

### 9.1 Income Tax Recognised In Profit Or Loss

Consolidated	FY13 \$'000	FY12 \$'000
Tax expense comprises:		
Current tax expense in respect of the current year	13,667	12,152
Tax concessions received in relation to research & development	(21)	(169)
Deferred tax expense relating to the origination and reversal of temporary differences	(119)	(71)
	13,527	11,912

# NOTES TO THE FINANCIAL STATEMENTS

## 9. Income Taxes (cont.)

The expense for the year can be reconciled to the accounting profit as follows:

Consolidated	FY13 \$'000	FY12 \$'000
Profit from continuing operations	45,533	40,458
Income tax expense calculated at 30%	13,660	12,137
Effect of:		
Revenue that is exempt from taxation	(94)	(12)
Expenses that are not deductible in determining taxable profit	5	2
Effect of concessions (research and development and other allowances)	(21)	(169)
Effect of unused tax losses and tax offsets not previously recognised as deferred tax assets	-	(33)
Effect of different tax rates of subsidiaries operating in other jurisdictions <sup>(1)</sup>	(23)	(13)
Income tax expense recognised in profit or loss	13,527	11,912

The tax rate used for the FY13 and FY12 reconciliations is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(1) A corporate tax rate of 28% is payable by New Zealand corporate entities.

### 9.2 Income Tax Recognised Directly In Equity

Consolidated	FY13 \$'000	FY12 \$'000
Share issue costs	543	4
Translation of foreign operations	-	31
Total income tax recognised directly in equity	543	35

### 9.3 Income Tax Recognised In Other Comprehensive Income

Consolidated	FY13 \$'000	FY12 \$'000
Deferred tax:		
Interest rate swap	(360)	(336)
Total income tax recognised in other comprehensive income	(360)	(336)

### 9.4 Current Tax Liabilities

Consolidated	FY13 \$'000	FY12 \$'000
Income tax payable	4,793	4,904
	4,793	4,904

# NOTES TO THE FINANCIAL STATEMENTS

## 9. Income Taxes (cont.)

### 9.5 Deferred Tax Balances

Consolidated – FY13	Opening Balance	Charged To Income	Credited To Equity	Recognised In Other Comprehensive Income	Closing Balance
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Temporary differences</b>					
Intangible assets	(376)	171	-	-	(205)
Employee benefits	530	26	-	-	556
Provisions	71	23	-	-	94
Doubtful debts	361	42	-	-	403
Share issue costs	30	(120)	543	-	453
Interest rate swap	360	-	-	(360)	-
Other	32	(23)	-	-	9
	1,008	119	543	(360)	1,310

Consolidated – FY12	Opening Balance	Charged To Income	Credited To Equity	Recognised In Other Comprehensive Income	Closing Balance
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Temporary differences</b>					
Intangible assets	(376)	-	-	-	(376)
Employee benefits	540	(10)	-	-	530
Provisions	93	(22)	-	-	71
Doubtful debts	270	91	-	-	361
Share issue costs	109	(79)	-	-	30
Interest rate swap	637	59	-	(336)	360
Other	(31)	32	31	-	32
	1,242	71	31	(336)	1,008

Deferred tax balances are presented in the statement of financial position as follows:

Consolidated	FY13 \$'000	FY12 \$'000
Deferred tax assets	1,310	1,008
	1,310	1,008

# NOTES TO THE FINANCIAL STATEMENTS

## 9. Income Taxes (cont.)

### 9.6 Tax Consolidation

#### Relevance Of Tax Consolidation To The Group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Retail Food Group Limited. Tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidation group).

Due to the existence of a tax funding agreement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

#### Nature Of Tax Funding Arrangements And Tax Sharing Arrangements

Entities within the tax-consolidation group have entered into a tax funding agreement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Retail Food Group Limited and each of the entities in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. No amounts have been recognised in the financial statements in respect of this agreement as payment of any such amounts under the tax sharing agreement is considered remote.

## 10. Profit For The Year From Continuing Operations

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

Consolidated	FY13 \$'000	FY12 \$'000
Cost of sales	22,773	20,109
Inventory write-down of inventory to net realisable value	90	-
Impairment of trade receivables	1,754	1,823
Depreciation of property, plant and equipment	910	861
Employee benefits expenses:		
Post-employment benefits (defined contribution plans)	2,183	1,631
Termination benefits	209	288
Other employee benefits (wages and salaries)	31,981	25,105
Total employee benefits expenses	34,373	27,024

# NOTES TO THE FINANCIAL STATEMENTS

## 11. Earnings Per Share

Consolidated	FY13 Cents Per Share	FY12 Cents Per Share
<b>Basic earnings per share</b>		
From continuing operations	26.0	26.4
	<b>26.0</b>	<b>26.4</b>
<b>Diluted earnings per share</b>		
From continuing operations	25.9	26.3
	<b>25.9</b>	<b>26.3</b>

### 11.1 Basic Earnings Per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Consolidated	FY13 \$'000	FY12 \$'000
Profit for the year	32,006	28,546
Earnings used in the calculation of basic EPS from continuing operations	<b>32,006</b>	<b>28,546</b>

	FY13 No. '000	FY12 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	<b>123,324</b>	<b>108,268</b>

### 11.2 Diluted Earnings Per Share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

Consolidated	FY13 \$'000	FY12 \$'000
Profit for the year	32,006	28,546
Earnings used in the calculation of diluted EPS from continuing operations	<b>32,006</b>	<b>28,546</b>

	FY13 No.'000	FY12 No.'000
Weighted average number of ordinary shares for the purpose of basic EPS	123,324	108,268
Shares deemed to be issued for no consideration in respect of executive options	32	338
Weighted average number of ordinary shares for the purpose of diluted EPS	<b>123,356</b>	<b>108,606</b>

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted EPS:

	FY13 No.'000	FY12 No.'000
Executive share options	-	190

# NOTES TO THE FINANCIAL STATEMENTS

## 12. Trade And Other Receivables

Consolidated	FY13 \$'000	FY12 \$'000
<b>Current</b>		
Trade receivables	16,118	13,028
Allowance for doubtful debts	(1,361)	(1,210)
	14,757	11,818
Accrued income	3,824	4,634
Sundry debtors	21	93
	18,602	16,545
<b>Non Current</b>		
Trade receivables	437	69
Sundry debtors	7	8
	444	77
	19,046	16,622

Trade receivables disclosed in this table are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period on sales of goods and rendering of services is 30 days. No interest is charged. The Group has recognised an allowance for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Trade receivables disclosed in this table include amounts (see the following table for aged analysis) that are past due at the end of the reporting period but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds collateral over the majority of these balances in the form of the franchised outlets.

### 12.1 Ageing Of Past Due But Not Impaired Receivables

Consolidated	FY13 \$'000	FY12 \$'000
31 – 60 days	1,235	1,286
61 – 90 days	617	823
91 + days	6,354	4,768
	8,206	6,877

### 12.2 Movement In The Allowance For Doubtful Debts

Consolidated	FY13 \$'000	FY12 \$'000
Balance at the beginning of the year	1,210	900
Impairment losses recognised on receivables	1,754	1,823
Impairment losses reversed	-	(370)
Amounts written off as uncollectable	(1,603)	(1,143)
Balance at the end of the year	1,361	1,210

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors consider that there is no further credit provision required in excess of the allowance for doubtful debts.

The allowance for doubtful debts includes individually impaired trade receivables amounting to \$1,361 thousand (FY12: \$1,210 thousand). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the estimated recoverable amount. The Group holds collateral over these balances in the form of the franchised outlets.



# NOTES TO THE FINANCIAL STATEMENTS

## 12. Trade And Other Receivables (cont.)

### 12.3 Ageing Of Impaired Trade Receivables

Consolidated	FY13 \$'000	FY12 \$'000
31 – 60 days	138	-
61 – 90 days	30	3
91 + days	1,193	1,207
	<b>1,361</b>	<b>1,210</b>

## 13. Other Financial Assets

Consolidated	FY13 \$'000	FY12 \$'000
<b>Current</b>		
<b>Loans and receivables carried at amortised cost</b>		
Vendor finance <sup>(1)</sup>	2,111	1,984
Amounts advanced to associated national marketing funds <sup>(2)</sup>	3,575	2,692
Other	21	28
	<b>5,707</b>	<b>4,704</b>
<b>Non Current</b>		
<b>Loans and receivables carried at amortised cost</b>		
Vendor finance <sup>(1)</sup>	1,476	380
Amounts advanced to associated national marketing funds <sup>(2)</sup>	5,489	-
	<b>6,965</b>	<b>380</b>
	<b>12,672</b>	<b>5,084</b>

(1) Vendor finance represents funding provided to franchisees for the purpose of acquiring a franchised outlet, and are primarily secured by the franchised outlet, including the business and shop fittings.

(2) Amounts advanced to associated national marketing funds represents funding of expenditure provided to certain marketing funds associated with the Group's eight franchise systems.

## 14. Inventories

Consolidated	FY13 \$'000	FY12 \$'000
Stock held for wholesale supply	1,961	1,173
Equipment held for resale	10	12
Stores held for resale	3,209	2,469
	<b>5,180</b>	<b>3,654</b>

The cost of inventories recognised as an expense during the period in respect of continuing operations was \$22,773 thousand (FY12: \$20,109 thousand). Additionally, an amount of \$90 thousand has been expensed in the year (FY12: \$286 thousand reversal) in respect of write-downs of stores held for resale to their assessed net realisable value.

# NOTES TO THE FINANCIAL STATEMENTS

## 15. Other Assets

Consolidated	FY13 \$'000	FY12 \$'000
<b>Current</b>		
Prepayments	236	311
Other	-	32
	<b>236</b>	<b>343</b>

## 16. Property, Plant And Equipment

Consolidated	Land & Buildings At Cost	Leasehold Improvements At Cost	Plant & Equipment At Cost	Motor Vehicles At Cost	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross carrying amount</b>					
Balance as at 1 July 2011	4,149	410	7,422	227	12,208
Additions	112	3	889	-	1,004
Acquisition through business combinations	-	33	258	106	397
Disposals	-	(194)	(798)	(41)	(1,033)
Effect of movements in exchange rates	-	(1)	(4)	(1)	(6)
<b>Balance as at 1 July 2012</b>	<b>4,261</b>	<b>251</b>	<b>7,767</b>	<b>291</b>	<b>12,570</b>
Additions	5,464	1,017	4,576	66	11,123
Acquisition through business combinations	-	-	179	65	244
Disposals	-	-	-	(52)	(52)
Effect of movements in exchange rates	-	1	12	3	16
<b>Balance as at 30 June 2013</b>	<b>9,725</b>	<b>1,269</b>	<b>12,534</b>	<b>373</b>	<b>23,901</b>
<b>Accumulated depreciation</b>					
Balance as at 1 July 2011	-	(228)	(3,980)	(147)	(4,355)
Disposals	-	111	775	39	925
Depreciation expense	(76)	(20)	(735)	(32)	(863)
<b>Balance as at 1 July 2012</b>	<b>(76)</b>	<b>(137)</b>	<b>(3,940)</b>	<b>(140)</b>	<b>(4,293)</b>
Disposals	-	-	-	21	21
Depreciation expense	(79)	(32)	(753)	(46)	(910)
<b>Balance as at 30 June 2013</b>	<b>(155)</b>	<b>(169)</b>	<b>(4,693)</b>	<b>(165)</b>	<b>(5,182)</b>
<b>Net book value</b>					
As at 30 June 2012	4,185	114	3,827	151	8,277
As at 30 June 2013	9,570	1,100	7,841	208	18,719

# NOTES TO THE FINANCIAL STATEMENTS

## 17. Intangible Assets

Consolidated	Goodwill	Indefinite Life		Finite Life	Total
		Franchise Networks	Intellectual Property Rights	Other	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross carrying amount</b>					
Balance as at 1 July 2011	23,746	186,490	5,212	231	215,679
Additions	-	-	21	-	21
Acquisitions through business combinations	4,300	28,400	-	-	32,700
Effect of foreign currency exchange differences	(53)	123	-	-	70
<b>Balance as at 1 July 2012</b>	<b>27,993</b>	<b>215,013</b>	<b>5,233</b>	<b>231</b>	<b>248,470</b>
Additions	-	300	104	-	404
Acquisitions through business combinations	2,300	46,446	-	-	48,746
Effect of foreign currency exchange differences	52	(226)	-	-	(174)
<b>Balance as at 30 June 2013</b>	<b>30,345</b>	<b>261,533</b>	<b>5,337</b>	<b>231</b>	<b>297,446</b>
<b>Accumulated amortisation</b>					
Balance as at 1 July 2011	-	-	-	(21)	(21)
<b>Balance as at 1 July 2012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21)</b>	<b>(21)</b>
<b>Balance as at 30 June 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21)</b>	<b>(21)</b>
<b>Net book value</b>					
As at 30 June 2012	27,993	215,013	5,233	210	248,449
As at 30 June 2013	30,345	261,533	5,337	210	297,425

### 17.1 Determination As Indefinite Life

No amortisation is provided against the carrying value of franchise networks and intellectual property rights on the basis that these assets are considered to have an indefinite life.

Key factors taken into account in assessing the useful life of franchise networks and intellectual property rights were:

- these assets are all well established and have experienced strong sales and profit growth over time;
- none of the assets have a foreseeable limit to when they will stop generating net cash inflows to the Group in the future; and
- there are currently no legal, technical or commercial obsolescence factors applying to the assets or products to which they attach which indicate that the life should be considered limited.

Specifically, in respect of the intellectual property rights, the Group holds a significant number of registered trademarks for each franchise network. Since inception, all of the trademarks have demonstrated significant growth and this growth is forecast to continue. It is noted that the trademark registrations have a finite legal life, however, renewal of the registrations is simple, with little cost involved. Management oversees the registration of the trademarks, as well as the protection of these trademarks. The Group intends to renew all trademarks as they expire and has the infrastructure and allocated resources to ensure this occurs.

Therefore, consistent with AASB 138 'Intangible Assets', the Group treats each of its franchise networks and intellectual property rights as having an indefinite life. All such assets are tested for impairment annually.

# NOTES TO THE FINANCIAL STATEMENTS

## 17. Intangible Assets (cont.)

### 17.2 Allocation Of Goodwill To Cash-Generating Units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

Goodwill Allocation	FY13 \$'000	FY12 \$'000
Donut King franchise system	246	246
bb's café franchise system (including Esquires Coffee Houses)	62	62
Michel's Patisserie franchise system	23,438	23,438
Evolution Coffee Roasters	2,809	2,757
QSR franchise system (incorporating Pizza Capers & Crust)	3,790	1,490
	<b>30,345</b>	<b>27,993</b>

### 17.3 Allocation Of Indefinite Life Intangible Assets To Cash-Generating Units

Indefinite Life Intangibles Allocation	FY13 \$'000	FY12 \$'000
Donut King franchise system	38,440	38,417
bb's café franchise system (including Esquires Coffee Houses)	14,551	14,696
Brumby's Bakery franchise system	56,533	56,533
Michel's Patisserie franchise system	82,200	82,200
QSR franchise system (incorporating Pizza Capers & Crust)	71,009	28,400
The Coffee Guy franchise system	4,137	-
	<b>266,870</b>	<b>220,246</b>

### 17.4 Assessments Of Cash-Generating Units

The carrying value of The Coffee Guy franchise system acquired during the year has been allocated to its own separate cash-generating unit (CGU) for the purpose of future impairment testing, representing the lowest level within the entity at which the assets are monitored for internal management purposes. The Crust Gourmet Pizza Bar franchise system has been allocated to the Pizza Capers franchise system CGU to form the QSR franchise system CGU, which represents the lowest level within the entity at which the assets are monitored for internal management purposes.

Subsequent to these acquisitions, there are a total of seven CGU's in existence, with six CGU attributable to the operation of the Group's franchise systems, and the seventh CGU attributable to the coffee roasting business.

The recoverable amounts of the CGU's are based primarily on a value in use calculation, which uses cash flow projections based on the financial budget approved by the Board for FY14 as the year one cash flow.

The key assumptions used in the value in use calculation for the various significant CGU's are budgeted system cash flows that are assumed to increase, driven by higher average weekly sales, increased market share, increased customer counts and new store commissioning's. The budgeted cash flows for Evolution are assumed to increase driven by higher sales, increased market share and an increased customer list.

The cash flows in years two to five are based on the expected average percentage growth rate of 2.5% for the Donut King, bb's café, Brumby's Bakery and Michel's Patisserie CGU's, and 3% for the QSR, Coffee Guy and Evolution CGU's. The growth rates applied are based on management's estimate of forecast cash flow by franchise system/business after considering FY13 with the FY14 budget year. Management considers that the growth rates applied are reasonable.

A pre-tax discount rate of 16% has been used in preparing the value in use calculations. An indefinite terminal cash flow calculation has been applied for cash flows beyond year five, using the year five cash flow as a base. A growth rate of 2% for the Donut King, bb's café, Brumby's Bakery and Michel's Patisserie CGU's, and 2.5% for the QSR, Coffee Guy and Evolution CGU's has been used in determining the terminal value for each of the CGU's.

Management considers that any reasonable change in the key assumptions on which the recoverable amounts are based would not cause the system's carrying amount to exceed its recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

## 18. Assets Pledged As Security

In accordance with the security arrangements of liabilities, as disclosed in note 20 to the financial statements, all non-current assets of the Group, except goodwill and deferred taxes, have been pledged as security. The holder of the security does not have the right to sell or re-pledge the assets other than in an event of default.

## 19. Trade And Other Payables

Consolidated	FY13 \$'000	FY12 \$'000
Trade payables <sup>(1)</sup>	4,882	2,980
Accruals and other creditors	5,046	3,028
Goods and services tax (GST) payable	49	364
	<b>9,977</b>	<b>6,372</b>

(1) The average credit period on purchases is 30 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 20. Borrowings

Consolidated	FY13 \$'000	FY12 \$'000
<b>Secured at amortised cost</b>		
<b>Non-current</b>		
Bank loans	108,897	110,814
	<b>108,897</b>	<b>110,814</b>

On 1 August 2013, the Company extended the present maturity date of its senior debt facility with the National Australia Bank to 30 March 2016. The senior debt facility of \$135 million and all its covenants remain unchanged.

## 21. Provisions

Consolidated	FY13 \$'000	FY12 \$'000
<b>Current</b>		
Employee benefits <sup>(1)</sup>	1,486	1,402
Onerous leases and make-good <sup>(2)</sup>	121	104
	<b>1,607</b>	<b>1,506</b>
<b>Non-current</b>		
Employee benefits <sup>(1)</sup>	373	363
	<b>373</b>	<b>363</b>
	<b>1,980</b>	<b>1,869</b>

(1) The current provision for employee benefits represents annual leave entitlements and vested long service leave.

(2) The provision for onerous lease contracts represents the present value of future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease agreements, less revenue expected to be earned on the lease including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements, where applicable. The onerous leases are expected to be exited by the Group within twelve months.

The provision for make-good is in respect of restoring retail sites to their original condition when the premises are vacated. Management has estimated the provision based on historical data in relation to stores on hand at the reporting date, the intention for closure, the estimated costs, as well as future trends that could differ from historical amounts. The make-good activities are expected to be completed by the Group within twelve months.

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Provisions (cont.)

Consolidated	Onerous Leases and Make-Good
	\$'000
Balance at 1 July 2012	104
Additional provisions recognised	106
Payments made	(59)
Reductions resulting from remeasurement or settlement without cost	(30)
Balance at 30 June 2013	121

## 22. Other Liabilities

Consolidated	FY13 \$'000	FY12 \$'000
<b>Current</b>		
Retention bonds and deposits	920	1,322
Unearned income	587	60
Fair value of derivative financial instruments (interest rate swaps) <sup>(1)</sup>	-	1,199
Other (contingent consideration) <sup>(2)</sup>	2,000	-
	3,507	2,581
<b>Non-current</b>		
Other (contingent consideration) <sup>(2)</sup>	1,797	-
	1,797	-
	5,304	2,581

(1) The Group held interest rate swaps to manage interest rate exposure. The Group's interest rate swaps were settled in the current period, therefore, the aggregate fair value of the interest rate swaps at the end of the reporting period was \$nil (FY12: \$1,199 thousand payable). Refer to commentary in note 33.

(2) Other liabilities represent the estimated fair value of the contingent consideration relating to the acquisition of Crust Gourmet Pizza Bar franchise system (see note 31.1). There has been no change in the fair value of the contingent consideration since the acquisition date.

## 23. Issued Capital

Consolidated	FY13 \$'000	FY12 \$'000
130,277,856 fully paid ordinary shares (FY12: 108,422,615)	160,469	99,876
	160,469	99,876

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Issued Capital (cont.)

	FY13		FY12	
	No. '000	\$'000	No. '000	\$'000
<b>Fully paid ordinary shares <sup>(1)</sup></b>				
Balance at beginning of period	108,423	99,876	107,789	98,772
Issue of ordinary shares <sup>(2)</sup>	21,144	60,540	-	-
Share issue costs	-	(1,809)	-	(14)
Related income tax	-	543	-	4
Issue of shares under executive share option plan <sup>(3)</sup>	711	1,002	634	759
Transfer from equity-settled employee benefits reserve	-	317	-	355
Balance at end of period	130,278	160,469	108,423	99,876

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

(2) During the year a total of 21,144,408 ordinary shares were issued as follows:

- a. 2,358,462 shares issued as consideration in relation to the acquisition of Crust Gourmet Pizza Bar;
- b. 16,330,000 shares issued on 12 October 2012 in respect of a capital raising from institutional and sophisticated investors; and
- c. 2,455,946 shares issued on 19 November 2013 in respect of a Share Purchase Plan (SPP) offered to shareholders on the shareholder register as at 7 p.m. on 3 October 2012.

(3) During the year a total of 710,833 shares were issued following the exercise of options (2012: 633,697).

### 23.1 Share Options Granted Under The Executive Share Option Plan

In accordance with the provisions of the executive share option plan, as at 30 June 2013, Directors, executives and senior employees have options over 111,667 ordinary shares which are all vested, in aggregate, with 21,667 expiring on 31 July 2013, 80,000 expiring on 19 October 2013 and the remainder expiring on 31 July 2014. As at 30 June 2012, Directors, executives and senior employees had options over 842,500 ordinary shares which are all vested, in aggregate, with 375,830 of those options expiring on 31 July 2012, 100,000 expiring on 30 November 2012, 116,670 expiring on 31 July 2013, 190,000 expiring on 19 October 2013 and the remainder expiring on 31 July 2014.

Share options granted under the executive share option plan carry no rights to dividends and no voting rights. Further details of the executive share option plan are contained in note 34 to the financial statements.

## 24. Reserves

Consolidated	FY13 \$'000	FY12 \$'000
Equity-settled employee benefits reserve	62	379
Hedging reserve	(24)	(693)
	38	(314)

# NOTES TO THE FINANCIAL STATEMENTS

## 24. Reserves (cont.)

Equity-settled employee benefits reserve	FY13 \$'000	FY12 \$'000
Balance at beginning of year	379	734
Transfer to share capital	(317)	(355)
Balance at end of year	62	379

The equity-settled employee benefits reserve arises on the grant of share options to Directors, executives and senior executive management in accordance with the provisions of RFG's Executive Share Option Plan (ESOP). Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is set out in note 34.

Hedging reserve	FY13 \$'000	FY12 \$'000
Balance at beginning of year	(693)	(1,563)
Gain / (loss) recognised on:		
Changes in fair value of cash flow hedges (interest rate swaps)	1,211	1,120
Net investment hedge	(182)	55
Income tax related to amounts recognised in equity	(360)	(305)
Balance at end of year	(24)	(693)

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges, and foreign exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (net investment in the foreign operation or net investment hedge).

The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policies, as set out in notes 2(e) and 2(i).

## 25. Retained Earnings

Consolidated	FY13 \$'000	FY12 \$'000
Balance at beginning of year	70,120	58,906
Net profit attributable to members of the parent entity	32,006	28,546
Dividends provided for or paid	(22,174)	(17,332)
Balance at end of year	79,952	70,120



# NOTES TO THE FINANCIAL STATEMENTS

## 26. Dividends

Company	FY13		FY12	
	Cents Per Share	Total \$'000	Cents Per Share	Total \$'000
<b>Recognised amounts</b>				
<u>Fully paid ordinary shares</u>				
Final dividend – fully franked at 30% tax rate <sup>(1)</sup>	9.000	9,802	7.500	8,116
Interim dividend – fully franked at 30% tax rate <sup>(2)</sup>	9.500	12,372	8.500	9,216
	18.500	22,174	16.000	17,332
<b>Unrecognised amounts</b>				
<u>Fully paid ordinary shares</u>				
Final dividend – fully franked at 30% tax rate <sup>(3)</sup>	10.250	13,356	9.000	9,802

- (1) In respect of the financial year ended 30 June 2012, as detailed in the Directors' Report for that financial year, a final dividend of 9.00 cents per share, based on 108,910,114 shares on issue at 11 September 2012, franked to 100% at 30% corporate income tax rate, was paid on 11 October 2012. The final dividend was approved by the Directors following the conclusion of the 30 June 2012 financial year and, therefore, was not provided for in the Company's financial report. It was resolved that the FY12 final dividend would not constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.
- (2) In respect of profits of the financial year ended 30 June 2013, an interim dividend of 9.50 cents per share, based on 130,227,856 shares on issue at 21 March 2013, franked to 100% at 30% corporate income tax rate was paid on 9 April 2013. The interim dividend was approved by the Directors on 21 February 2013 and it was resolved that the interim dividend would not constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.
- (3) In respect of profits of the financial year ended 30 June 2013, a final dividend of 10.25 cents per share, based on 130,301,190 shares on issue at 29 August 2013, franked to 100% at 30% corporate income tax rate will be paid on 11 October 2013. The final dividend was approved by the Directors on 29 August 2013 and, therefore, was not provided for in the Company's financial report. It was resolved that the FY13 final dividend would not constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

Company	FY13 \$'000	FY12 \$'000
Adjusted franking account balance	36,298	32,788

## 27. Contingent Liabilities

Consolidated	FY13 \$'000	FY12 \$'000
<b>Contingent liabilities</b>		
Financial guarantees <sup>(1)</sup>	814	814
Rental guarantees <sup>(2)</sup>	1,162	737
	1,976	1,551

- (1) During FY08, RFGA Management Pty Ltd, a subsidiary of Retail Food Group Limited, guaranteed the repayment of borrowings in the amount of \$814 thousand made by the Australia and New Zealand Banking Group (the ANZ Bank) to certain franchisees. The guarantees had been given as security in respect of loans made by the ANZ Bank to enable certain franchisees to commission their outlets. Each guarantee is expected to be extinguished without cost to the Group in future financial periods.
- (2) The Group, through various subsidiaries, is guarantor to a number of leases occupied and licensed to franchisees. No liabilities have been recognised as part of these rental guarantees.

# NOTES TO THE FINANCIAL STATEMENTS

## 27. Contingent Liabilities (cont.)

### 27.1 Other - Franchisee Disputation

The Group is currently in dispute with certain franchisees over minor matters. No liability has been recognised in relation to these matters as the Directors are confident that these matters will be successfully resolved.

### 27.2 Other - Supplier Disputation

On 24 June 2011, proceedings were commenced in the Commercial List of the Equity Division of the NSW Supreme Court by a former supplier and its related entities (the plaintiffs) against Retail Food Group Limited and various of its subsidiaries (the defendants). The proceedings relate to certain manufacturing and associated agreements entered into with the plaintiffs in connection with the operation of bakeries in NSW, SA & Victoria and which manufactured product for supply to Michel's Patisserie franchisees in those States.

The plaintiffs' claims originally related to events and or conduct alleged to have occurred both prior and subsequent to RFG's acquisition of The Michel's Group Australia in December 2007.

Subsequent to commencement of proceedings, the principal plaintiff entities were placed into liquidation. During the current year, RFG engaged with the liquidators of the plaintiff companies and reached a settlement agreement.

## 28. Leases

### 28.1 Leasing Arrangements

Operating leases relate to property leases (company stores and office premises) with lease terms of mainly five years, motor vehicle leases with lease terms of three years and office equipment leases with lease terms between two and four years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

### 28.2 Payments Recognised As An Expense

Consolidated	FY13 \$'000	FY12 \$'000
Minimum lease payments	4,794	4,416
	<b>4,794</b>	<b>4,416</b>

### 28.3 Non-cancellable Operating Lease Commitments

Consolidated	FY13 \$'000	FY12 \$'000
Not longer than 1 year	3,846	3,470
Longer than 1 year and not longer than 5 years	8,305	7,379
Longer than 5 years	288	821
	<b>12,439</b>	<b>11,670</b>

### 28.4 Liabilities Recognised In Respect Of Non-cancellable Operating Leases

Consolidated	FY13 \$'000	FY12 \$'000
Onerous leases and make-good (note 21)	121	104
	<b>121</b>	<b>104</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 29. Commitments For Expenditure

Consolidated	FY13 \$'000	FY12 \$'000
Plant and equipment	837	1,419
	837	1,419

## 30. Subsidiaries

Significant subsidiaries of the Group, which are those subsidiaries with contribution to the Group's net profit or net assets, are as follows:

Name Of Entity	Country Of Incorporation	Ownership Interest	
		FY13 (%)	FY12 (%)
<b>Parent entity</b>			
Retail Food Group Limited <sup>(1)</sup>	Australia		
<b>Subsidiaries</b>			
bb's café System Pty Ltd <sup>(2)</sup>	Australia	100	100
BDP Franchise Pty Ltd <sup>(2)</sup>	Australia	100	100
BDP System Pty Ltd <sup>(2)</sup>	Australia	100	100
Booming Pty Ltd <sup>(2)</sup>	Australia	100	100
Brumby's Bakeries Corporate Retail Division Pty Ltd <sup>(2)</sup>	Australia	100	100
Brumby's Bakeries Holdings Pty Ltd <sup>(2)</sup>	Australia	100	100
Brumby's Bakeries Pty Ltd <sup>(2)</sup>	Australia	100	100
Brumby's Bakeries System Pty Ltd <sup>(2)</sup>	Australia	100	100
Caffe Coffee Pty Ltd <sup>(2)</sup>	Australia	100	100
Capercorp Pty Ltd <sup>(2)</sup>	Australia	100	100
Capers Construction Pty Ltd <sup>(2)</sup>	Australia	100	100
Capers Gourmet Kitchen Pty Ltd <sup>(2)</sup>	Australia	100	100
CGP Systems Pty Ltd <sup>(2)</sup>	Australia	100	-
Coffee Houses CRD Pty Ltd <sup>(2)</sup>	Australia	100	100
Coleville Enterprises Pty Ltd <sup>(2)</sup>	Australia	100	100
Crust Franchise Pty Ltd <sup>(2)</sup>	Australia	100	-
DCM System Pty Ltd <sup>(2)</sup>	Australia	100	100
DK China Pty Ltd <sup>(2)</sup>	Australia	100	100
Donquay Pty Ltd <sup>(2)</sup>	Australia	100	100
Donut King Corporate Retail Division Pty Ltd <sup>(2)</sup>	Australia	100	100
Donut King Franchise Pty Ltd <sup>(2)</sup>	Australia	100	100
Donut King System Pty Ltd <sup>(2)</sup>	Australia	100	100
Esquires Coffee Houses System Pty Ltd <sup>(2)</sup>	Australia	100	100
Hot Dog Construction Zone (Aust) Pty Ltd <sup>(2)</sup>	Australia	100	100
International Franchisor Pty Ltd <sup>(2)</sup>	Australia	100	100
Jonamill Pty Ltd <sup>(2)</sup>	Australia	100	100
Michel's Patisserie (SA) Pty Ltd <sup>(2)</sup>	Australia	100	100

# NOTES TO THE FINANCIAL STATEMENTS

## 30. Subsidiaries (cont.)

Name Of Entity	Country Of Incorporation	Ownership Interest	
		FY13 (%)	FY12 (%)
Michel's Patisserie (VO) Pty Ltd <sup>(2)</sup>	Australia	100	100
Michel's Patisserie (VOL) Pty Ltd <sup>(2)</sup>	Australia	100	100
Michel's Patisserie (WA) Pty Ltd <sup>(2)</sup>	Australia	100	100
Michel's Patisserie Corporate Retail Division Pty Ltd <sup>(2)</sup>	Australia	100	100
Michel's Patisserie Management Pty Ltd <sup>(2)</sup>	Australia	100	100
Michel's Patisserie Operations Pty Ltd <sup>(2)</sup>	Australia	100	100
Michel's Patisserie System Pty Ltd <sup>(2)</sup>	Australia	100	100
Patisserie Delights Pty Ltd <sup>(2)</sup>	Australia	100	100
Pizza Capers Franchise Pty Ltd (formally PCGK Holdings Pty Ltd) <sup>(2)</sup>	Australia	100	100
Pizza Corporate Retail Division Pty Ltd <sup>(2)</sup>	Australia	100	-
Regional Franchising Systems Pty Ltd <sup>(2)</sup>	Australia	100	100
RFG Finance Pty Ltd <sup>(2)</sup>	Australia	100	100
RFGA Equitech Pty Ltd (formerly RFGA CMF Pty Ltd) <sup>(2)</sup>	Australia	100	100
RFGA Holdings (Aust) Pty Ltd <sup>(2)</sup>	Australia	100	100
RFGA Holdings Pty Ltd <sup>(2)</sup>	Australia	100	100
RFGA Management Pty Ltd <sup>(2)</sup>	Australia	100	100
Systems Franchisor Pty Ltd <sup>(2)</sup>	Australia	100	100
TCG Iprop Pty Ltd <sup>(2)</sup>	Australia	100	-
The Michel's Group Australia Pty Ltd <sup>(2)</sup>	Australia	100	100
bb's New Zealand Limited	New Zealand	100	100
Brumby's Bakeries System (NZ) Limited	New Zealand	100	100
Caffe Coffee (NZ) Limited	New Zealand	100	100
Donut King (NZ) Limited	New Zealand	100	100
ECH System (NZ) Limited	New Zealand	100	100
HDCZ (NZ) Limited	New Zealand	100	100
Michel's Patisserie Systems (NZ) Limited	New Zealand	100	100
RFG (NZ) Holdings Limited	New Zealand	100	100
RFG (NZ) Limited	New Zealand	100	100
TCG Franchising Limited	New Zealand	100	-

(1) Retail Food Group Limited is the head entity within the tax consolidated group.

(2) These companies are members of the tax consolidated group.

# NOTES TO THE FINANCIAL STATEMENTS

## 31. Acquisitions

### 31.1 FY13 Acquisitions

Name Of Businesses Acquired	Principal Activity	Date Of Acquisition	Total Cost Of Acquisition \$'000	Cash Cost Of Acquisition \$'000	Non-Cash Cost Of Acquisition \$'000
-----------------------------	--------------------	---------------------	----------------------------------	---------------------------------	-------------------------------------

#### *Acquisition Of Businesses:*

Crust Gourmet Pizza Bar ('Crust')	Owner and franchisor of the Crust franchise system	19 October 2012	44,797	34,000	10,797
The Coffee Guy Group ('TCGG')	Owner and franchisor of mobile and portable coffee franchise system	19 November 2012	4,193	4,193	-
Total Consideration:			48,990	38,193	10,797

#### Crust Gourmet Pizza Bar

On 23 August 2012, the Group announced its entry into a conditional Sale & Purchase Agreement (SPA), subject to normal contractual terms and finalisation of due diligence enquiry, by which the business and intellectual property assets of the Crust Gourmet Pizza Bar ('Crust') brand system would be acquired.

On 19 October 2012, the Group completed the acquisition of Crust for the following consideration:

- \$25 million on settlement in the form of \$22 million cash and the issue of RFG ordinary shares to the value of \$3 million;
- \$16 million in December 2012 in the form of \$12 million cash and the issue of RFG ordinary shares to the value of \$4 million; and
- an earn out payable up to a maximum value of \$4 million, contingent upon Crust achieving future earnings performance targets.

Consideration Transferred	FY13 \$'000
Cash	34,000
RFG Ordinary Shares	7,000
Contingent consideration	3,797
<b>Total</b>	<b>44,797</b>

The transaction has been accounted for using the acquisition method of accounting. The net assets acquired in the business combination, and the goodwill arising, are as follows:

Net Assets Acquired	Book Value	Fair Value Adjustment	Fair Value On Acquisition
	\$'000	\$'000	\$'000
<b>Non-current assets</b>			
Property, plant & equipment	501	(313)	188
Intangible Asset (franchise system)	76	42,233	42,309
	<b>577</b>	<b>41,920</b>	<b>42,497</b>
Goodwill on acquisition of business			2,300
			<b>44,797</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 31. Acquisitions (cont.)

### 31.1 FY13 Acquisitions (cont.)

Crust Gourmet Pizza Bar (cont.)

Net Cash Flow On Acquisition	\$'000
Total purchase consideration	44,797
Less: non-cash consideration	(10,797)
Consideration paid in cash	34,000
Less: cash and cash equivalent balances acquired	-
	34,000

The Coffee Guy Group

On 5 November 2012, the Group announced its entry into a conditional Sale & Purchase Agreement (SPA), to acquire the business and intellectual property assets of the New Zealand domiciled The Coffee Guy Group ('TCGG').

On 19 November 2012, the Group completed the acquisition of TCGG for a cash consideration of \$4.2 million.

Consideration Transferred	FY13 \$'000
Cash	4,193
Contingent consideration	-
Total	4,193

The transaction has been accounted for using the acquisition method of accounting. The net assets acquired in the business combination, and the goodwill arising, are as follows:

Net Assets Acquired	Book Value	Fair Value Adjustment	Fair Value On Acquisition
	\$'000	\$'000	\$'000
<b>Non-current assets</b>			
Property, plant & equipment	56	-	56
Intangible Asset (franchise system)	-	4,137	4,137
	56	4,137	4,193
Goodwill on acquisition of business			-
Acquisition price			4,193

Net Cash Flow On Acquisition	\$'000
Total purchase consideration	4,193
Less: non-cash consideration	-
Consideration paid in cash	4,193
Less: cash and cash equivalent balances acquired	-
	4,193

# NOTES TO THE FINANCIAL STATEMENTS

## 32. Cash And Cash Equivalents

### 32.1 Reconciliation Of Cash And Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial positions as follows:

Consolidated	FY13 \$'000	FY12 \$'000
Cash and bank balances	16,822	12,785
	<u>16,822</u>	<u>12,785</u>

### 32.2 Financing Facilities

The Group has access to financing facilities at reporting date as set out in the following table. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

Consolidated	FY13 \$'000	FY12 \$'000
Secured bank loan facility:		
amount used (before deducting debt issue costs)	109,000	111,000
amount unused	26,000	24,000
	<u>135,000</u>	<u>135,000</u>
Secured ancillary bank facilities (guarantees):		
amount used	1,162	737
amount unused	338	763
	<u>1,500</u>	<u>1,500</u>
Secured ancillary bank facilities (asset finance):		
amount used	144	243
amount unused	856	757
	<u>1,000</u>	<u>1,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 32. Cash And Cash Equivalents (cont.)

### 32.3 Reconciliation Of Profit For The Period To Net Cash Flows From Operating Activities

Consolidated	FY13 \$'000	FY12 \$'000
Profit for the year	32,006	28,546
Loss / (gain) on disposal of property, plant and equipment	-	103
Depreciation of non-current assets	910	861
Interest income received and receivable	(330)	(249)
Amortisation of borrowing costs	83	14
Hedge ineffectiveness on cash flow hedges	11	195
Effect of concessions received in relation to research & development	(21)	(169)
Increase / (decrease) in current tax liability	(111)	348
Increase / (decrease) in deferred tax balances	(119)	(71)
Movements in working capital:		
Trade and other receivables	(2,424)	(4,418)
Inventories	(1,526)	(1,295)
Other assets	(1,203)	(604)
Trade and other payables	3,605	162
Provisions	111	(132)
Other liabilities	125	991
Net cash generated by operating activities	31,117	24,282

## 33. Financial Instruments

### 33.1 Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from FY12.

The capital structure of the Group consists of net debt (borrowings disclosed in note 20, offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings, as disclosed in notes 23, 24 and 25).

The Group is not subject to any externally imposed capital requirements.

Operating cash flows are used to maintain and expand the Group's assets, as well as to make the routine outflows of tax, dividends and repayment of debt. The Group's policy is to borrow centrally; using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

### 33.2 Gearing Ratio

The Group's Board and management review the capital structure on an annual basis. As a part of this review, the Board and management consider the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40 - 60% as the proportion of net debt to equity. Based on recommendations of management to the Board, the Group will continue to balance its overall capital structure through the payment of dividends, and new share issues, as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at the end of the reporting period is presented in the following table:



# NOTES TO THE FINANCIAL STATEMENTS

## 33. Financial Instruments (cont.)

### 33.2 Gearing Ratio (cont.)

Consolidated	FY13 \$'000	FY12 \$'000
Debt <sup>(1)</sup>	108,897	110,814
Cash and bank balances	(16,822)	(12,785)
Net debt	92,075	98,029
Equity <sup>(2)</sup>	240,459	169,682
Gearing ratio <sup>(3)</sup>	38.3%	57.8%

(1) Debt is defined as long and short term borrowings, net of deferred borrowing costs (excluding derivatives and financial guarantee contracts), as described in note 20.

(2) Equity includes all capital and reserves of the Group that are managed as capital.

(3) The Group's gearing ratio for covenant reporting under the senior debt facility with the National Australia Bank (net debt/net debt + equity) was 29.6% (FY12: 36.6%)

### 33.3 Significant Accounting Policies

Details of the significant accounting policies and methods adopted (including criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 2.

### 33.4 Categories Of Financial Instruments

Consolidated	FY13 \$'000	FY12 \$'000
<b>Financial assets</b>		
Loans and receivables		
Trade and other receivables	19,046	16,622
Loans and receivables	12,672	5,084
Cash and cash equivalents	16,822	12,785
<b>Financial liabilities</b>		
Trade payables	4,882	2,980
Other payables	5,095	3,392
Retention bonds and deposits	920	1,322
Derivative instruments in designated hedge accounting relationships	-	1,199
Contingent Consideration	3,797	-
Bank loan (at amortised cost)	108,897	110,814

### 33.5 Financial Risk Management Objectives

The Group's finance department co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group in line with the Group's policies. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Chief Financial Officer and the Board. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's senior executive management reports to the Board on a monthly basis in relation to the risks and policies implemented to mitigate risk exposure.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Financial Instruments (cont.)

### 33.6 Market Risk

The Group's activities expose it primarily to the financial risk of changes in interest rates (refer note 33.7). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps, to mitigate the risk of rising interest rates.

The Group has minor financial risk to changes in foreign exchange rates in respect of the operations in New Zealand and China, however, these risks are considered to be insignificant given the small size of the operations in those countries.

At a Group level, market risk exposures are measured using sensitivity analysis.

### 33.7 Interest Rate Risk Management

The Group is exposed to interest rate risk as it borrows funds at variable (floating) interest rates. During the year, the Group held interest rate swap contracts and fixed rate bank bills to manage interest rate exposure. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest rate expense through different interest rate cycles.

#### Interest Rate Sensitivity Analysis

The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's:

- net profit would decrease by \$191 thousand (FY12: \$158 thousand) and increase by \$191 thousand (FY12: \$158 thousand) which is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period attributable to the close out of interest rate swap contracts, increasing the Group's proportion of variable rate debt as a percentage of total debt.

#### Interest Rate Swap Contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the Group's cash flows. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the end of the reporting period:

Outstanding floating for fixed contracts	Average Contracted Fixed Interest Rate		Notional Principal Amount		Fair Value Asset / (Liability)	
	FY13 %	FY12 %	FY13 \$'000	FY12 \$'000	FY13 \$'000	FY12 \$'000
Less than 1 year	-	7.47	-	60,000	-	(1,199)
			-	60,000	-	(1,199)

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss.

The interest rate swaps settled on a quarterly basis. The Group settled the difference between the fixed and floating interest rate on a net basis. The Group's final interest rate swap contract with a notional principal of \$60.0 million and an average interest rate of 7.47% expired in December 2012, bringing a cessation to interest rate hedge accounting activities.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Financial Instruments (cont.)

### 33.8 Credit Risk Management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a measure of mitigating the risk of financial loss from defaults. Credit exposure is reviewed continually.

Trade receivables consist of a large number of unrelated customers. Ongoing credit evaluation is performed on the financial conditions of accounts receivable and, where appropriate, additional collateral is obtained for balances identified as "at risk". Often this collateral is in the form of franchised outlets.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings, assigned by international credit rating agencies.

Except as detailed in the following table, the carrying amount of financial assets recognised in the financial statements, which is net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Financial assets and other credit exposures	FY13 \$'000	FY12 \$'000
<b>Contingent liabilities</b>		
Financial guarantees	814	814
Rental guarantees	1,162	737
	<b>1,976</b>	<b>1,551</b>

### 33.9 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and undrawn borrowing facilities, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Note 32.2 sets out details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

#### Liquidity And Interest Rate Risk Tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The information has been presented based on the undiscounted cash flows of financial liabilities, using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest cash flows are at floating rate, the undiscounted amount is derived from forward interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Financial Instruments (cont.)

### 33.9 Liquidity Risk Management (cont.)

Consolidated	Weighted Average Effective Interest Rate	Less Than 1 Year	1 – 5 Years	Total
	%	\$'000	\$'000	\$'000
<b>FY13</b>				
Trade payables	-	4,882	-	4,882
Other payables	-	5,095	-	5,095
Retention bonds and deposits	-	920	-	920
Bank loan	5.4	6,351	110,925	117,276
Contingent consideration	-	2,000	2,000	4,000
Rental guarantee contracts	-	1,162	-	1,162
Financial guarantee contracts	-	814	-	814
		21,224	112,925	134,149
<b>FY12</b>				
Trade payables	-	2,980	-	2,980
Other payables	-	3,392	-	3,392
Retention bonds and deposits	-	1,322	-	1,322
Bank loan	6.1	6,420	119,230	125,650
Rental guarantee contracts	-	737	-	737
Financial guarantee contracts	-	814	-	814
		15,665	119,230	134,895

The maximum amount the Group could be forced to settle under the rental and financial guarantee contracts, if the fully guaranteed amount is claimed by the counterparty to the guarantee, is \$1,976 thousand (FY12: \$1,551 thousand). At the end of the reporting period, it was not considered probable that the counterparties to the rental or financial guarantee contracts will claim under those contracts.

The following table details the Group's expected maturity for its non-derivative financial assets. The information has been presented based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management, as the liquidity is managed on a net asset and liability basis.

Consolidated	Weighted Average Effective Interest Rate	Less Than 1 Year	1 – 5 Years	Total
	%	\$'000	\$'000	\$'000
<b>FY13</b>				
Cash and cash equivalents	-	16,822	-	16,822
Loans and receivables	-	24,309	7,409	31,718
		41,131	7,409	48,540
<b>FY12</b>				
Cash and cash equivalents	-	12,785	-	12,785
Loans and receivables	-	21,249	457	21,706
		34,034	457	34,491

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Financial Instruments (cont.)

### 33.9 Liquidity Risk Management (cont.)

The Group has access to financing facilities, as described in note 32.2, of which \$27,194 thousand was unused at the end of the reporting period (FY12: \$25,520 thousand). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

### 33.10 Fair Value Of Financial Instruments

The fair values of derivative instruments are determined as the estimated amount that the Group and the Company would receive or pay to terminate the interest rate swap at the end of the reporting period, taking into account the current interest rate.

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate to their fair values.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The different levels have been identified as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

As at 30 June 2013, the Group has contingent consideration which is classified as a level 3 financial instrument. There are no level 1 or level 2 financial instruments. As at 30 June 2012, the Group had outstanding interest rate swaps which were classified as level 2 financial instruments. Refer notes 22 or 33.7 for the fair value of the interest rate swaps.

## 34. Share-based Payments

### 34.1 Executive Share Option Plan

The Group has an ownership-based compensation scheme for Directors, executives and senior employees. In accordance with the provisions of RFG's Executive Share Option Plan (ESOP), Directors, executives and senior employees may be granted options to purchase parcels of ordinary shares on terms resolved upon by the Board. Certain Directors and employees have also been granted options pursuant to the terms of formal Option Deeds which are outside the scope of, but substantially in accordance with, the terms of the ESOP.

Each share option granted converts into one ordinary share of Retail Food Group Limited on exercise. No amounts are paid or payable by the recipient on grant of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence during the current and prior reporting periods:

Option Series	Number	Grant Date	Expiry Date	Vesting Date	Exercise Price	Grant Date Fair Value
Tier 1B	639,999	01/08/06	31/07/11	01/08/08	\$1.00	\$0.1704
Tier 1C	640,002	01/08/06	31/07/12	01/08/09	\$1.00	\$0.1849
Tier 2A	304,062	01/08/07	31/07/11	01/08/08	\$1.15	\$0.5813
Tier 2B	150,730	01/08/07	31/07/12	01/08/09	\$1.15	\$0.5918
Tier 2C	150,740	01/08/07	31/07/13	01/08/10	\$1.15	\$0.5927
Tier 3A	283,339	01/08/08	31/07/12	01/08/09	\$1.32	\$0.2768
Tier 3B	123,333	01/08/08	31/07/13	01/08/10	\$1.32	\$0.3068
Tier 3C	123,334	01/08/08	31/07/14	01/08/11	\$1.32	\$0.3250
Tier 6A	212,000	17/02/10	16/02/12	17/02/10	\$1.50	\$1.3822
Tier 8	100,000	01/12/10	30/11/12	01/12/10	\$1.50	\$1.0779
Tier 9	260,000	16/11/10	19/10/13	20/10/11	\$2.78	\$0.4661

# NOTES TO THE FINANCIAL STATEMENTS

## 34. Share-based Payments (cont.)

### 34.2 Fair Value Of Share Options Granted In The Year

No share options were granted during the financial year (FY12: nil). Options were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. Expected volatility is based on the historical share price volatility for a period consistent with the option life. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options at the mid-point of the expiry period (i.e. mid-point between the grant date and the expiry date).

Inputs	Grant date share price	Exercise price	Expected volatility	Option life	Dividend yield	Risk-free interest rate
Tier 1B	\$0.84	\$1.00	45.00%	3.5 yrs	6.50%	5.17%
Tier 1C	\$0.84	\$1.00	45.00%	4.5 yrs	6.50%	5.17%
Tier 2A	\$1.65	\$1.15	45.00%	2.5 yrs	6.50%	6.39%
Tier 2B	\$1.65	\$1.15	45.00%	3.5 yrs	6.50%	6.39%
Tier 2C	\$1.65	\$1.15	45.00%	4.5 yrs	6.50%	6.39%
Tier 3A	\$1.28	\$1.32	44.00%	2.5 yrs	6.50%	6.03%
Tier 3B	\$1.28	\$1.32	44.00%	3.5 yrs	6.50%	6.03%
Tier 3C	\$1.28	\$1.32	44.00%	4.5 yrs	6.50%	6.03%
Tier 6A	\$2.90	\$1.50	42.00%	1.0 yrs	3.62%	4.47%
Tier 8	\$2.60	\$1.50	42.00%	1.0 yrs	5.00%	4.75%
Tier 9	\$2.57	\$2.78	42.00%	1.93 yrs	5.06%	5.07%

### 34.3 Movements In Share Options During The Financial Year

The following table reconciles the outstanding share options granted under the ESOP at the beginning and the end of the financial year:

Item	FY13		FY12	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance at beginning of the financial year	842,500	\$1.57	1,561,197	\$1.47
Granted during the financial year	-	-	-	-
Forfeited during the financial year	(20,000)	\$2.78	(85,000)	\$2.53
Exercised during the financial year	(710,833)	\$1.41	(633,697)	\$1.20
Cancelled during the financial year	-	-	-	-
Balance at end of the financial year	111,667	\$2.35	842,500	\$1.57
Exercisable at end of the financial year	111,667	\$2.35	842,500	\$1.57

# NOTES TO THE FINANCIAL STATEMENTS

## 34. Share-based Payments (cont.)

### 34.4 Share Options Exercised During The Financial Year

The following share options were exercised during the financial year:

FY13 – Option Series	Number Exercised	Exercise Date	Share Price At Exercise Date
Tier 1C – Issued 1 August 2006	203,334	11/07/2012	\$2.70
Tier 2B – Issued 1 August 2007	66,665	11/07/2012	\$2.70
Tier 2C – Issued 1 August 2007	13,334	16/01/2013	\$3.26
	13,333	15/03/2013	\$3.70
	26,667	18/03/2013	\$3.59
Tier 3A – Issued 1 August 2008	107,500	11/07/2012	\$2.70
Tier 3B – Issued 1 August 2008	10,000	16/01/2013	\$3.26
	10,000	15/03/2013	\$3.70
	20,000	18/03/2013	\$3.59
Tier 3C – Issued 1 August 2008	10,000	11/07/2012	\$2.70
	10,000	16/01/2013	\$3.26
	10,000	15/03/2013	\$3.70
	20,000	18/03/2013	\$3.59
Tier 8 – Issued 1 December 2010	100,000	11/07/2012	\$2.70
Tier 9 – Issued 16 November 2010	20,000	06/03/2013	\$3.68
	20,000	18/03/2013	\$3.59
	50,000	21/05/2013	\$4.20
<b>Total</b>	<b>710,833</b>		

# NOTES TO THE FINANCIAL STATEMENTS

## 34. Share-based Payments (cont.)

### 34.4 Share Options Exercised During The Financial Year (cont.)

FY12 – Option Series	Number Exercised	Exercise Date	Share Price At Exercise Date
Tier 1B – Issued 1 August 2006	63,333	06/07/2011	\$2.41
	46,667	07/07/2011	\$2.41
	39,333	26/07/2011	\$2.42
Tier 1C – Issued 1 August 2006	46,666	07/07/2011	\$2.41
	44,666	08/09/2011	\$2.30
Tier 2A – Issued 1 August 2007	13,333	06/07/2011	\$2.41
	14,066	07/07/2011	\$2.41
	38,333	26/07/2011	\$2.42
	15,000	27/07/2011	\$2.43
	17,500	29/07/2011	\$2.37
Tier 2B – Issued 1 August 2007	14,066	07/07/2011	\$2.41
	13,333	08/09/2011	\$2.30
Tier 2C – Issued 1 August 2007	14,068	07/07/2011	\$2.41
	13,333	08/03/2012	\$2.83
Tier 3A – Issued 1 August 2008	10,000	06/07/2011	\$2.41
	10,000	07/07/2011	\$2.41
	10,000	08/03/2012	\$2.83
Tier 3B – Issued 1 August 2008	10,000	07/07/2011	\$2.41
	20,000	20/10/2011	\$2.40
Tier 3C – Issued 1 August 2008	5,000	01/08/2011	\$2.37
	5,000	17/08/2011	\$2.34
	10,000	12/09/2011	\$2.28
	10,000	20/10/2011	\$2.40
	10,000	02/03/2012	\$2.85
Tier 6A – Issued 17 February 2010	140,000	16/02/2012	\$2.62
<b>Total</b>	<b>633,697</b>		



# NOTES TO THE FINANCIAL STATEMENTS

## 34. Share-based Payments (cont.)

### 34.5 Share Options Outstanding At The End Of The Financial Year

The following share options were outstanding at the end of the financial year:

Options Series	FY13		FY12	
	Number Outstanding	Remaining Life (in days)	Number Outstanding	Remaining Life (in days)
Tier 1C	-	-	201,665	31
Tier 2B	-	-	66,665	31
Tier 2C	11,667	31	66,670	397
Tier 3A	-	-	107,500	31
Tier 3B	10,000	31	50,000	397
Tier 3C	10,000	396	60,000	762
Tier 8	-	-	100,000	153
Tier 9	80,000	110	190,000	476
Total	111,667		842,500	

## 35. Key Management Personnel Compensation

The aggregate compensation made to key management personnel of the Group is set out in the following table:

Consolidated	FY13 \$	FY12 \$
Short-term employee benefits	2,619,905	2,434,803
Post-employment benefits	117,132	120,663
Share-based payment	-	27,695
	2,737,037	2,583,161

Detailed remuneration disclosures are provided in the "Remuneration Report", contained in the Directors' Report.

## 36. Related Party Transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed in the following sections:

### 36.1 Equity Interests In Related Parties

#### Equity Interests In Subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 30 to the financial statements.

#### Equity Interests In Associates And Joint Ventures

There are no equity interests in associates or joint ventures.

# NOTES TO THE FINANCIAL STATEMENTS

## 36. Related Party Transactions (cont.)

### 36.1 Equity Interests In Related Parties (cont.)

#### Equity Interests In Other Related Parties

There are no equity interests in other related parties.

### 36.2 Transactions With Key Management Personnel

#### Key Management Personnel Compensation

Details of key management personnel compensation are disclosed in note 35 to the financial statements.

#### Loans To Key Management Personnel

There were no loans outstanding at the end of the financial year (FY12: \$nil) to key management personnel or their related parties.

#### Key Management Personnel Equity Holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY13	Balance 1 July 2012	Granted As Compensation	Received On Exercise Of Options	Net Other Change	Balance 30 June 2013	Balance Held Nominally
	Number	Number	Number	Number	Number	Number
<b>Directors</b>						
Mr Anthony (Tony) Alford	22,558,785	-	-	(58,571)	22,500,214	704,823
Mr Colin Archer	362,844	-	-	11,949	374,793	-
<b>Executives</b>						
Mr Andre Nell <sup>(1)</sup>	n/a	-	20,000	-	20,000	-
Mr Anthony Mark Connors	74,566	-	96,001	-	170,567	-
Mr Gary Alford	1,073,009	-	86,667	(196,017)	963,659	-
<b>Former Executives</b>						
Mr Gavin Nixon <sup>(2)</sup>	5,617,921	-	123,666	n/a	n/a	n/a
Mr Nigel Nixon <sup>(3)</sup>	5,650,387	-	210,332	n/a	n/a	n/a
	35,337,512	-	536,666	(242,639)	24,029,233	704,823

(1) Appointed 21 February 2013.

(2) Resigned 15 May 2013 – details of personal equity holdings have not been provided after this date.

(3) Resigned 24 April 2013 – details of personal equity holdings have not been provided after this date.

# NOTES TO THE FINANCIAL STATEMENTS

## 36. Related Party Transactions (cont.)

### 36.2 Transactions With Key Management Personnel (cont.)

#### Key Management Personnel Equity Holdings (cont.)

Fully paid ordinary shares of Retail Food Group Limited:

FY12	Balance 1 July 2011	Granted As Compensation	Received On Exercise Of Options	Net Other Change	Balance 30 June 2012	Balance Held Nominally
	Number	Number	Number	Number	Number	Number
<b>Directors</b>						
Mr Anthony (Tony) Alford	22,394,944	-	10,000	153,841	22,558,785	814,173
Mr Colin Archer	326,744	-	36,100	-	362,844	-
<b>Executives</b>						
Mr Nigel Nixon	5,650,387	-	-	-	5,650,387	2,698,201
Mr Anthony Mark Connors	1,900	-	72,666	-	74,566	-
Mr Gary Alford	1,232,437	-	91,666	(251,094)	1,073,009	-
Mr Gavin Nixon	5,636,633	-	15,000	(33,712)	5,617,921	2,812,666
Ms Tracey Catterall	-	-	5,000	(5,000)	-	-
<b>Former Director and Executives</b>						
Mr John Cowley	127,762	-	129,433	n/a	n/a	n/a
Mr Damien Peters	90,004	-	10,000	n/a	n/a	n/a
Mr Gary Best	1,148,765	-	50,000	n/a	n/a	n/a
	36,609,576	-	419,865	(135,965)	35,337,512	6,325,040

Executive share options of Retail Food Group Limited:

FY13	Balance 1 July 2012	Granted As Compensation	Exercised	Net Other Change	Balance 30 June 2013	Balance Vested 30 June 2013	Vested And Exercisable	Options Vested During The Year
	Number	Number	Number	Number	Number	Number	Number	Number
<b>Executives</b>								
Mr Andre Nell <sup>(1)</sup>	-	-	(20,000)	20,000	-	-	-	-
Mr Anthony Mark Connors	121,001	-	(96,001)	-	25,000	25,000	25,000	-
Mr Gary Alford	140,001	-	(86,667)	-	53,334	53,334	53,334	-
Ms Tracey Catterall	20,000	-	-	-	20,000	20,000	20,000	-
<b>Former Executives</b>								
Mr Gavin Nixon	123,666	-	(123,666)	-	-	-	-	-
Mr Nigel Nixon	210,332	-	(210,332)	-	-	-	-	-
	615,000	-	(536,666)	20,000	98,334	98,334	98,334	-

(1) Appointed 21 February 2013

# NOTES TO THE FINANCIAL STATEMENTS

## 36. Related Party Transactions (cont.)

### 36.2 Transactions With Key Management Personnel (cont.)

#### Key Management Personnel Equity Holdings (cont.)

Executive share options of Retail Food Group Limited:

FY12	Balance 1 July 2011	Granted As Compensation	Exercised	Net Other Change	Balance 30 June 2012	Balance Vested 30 June 2012	Vested And Exercisable	Options Vested During The Year
	Number	Number	Number	Number	Number	Number	Number	Number
<b>Directors</b>								
Mr Anthony (Tony) Alford	10,000	-	(10,000)	-	-	-	-	10,000
Mr Colin Archer	36,100	-	(36,100)	-	-	-	-	5,000
<b>Executives</b>								
Mr Nigel Nixon	210,332	-	-	-	210,332	210,332	210,332	10,000
Mr Anthony Mark Connors	193,667	-	(72,666)	-	121,001	121,001	121,001	35,000
Mr Gary Alford	231,667	-	(91,666)	-	140,001	140,001	140,001	30,000
Mr Gavin Nixon	138,666	-	(15,000)	-	123,666	123,666	123,666	30,000
Ms Tracey Catterall	25,000	-	(5,000)	-	20,000	20,000	20,000	20,000
<b>Former Director and Executives</b>								
Mr John Cowley	129,433	-	(129,433)	-	-	-	-	5,000
Mr Damien Peters	50,000	-	(10,000)	(40,000)	-	-	-	50,000
Mr Gary Best	156,667	-	(50,000)	n/a	n/a	n/a	n/a	60,000
	1,181,532	-	(419,865)	(40,000)	615,000	615,000	615,000	255,000

During the financial year, 536,666 options (FY12: 419,865) were exercised by key management personnel at an exercise price of \$1.00 per option for 203,334 ordinary shares (FY12: 195,999), \$1.15 per option for 93,332 ordinary shares (FY12: 68,866), \$1.32 per option for 100,000 ordinary shares (FY12: 50,000), \$1.50 per option for 100,000 ordinary shares (FY12: 105,000), \$2.78 per option for 40,000 ordinary shares (FY12: nil). No amounts remain unpaid on the options exercised during the financial year at year end.

Details of the Executive Share Option Plan and of share options granted during FY13 and FY12 are contained in note 34.

# NOTES TO THE FINANCIAL STATEMENTS

## 36. Related Party Transactions (cont.)

### 36.2 Transactions With Key Management Personnel (cont.)

#### Other Transactions With Key Management Personnel Of The Group

Profit for the year includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel or their related entities:

Consolidated	FY13 \$	FY12 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:		
Franchise revenue	14,693	34,783
	<b>14,693</b>	<b>34,783</b>
Consolidated profit includes the following expenses arising from transactions with key management personnel of the Group or their related parties:		
Rental expense	26,495	26,495
Other administration expenses	-	44,071
Consultation services	25,502	-
	<b>51,997</b>	<b>70,566</b>

### 36.3 Transactions With Other Related Parties

#### Transactions Involving Other Related Parties

The following transactions are made on arm's length terms within the meaning of Section 210 of the Corporations Act.

The Group utilises a storage / archive facility that is owned by the Cranot Superannuation Fund. The Cranot Superannuation Fund is a related party of Mr Anthony (Tony) Alford and Mr Gary Alford. A total of \$26,495.04 excluding Goods and Services Tax (GST), was paid or payable during the year (FY12: \$26,495.04 excluding GST).

CGFH Holdings Pty Ltd is a related party of Mr Anthony (Tony) Alford and Mr Gary Alford. There was no reimbursement for business related expenditure during the financial year (FY12: \$44,070.69 excluding GST).

The Group engaged the services of Brands R People 2 Pty Ltd, a related party of Ms Jessica Buchanan, during the year, to provide marketing consulting services to the Group. As such, amounts were billed to the Group based on normal market rates for such services and were due and payable under normal payment terms. A total of \$7,040 (excluding GST) was paid or payable to Brands R People 2 Pty Ltd during the year (FY12: \$nil).

The Group engaged the services of Bundalake Pty Ltd atf The T Williams Trust, a related party of Mr Anthony Williams, during the year, to provide consulting services to the Group in relation to pilot store projects. As such, amounts were billed to the Group based on normal market rates for such services and were due and payable under normal payment terms. A total of \$18,461.52 (excluding GST) was paid or payable to Mr Anthony Williams during the year (FY12: \$nil).

Holiday Loaf Pty Ltd was a related party of Mr Gavin Nixon. On 8 November 2012, Holiday Loaf Pty Ltd ceased to be a related party of Mr Gavin Nixon. Holiday Loaf Pty Ltd owned and operated one Brumby's Bakery outlet during the year. Included in revenue for the year is an amount of \$14,692.91 (excluding GST) earned by the Group in respect of royalties and product sales to this store (FY12: \$34,782.55 excluding GST). As at 30 June 2013 there were no trading debts outstanding (FY12: \$nil).

# NOTES TO THE FINANCIAL STATEMENTS

## 37. Remuneration Of Auditors

Consolidated	FY13 \$	FY12 \$
<b>Audit Services</b>		
<i>Auditors of the parent entity</i>		
Audit of the financial report	194,770	219,000
Review of the half-year financial report	43,600	44,250
	<b>238,370</b>	<b>263,250</b>
<i>Other Auditors</i>		
Audit of the financial statements	16,010	15,593
	<b>254,380</b>	<b>278,843</b>
<b>Other Services</b>		
<i>Auditors of the parent entity</i>		
Other services	13,133	-
<i>Network firm of the parent entity auditor</i>		
Other assurance services	-	90,616
	<b>13,133</b>	<b>90,616</b>

The auditor of Retail Food Group Limited is Deloitte Touche Tohmatsu.

## 38. Events After The Reporting Period

There has not been any matter or circumstance occurring, other than that referred to in this Annual Report, that has arisen since the end of the 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 items:

- **Banking Facility**

On 1 August 2013, the Company extended the present maturity date of its senior debt facility with the National Australia Bank to 30 March 2016. The senior debt facility of \$135 million and all its covenants remain unchanged.

- **Final Dividend**

On 29 August 2013, the Board of Directors declared a final dividend for the financial year ended 30 June 2013, as set out in the "Dividends" section of this financial report.

# NOTES TO THE FINANCIAL STATEMENTS

## 39. Parent Entity Disclosures

The parent entity in the Group is Retail Food Group Limited.

### 39.1 Financial Position

Parent Entity	FY13 \$'000	FY12 \$'000
<b>Assets</b>		
Current assets	20,155	31,624
Non-current assets	282,546	204,940
<b>Total assets</b>	<b>302,701</b>	<b>236,564</b>
<b>Liabilities</b>		
Current liabilities	471	1,487
Non-current liabilities	108,897	110,814
<b>Total liabilities</b>	<b>109,368</b>	<b>112,301</b>
<b>Equity</b>		
Issued capital	159,925	99,876
Retained earnings	33,346	24,860
Reserves		
Equity-settled employee benefits	62	378
Hedging reserve	-	(850)
<b>Total equity</b>	<b>193,333</b>	<b>124,263</b>

### 39.2 Financial Performance

Parent Entity	FY13 \$'000	FY12 \$'000
Profit for the year	29,808	1,771
Other comprehensive income	851	784
<b>Total comprehensive income</b>	<b>30,659</b>	<b>2,555</b>

### 39.3 Other Commitments

The parent entity has no contingent liabilities or expenditure commitments as at 30 June 2013 (FY12: nil).

# ADDITIONAL STOCK EXCHANGE INFORMATION

## AS AT 13 SEPTEMBER 2013

### Number Of Holders Of Equity Securities as at 13 September 2013

#### Ordinary Share Capital

- 130,301,190 fully paid ordinary shares are held by 4,181 individual shareholders.

All issued ordinary shares carry one vote per share.

#### Options

- 10,000 options granted on 1 August 2008 are held by 1 individual option holder
- 80,000 options granted on 16 November 2010 are held by 4 individual option holders

Options do not carry a right to vote.

### Distribution Of Holders Of Equity Securities

	Total Holders Fully Paid Ordinary Shares	Fully Paid Ordinary Shares	% Issued Capital	Total Holders Options	Options
1 – 1,000	1,378	706,693	0.54	-	-
1,001 – 5,000	1,856	4,816,052	3.70	-	-
5,001 – 10,000	491	3,704,122	2.84	-	-
10,001 – 100,000	393	9,242,239	7.09	4	90,000
100,001 and over	63	111,832,084	85.83	-	-
	<b>4,181</b>	<b>130,301,190</b>	<b>100.00</b>	<b>4</b>	<b>90,000</b>

### Substantial Shareholders

Ordinary Shareholders	Fully Paid		Partly Paid	
	Number	Percentage	Number	Percentage
Mr Anthony (Tony) Alford	22,524,548	17.3%	-	-
Mawer Investment Management Limited	15,908,337	12.2%	-	-
Thorney Holdings Pty Ltd / Tiga Trading Pty Ltd	8,990,000	6.9%	-	-



# ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 13 SEPTEMBER 2013

## Twenty Largest Holders Of Quoted Equity Instruments

Ordinary Shareholders		Fully Paid		Partly Paid	
		Number	Percentage	Number	Percentage
1.	HSBC Custody Nominees	19,323,961	14.8%	-	-
2.	JP Morgan Nominees Australia	12,088,153	9.3%	-	-
3.	National Nominees Limited	11,203,688	8.6%	-	-
4.	CGFH C2 Pty Ltd	9,005,942	6.9%	-	-
5.	Citicorp Nominees Pty Ltd	8,933,509	6.9%	-	-
6.	Thorney Holdings Pty Ltd	7,884,145	6.1%	-	-
7.	Alfords Holdings (Old) Pty Ltd	6,632,342	5.1%	-	-
8.	Aust Executor Trustees SA Limited	5,415,494	4.2%	-	-
9.	Gotham City Limited	5,000,000	3.8%	-	-
10.	Brecot Pty Ltd	4,995,954	3.8%	-	-
11.	Antra Pty Ltd	2,733,750	2.1%	-	-
12.	BNP Paribas Noms Pty Ltd	2,350,046	1.8%	-	-
13.	AMA Holdings (Qld) Pty Ltd	1,212,725	0.9%	-	-
14.	Alicia Jayne Atkinson	1,031,768	0.8%	-	-
15.	FTT Holdings Pty Ltd	961,518	0.7%	-	-
16.	UBS Nominees Pty Ltd	922,200	0.7%	-	-
17.	Risby Investments Pty Ltd	882,008	0.7%	-	-
18.	C G F H Pty Ltd	874,400	0.7%	-	-
19.	WSS Holdings (Aust) Pty Ltd	868,950	0.7%	-	-
20.	Pinello Pty Ltd	825,462	0.6%	-	-
Total		103,146,015	79.2%	-	-

Company Secretary	Registered Office	Principal Administration Office	Share Registry
Mr Anthony Mark Connors RFG House 1 Olympic Circuit Southport QLD 4215	RFG House 1 Olympic Circuit Southport QLD 4215	RFG House 1 Olympic Circuit Southport QLD 4215	Computershare Investor Services 117 Victoria Street West End QLD 4000







**RETAIL FOOD GROUP NATIONAL OFFICE:**

1 Olympic Circuit Southport QLD 4215 Australia

**Postal Address:**

Retail Food Group (Australia)  
PO Box 1549 Southport QLD 4215 Australia

**Telephone:** +61 (07) 5591 3242

**Fax:** +61 (07) 5591 9021

**E-mail:** [rfga@rfg.com.au](mailto:rfga@rfg.com.au)

**Website:** [www.rfg.com.au](http://www.rfg.com.au)