

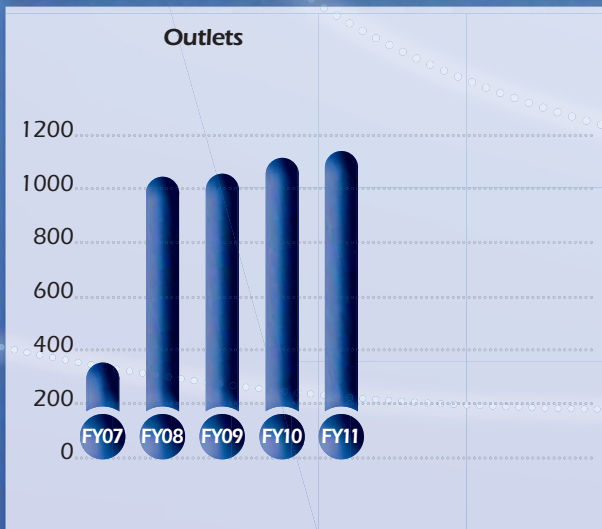
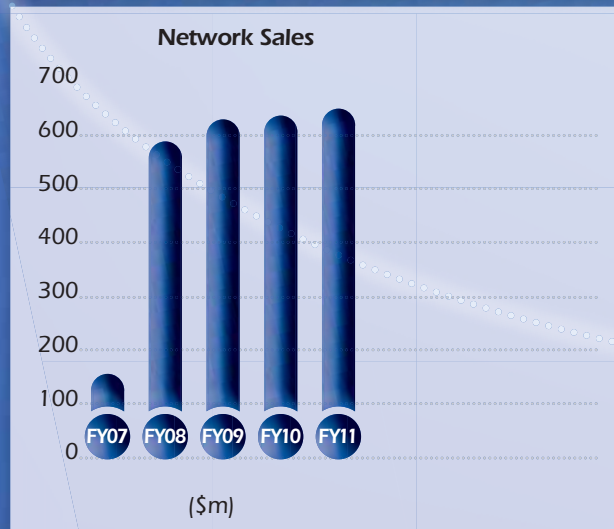
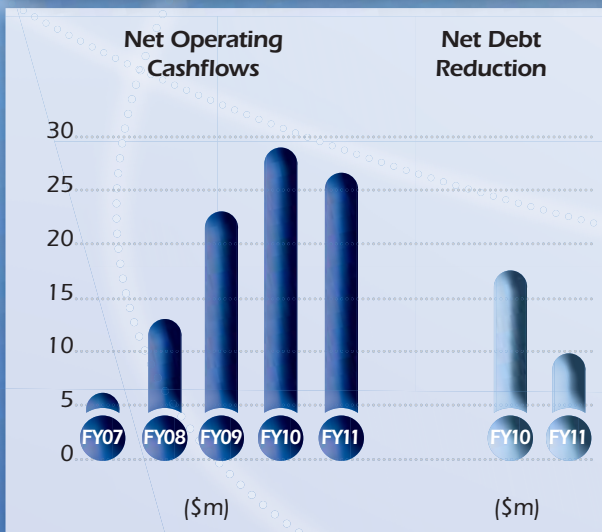
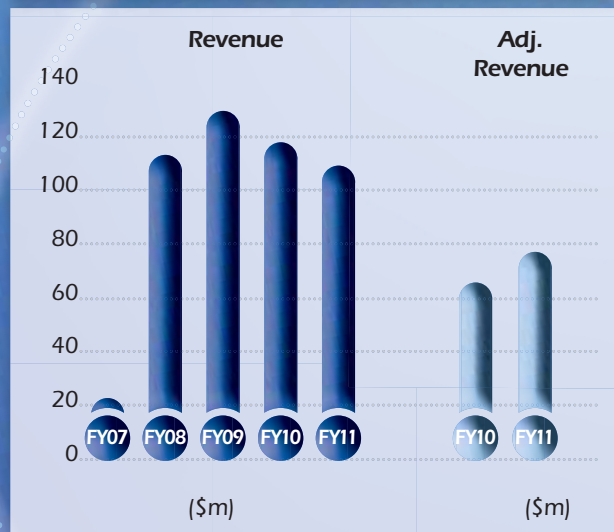
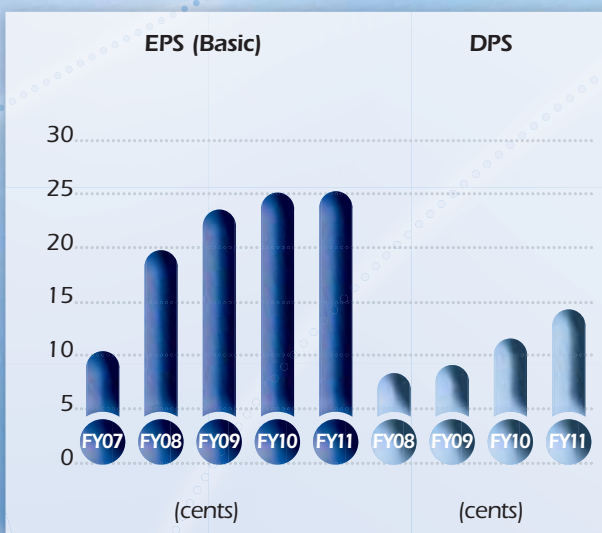
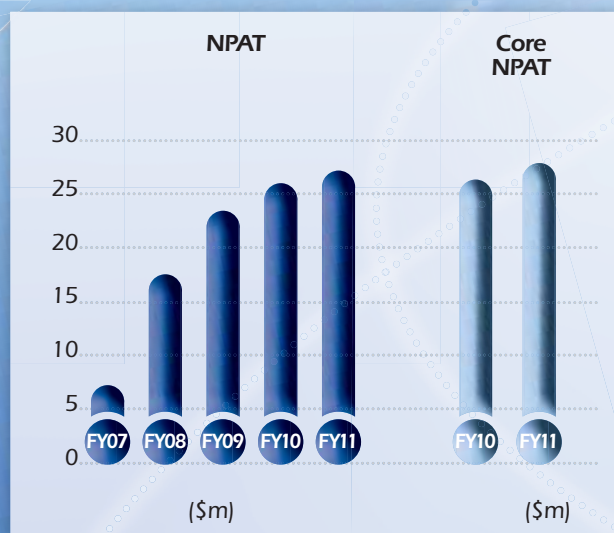


UNIQUE BUSINESS SYSTEM

RETAIL FOOD GROUP is a leading Australian retail food brand manager, franchisor and wholesale coffee roaster. It designs, develops and manages franchise systems and is the intellectual property owner and manager of the following retail and coffee brands: Donut King, Michel's Patisserie, Brumby's Bakery, Esquires Coffee Houses, bb's cafe, Evil Child, Roasted Addition and Barista's Choice.

For the 6th consecutive year since Listing (in June 2006), Retail Food Group continued to deliver enhanced performance and record outcomes for stakeholders.

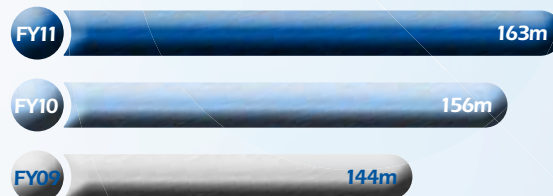
NPAT and EPS 6 year cumulative annual growth rates (cagr) of 35.8% and 24.2% respectively, reinforces Retail Food Group as an enterprise with franchise systems, business model and revenue streams capable of significant growth.





Australia's largest specialty donut and coffee chain.

Network Sales



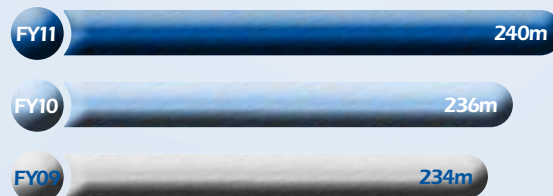
Australia's largest specialty coffee and cake retailer.

Network Sales



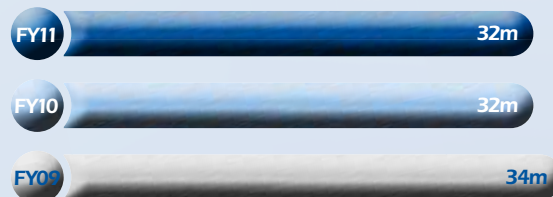
One of Australia's largest specialty brand and savoury retail franchise chains, includes Brumby's GO! and Big Dad's Pies brands.

Network Sales



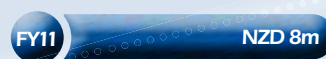
Specialty local café franchise system in Australia and New Zealand.

Network Sales



One of New Zealand's largest coffee houses.

Network Sales*



*Since acquisition in February 2010.



Donut King continues to be RFG's best performed franchise system in terms of organic outlet growth with the network comprising 365 outlets as at 30 June 2011.

FY11 witnessed the commissioning of 23 new domestic outlets in concert with an expanding international footprint. In addition to the successful re-introduction of the brand to New Zealand following a long hiatus, Donut King was also established in Papua New Guinea and Saudi Arabia. In China, the brand continues to experience steady growth with the network now comprising 14 outlets (FY10: 10 outlets).

During FY11 Donut King's "spirit" was enlivened by the creative launch of the "Excitables"—sprite sized tastebud characters who get seriously excited about all things fun and tasty! This new creative platform has facilitated enhanced consumer engagement within social media and networking platforms and refreshed the brand's message in connection with reinvigorated category lines.

Donut King's Barista training roll-out gathered further traction with the network now boasting over 850 qualified Baristas throughout Australia. The superior product quality and service standards brought about by this initiative, coupled with the strategic rebrand of the Donut King coffee offer to "Royal Bean", has continued to pay dividends with coffee sales volume increasing 13% over FY10.



FY11 Highlights

- network sales of \$162.6 million
- 365 outlets including 17 overseas
- successful establishment of the brand in Papua New Guinea, Saudi Arabia & New Zealand
- average weekly sales of \$9,469 per outlet (FY10: \$9,357)
- average transaction value of \$5.23 (FY10: \$5.11)
- increased coffee patronage with Royal Bean coffee sales increasing 13%.



Transition of the Michel's Patisserie system from a wholesale margin model to a traditional royalty model gained momentum with 263 outlets (13 above forecast) having converted by 30 June 2011. The high conversion rate has enabled RFG to complete the second phase of its transition model with all States (except Western Australia) now operating under a third party distribution and direct invoicing regime.

During FY11, promotions which leveraged of having being voted "Best Tasting Coffee" by Choice in June 2010 provided added impetus for the brand and derived a 21% increase in coffee sales volume during the campaign period.

However, it is Michel's indisputable reputation for patisserie products that continues to represent the fundamental core of the brand with 39 new cake products having been launched to market in FY11, including a Premium Deluxe Range for cake connoisseurs.

This activity was supported by the launch of online ordering which marked an historic moment for the Michel's Patisserie brand. Offering a choice of over 100 cakes, online ordering has yielded a remarkable 57% increase in online retail sales since its inception.



FY11 Highlights

- network sales of \$216.2 million
- 332 outlets including 4 in New Zealand
- average weekly sales (Australia only) of \$12,283 per outlet (FY10: \$12,140)
- average transaction value of \$6.52 (FY10: \$6.35)
- 80%+ conversion rate to royalty model.



BRUMBY'S + BRUMBY'S GO



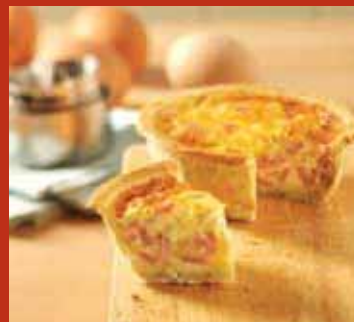
During FY11 RFG migrated the Brumby's brand outside of Australia and New Zealand for the first time with the successful establishment of a master licensed outlet in Papua New Guinea.

Brumby's has otherwise focused upon leveraging its reputation for quality bakery products "Baked Today" in conjunction with innovative product and marketing activity.

The brand collaborated with Cadbury for Easter 2011 which resulted in a 34% uplift over the prior year's campaign together with *Choice Magazine* voting Brumby's Chocolate Hot Cross Bun the best in category.

FY12 will witness further innovation and menu enhancement with introduction of a new and improved national pie and savoury range together with the imminent launch of the Brumby's additive free "No Numbers Pure Bake" bread range that will be supported by the largest promotional campaign for the brand since the launch of preservative free bread eight years ago.

The Big Dad's Pies network has been repositioned under the Brumby's banner whilst Brumby's Go! continues to gather traction within the 'on the go' meal segment delivering outlet average weekly sales of \$18,332—the highest amongst any of RFG's brands.



FY11 Highlights

- network sales of \$240 million
- 349 outlets including 17 overseas
- establishment of the brand in Papua New Guinea
- average weekly sales (Australian only) of \$13,528 per outlet (FY10: \$13,488)
- average transaction value of \$5.97 (FY10: \$5.81)
- Brumby's Go! continues to generate average weekly sales that are 39% higher than traditional model outlets.



bb's cafe continues to promote itself as the "local's cafe" — a position which was reinforced by support afforded to local communities during 2011's natural disasters.

The system has continued to report positive average weekly sales following a shift in marketing strategy which has seen promotional funds channelled directly into external advertising to aid increased customer count and awareness.

Further proliferation of the light meals menu extension has also generated improved average transaction growth with the brand's hot beverage offer supported by being voted among the top three coffee blends at the Independent Golden Bean Awards in November 2010.

Moving forward, the brand will be more closely aligned with the recently acquired Esquires Coffee Houses, with some bb's cafe outlets having already undergone conversion.



FY11 Highlights

- network sales of \$32.3 million
- 55 outlets including 19 in New Zealand
- Average weekly sales (Australian only) of \$11,499 per outlet (FY10: \$11,329)
- average transaction value of \$7.57 (FY10: \$7.41).





In February 2011 RFG acquired the New Zealand master franchise rights for the Esquires Coffee Houses system in New Zealand together with the intellectual property rights for the brand in that country and Australia.

Esquires represents New Zealand's fastest growing coffee chain. The brand is positioned by its premium organic coffee range which is supported by a sandwich, savoury and snack menu offer enjoyed within vibrant but relaxing retail outlets.

Esquires Coffee Houses represented a strategic acquisition designed to support bb's cafe system operations in New Zealand and to attain growth momentum in Australia via alignment of marketing, procurement and personnel.



FY11 Highlights

- acquired 7 February 2011
- 47 outlets in New Zealand upon acquisition.

Dear Shareholder

The past 18 months have presented their own unique challenges for Retail Food Group, its franchisee community, key stakeholders and trading partners. With the economic environment, particularly in the retail sector, growing more volatile and unforeseen natural disasters in Australia and New Zealand having had a pronounced effect at many levels, RFG's achievement in delivering shareholders a sixth successive annual record net profit is immensely satisfying.

FY11 net profit after tax of \$27.2 million represented a 4.6% increase over the prior year's result and set the platform for a 23.4% increase in combined dividends paid during the year (FY11: 14.5 cps vs FY10: 11.75 cps).

These headline achievements once more demonstrate the resilience of RFG's unique business model and its capacity to produce results even in the most challenging trading environments.

Your Board and executive team remain keenly focused on further leveraging that business model and diversifying the revenue drivers and brand equity that give substance to RFG's "strength in brands" mantra.

We have completed an acquisition of the Esquires Coffee Houses New Zealand network and are in the process of rolling out the brand in Australia. Esquires adds an exciting new franchise system to RFG's portfolio which, when aligned with bb's café, gives the Company renewed traction in the café segment.

RFG also recently completed acquisition of Evolution Coffee Roasters, a New Zealand based wholesale coffee roaster, distributor and exporter. Evolution provides considerable scope for vertical integration opportunity, access to new wholesale markets and the addition of quality merchandising and production skill sets that will benefit the Company's coffee operations in Australia and abroad.

At a franchise system level, total sales across all franchise networks grew to \$651 million during FY11 aided by average weekly sales and average transaction value increases across all systems^[1]. Organic outlet growth was also consistent with guidance, forty new stores having been established.

It is against this backdrop that it is my pleasure to present to you RFG's Annual Report for the financial year ending 30 June 2011.

On behalf of my fellow directors I sincerely thank all of our staff and franchisees for their continued efforts during what has been an immensely challenging period in RFG's

history. Their endeavours have created robust pillars for future growth which are supplemented by an innovative and compelling product offering and iconic retail food brands. The Company will continue to develop and fortify these strengths in order that shareholders are provided with enhanced outcomes well into the future.

In closing, I would like to take this opportunity to convey thanks and appreciation to outgoing director Mr John Cowley who has until recently chaired the Board for the past five years. Mr Cowley oversaw RFG's admission to the Official List of the ASX in June 2006 and during his tenure has provided steadfast leadership, support and encouragement during a period of extraordinary growth. He leaves a lasting legacy and on behalf of the Board I wish him and his family a rewarding and deserved retirement.



Bruce Hancox

Chairman, Retail Food Group Limited



^[1] Excludes Esquires Coffee Houses acquired on 7 February 2011.

INTRODUCTION

An uncertain economic environment, challenged retail conditions and severe natural disasters in Australia and New Zealand have conspired to ensure that the past financial year can be comfortably characterized as the most challenging in Retail Food Group's 22 year history.

It is, however, testament to the Company's resilient business model, outstanding personnel and driven franchisee community that RFG has been able to deliver record earnings before interest and tax (EBIT), net profit after tax (NPAT), earnings per share (EPS) and importantly, dividend per share (DPS), whilst reducing debt, attending acquisition opportunity and increasing the dividend payout ratio.

OVERVIEW OF FINANCIAL PERFORMANCE

FY11 NPAT of \$27.2m represented a 4.6% increase over FY10 and was facilitated by a 16.8% uplift in Adjusted Revenues, which exclude the impact of declining wholesale revenues resulting from the programmed transition of Michel's Patisserie franchisees to the Royalty Model and the commissioning of third party direct invoicing to franchisees within that system.



Core NPAT of \$27.9 million represented a 5.7% increase on FY10 (\$26.4m) and was underpinned by:

- organic outlet growth of 87 new outlets; of which
- 47 new outlets were the result of acquisition activity;
- (franchise outlet) network sales of \$651m, an increase of \$10.5m on the previous corresponding period ('pcp');
- increased licence and product procurement revenues;
- execution of compelling marketing initiatives which have;
 - driven positive average weekly sales (AWS) growth across each of the Company's five franchise systems; and
 - increased average transaction values (ATV) thereby fortifying franchisees against stagnant shopping centre foot traffic.

Earnings per share (EPS) for FY11 of 25.4 cents represented a 0.4% increase on FY10 (25.3 cents).

EPS from Core Operations was 26.0 cents, an increase of 1.6% on pcp.

Among the most satisfying of the Company's Key Performance Indicators was the continuing strong conversion rate of gross operating cashflow to EBITDA which exceeded 97% (FY10: 98%).

Notably, these cashflows enabled the Company to achieve some significant outcomes:

- continued voluntary core debt reduction totaling \$9.0m (to a fully hedged position of \$86.0m), thus decreasing the Company's gearing ratio from 34.4% to 30.8%;
- declaration of a final dividend of 7.5 cents per share (cps), which together with the interim dividend of 7.0cps, represented a 23.4% increase over FY10;
- acquisition of the Esquires Coffee Houses franchise system (\$8.4m in February 2010); and
- acquisition and fitout of new RFG national office premises which incorporate an unrivalled and state-of-the-art training academy together with enhanced R&D facilities (\$5.6m).

These outcomes evidence the enduring resilience of the Company's unique business model, validation of its strategic acquisitive growth plans and the leveraging of its franchise system networks and intellectual property assets to sustain continued positive outcomes for all stakeholders including shareholders and franchisees.

OPERATIONAL PERFORMANCE — FRANCHISE SYSTEMS

Whilst mounting economic uncertainty and decreased consumer confidence continue to impede optimal franchise system performance, FY11 also witnessed a combination of severe natural disasters across Australia and New Zealand which presented unique challenges for the Company, its franchisees, trading partners and customers.

Indeed, some 163 outlets representing 17% of the total outlet population were affected by these events. Certain outlets were closed for extended periods of time, and in limited circumstances, permanently.

RFG mobilized significant financial, logistical and personnel resources in supporting our franchisee community during this difficult time, and importantly, to minimize the impact of reduced sales and profitability on franchisee families.

Putting aside the compelling moral argument for franchisee assistance, it was simply in the best interests of RFG and all of its stakeholders that such action be taken. As a company, we are immensely proud of the manner in which staff and the franchisee community became galvanized with a unity of purpose and resolve to overcome the exceptional challenges encountered during these periods.

The FY11 financial impact of the natural disasters has been assessed by RFG to be in the range of a \$2.5m–\$3.0m decrease in EBITDA.

In the absence of such an impact, RFG's core NPAT for FY11 would have been within the range of 12%–15% over FY10 (as opposed to the reported 5.7%).

Despite the forgoing events, and more generally the challenged economic and retail environment, each franchise system achieved positive AWS and ATV growth outcomes during FY11.

The weighted AWS and ATV increases across the Company's franchise systems of 1.5% and 2.3% respectively was, whilst modest, an acceptable achievement and bears testimony to the Company's position that those franchise systems under its stewardship have to date been remarkably resilient to significant changes in consumer sentiment, discretionary spend, economic uncertainty and retail confusion.

Additionally, during FY11 RFG enhanced its retail coffee offer via the acquisition of the Esquires Coffee Houses New Zealand master franchise network together with the intellectual property for that brand within Australia and New Zealand.

Esquires presently comprises 47 New Zealand based outlets and the Company is well advanced in planning the proliferation of that system in the Australian market during FY12.

Lastly, the conversion of Michel's Patisserie franchises to a traditional royalty model continued to gain momentum throughout FY11 with in excess of 260 outlets (or approximately 80% of the Michel's network) now having transitioned.

The escalating number of franchisee conversions has also enabled RFG to complete the second phase of its Michel's Patisserie transition model with all States (excluding Western Australia) now operating under a third party distribution and direct invoicing regime.

FRANCHISED OUTLET EXPANSION

Notwithstanding severely reduced site opportunities as a consequence of retarded new retail shopping centre development and a contracted franchisee candidate market, RFG achieved new outlet growth of 40 in FY11. Coupled with acquired outlet growth of 47 the total outlet population increased to 1,148 at financial year close.

Outlet closures for FY11 were 61, with second half (2H11) closures diminishing to 21.

System outlet metrics for FY11 can be summarized as follows:

System	Net Outlet Growth	Outlet Population (30.06.11)
Donut King	+ 7	365
Michel's Patisserie	- 5	332
Brumby's Bakery	- 3 (Big Dad's Pies legacy closures: -15)	349 (including 22 Big Dad's Pies)
bb's café	-5	55
Esquires Coffee Houses	N/A	47

COFFEE OPERATIONS:

RFG initiatives to build upon and enhance its wholesale coffee and green roasting operations were fortified by the acquisition of the Evolution Coffee Roasters Group ('Evolution') in September 2011.

Evolution is a retail brand owner and operator of a state-of-art coffee roasting facility in Auckland, New Zealand. It presently manufactures and distributes approximately 170 tonnes of premium coffee annually throughout New Zealand, Asia and the Middle East and is the owner of New Zealand renowned coffee and drinking chocolate brands Roasted Addiction and Evil Child Beverage Co.

The acquisition of Evolution not only safeguards coffee supply to the New Zealand Esquires Coffee Houses network but also provides RFG with an enhanced roasting, merchandising and wholesaling capacity and skill set together with new market entry opportunity.

Whilst it now constitutes a primary revenue driver for the business, the Company's wholesale coffee and roasting operations continue to represent significant untapped potential for future growth, vertical integration and efficiencies. Throughout FY12 RFG will remain focused on liberating further revenue and enhanced growth opportunities.

GROWTH STRATEGIES

The Company continues to invest significant resources in developing and enhancing system, franchisee and resultant RFG and shareholder outcomes.

During FY11 RFG increased its investment of financial resources and human capital in the maintenance, enhancement and development of its franchisee operational service systems and coffee roasting businesses.

Combined with robust input supply negotiations focused upon sustaining franchisee margins and profitability, increased service delivery initiatives and frequency, and the development of a plethora of online training material, RFG has both nurtured and supported its franchisee community such that franchisee stress was minimized during a second year of retail uncertainty and depressed consumer spending.

These initiatives will be further enhanced during FY12 with franchisee financial health and wellbeing remaining at the forefront of RFG's priorities.

Not only is such investment necessary to ensure the continued relevance and sustainability of the Company's brands, it also strengthens our franchisees and the franchise systems in which they participate such that the same are positioned to take full advantage of the eventual retail and economic upturn.

The international exploitation and commercialization of the Company's franchise systems also remains a significant untapped opportunity that RFG continues to pursue.

Master Licence rights have now been granted in respect of China (Donut King), New Zealand (Donut King), Indonesia (Michel's Patisserie), Papua New Guinea (Donut King and Brumby's Bakery) and Saudi Arabia (Donut King).

In China, the number of Donut King outlets commissioned increased to 14 (from 10 in FY10) in-line with expectation and representative of the steady infiltration of the system planned for that territory.

Apart from China, the master licences were granted throughout CY10 and CY11 thus evidencing the priority placed on this growth driver by the Company.

FY12 INITIATIVES

National Office and Training Academy

RFG commenced FY12 with the formal launch of its new National Office and Training Academy together with implementation of a host of dynamic marketing and enhanced franchisee servicing initiatives aimed at driving positive franchisee outcomes.

RFG's new headquarters now comfortably accommodates its existing staffing compliment. The increased size has also facilitated relocation of various operational functions from RFG's state based offices while accommodating the introduction of new resources should growth, be it organic or acquisitive, demand.

Importantly, the new facility also allows for a substantial increase in the Company's annual franchisee training intake, and for the first time in the franchise system's history, the 'in-house' training of Brumby's Bakery franchisees within a purpose built facility.

Marketing and Franchise Initiatives

The Company does not envisage any short term improvement in retail conditions and FY12 will continue to represent a challenging year for both the Company and its franchisee community.

Consequently, RFG will continue to focus its energies upon supporting franchisee financial health and wellbeing concurrent with the development and execution of various allied growth initiatives including:

- reinvigoration of the positioning, design and relevance of our brands together with execution of augmentation strategies which have evolved from market research;
- enhancement of customer service and experience—providing every customer a reason to return;
- commissioning of new retail technology platforms including digital loyalty programs, wi-fi, tap & go and social engagement media;
- category menu reinvigoration and new product development including:
 - introduction of hot and savory menu options to the Donut King system;
 - reformulation of Donut King product mix to facilitate enhanced donut taste profile and healthier options;
 - standardization of the Brumby's savory offer and introduction of unique bread lines;

- enhancement of the Michel's Patisserie Create A Cake and online ordering options;
- continued development of national filled bread and cake ranges for the Michel's Patisserie system;
- ongoing development of non-traditional site opportunity incorporating 'hole in the wall' concepts and carts focused on a coffee offer;
- rationalization of new store establishment cost together with store design and front of house revitalization;
- positioning of existing franchise systems to be commercially proficient outside of traditional shopping centre trading environments;
- appraisal and execution of appropriate acquisitive opportunity driven by motivated vendors and managed by the recently established Strategy, Acquisitions and Emerging Markets department (SAEM) dedicated to that goal;
- continued international exploitation of the Company's intellectual property assets via the grant of territory master licences.

The Company will provide an update regarding trading and performance during the forthcoming AGM, however 1Q12 results provide confidence that the growth strategies employed will again underpin a solid FY12 performance.



Anthony James (Tony) Alford
Managing Director and Chief Executive Officer

Debt and Dividends

RFG anticipates a continuation of robust cashflow throughout FY12.

In this respect, barring significant acquisitive activity, the Company will continue to reduce net debt towards a FY12 target of \$50m–\$60m and progressively increase the dividend payout ratio in FY12 within the range of 60% to 65%.

Acquisition Activity

In recognition of the plethora of franchise system acquisition and vertical integration opportunity presently available, RFG has commissioned a dedicated Department (SAEM) to pursue same.

SAEM is actively engaged in the investigation, evaluation and negotiation process with prospective vendors regarding numerous retail food assets.

1Q12

Whilst RFG's franchise systems have over the past two years performed admirably when considered within an environment of depressed economic conditions and unforeseen circumstances, little tangible respite is anticipated in FY12.

RFG NEW HEAD OFFICE



In April 2011 Retail Food Group relocated its national headquarters to a new purpose built facility established at 1 Olympic Circuit, Southport on Queensland's Gold Coast.

The relocation represented a watershed event in terms of the Company's ability to re-focus its corporate and operational activities to best service its franchise and wholesale roasting businesses with the new headquarters:

- comprising over twice the floor space as that previously inhabited by the Company;
- incorporating significantly enhanced R&D and training facilities, a state-of-the-art academy capable of servicing over 187 franchisees throughout the calendar year;
- which facilitate in-house training for Brumby's Bakery franchisees, at significantly reduced timeframes, for the first time in that brand's history;
- enabling relocation and centralisation of various personnel from regional offices (including the bulk of the Company's internal Legal Services Department);
- facilitating minimal requirement for administrative functions amongst the Company's NSW, Victorian and New Zealand regional offices enabling future administrative cost reduction;
- incorporating facilities designed to contain external costs and enhance 'speed to market';
- providing room for further growth be it organic or acquisitive; and



- reinvigorating staff amenities which provide an enhanced work environment for over 100 existing staff and positions RFG as an employer of choice.

RFG's new headquarters was commissioned and project managed in-house with building and refurbishment works requiring 11,000 man hours over six months. On completion of the works, over 850 litres of paint and 1,000 lineal metres of glazing frame had been utilised.



RETAIL FOOD GROUP LIMITED
ACN 106 840 082
Financial Year Ended 30 June 2011

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SUMMARY FINANCIAL INFORMATION

	REPORTED						CORE OPERATIONS ⁽¹⁾	
	FY06	FY07	FY08	FY09	FY10	FY11	FY10	FY11
Financial								
Network Sales ⁽²⁾	\$143.1m	\$158.2m	\$592.0m	\$632.0m	\$640.6m	\$651.1m		
Total Revenue ⁽³⁾	\$20.5m	\$23.6m	\$114.1m	\$130.5m	\$118.6m	\$110.0m		
Adjusted Revenue ⁽⁴⁾					\$66.6m	\$77.8m		
EBITDA	\$9.9m	\$12.4m	\$35.7m	\$41.6m	\$44.9m	\$45.9m	\$45.4m	\$46.8m
EBIT	\$9.8m	\$12.2m	\$34.4m	\$40.3m	\$43.8m	\$45.1m	\$44.3m	\$46.0m
NPAT	\$5.9m	\$7.5m	\$17.6m	\$23.5m	\$26.0m	\$27.2m	\$26.4m	\$27.9m
Basic EPS	8.6 cps	10.5 cps	19.9 cps	23.7 cps	25.3 cps	25.4 cps	25.6 cps	26.0 cps
Dividend		6.25 cps	8.5 cps	9.25 cps	11.75 cps	14.5 cps		
Operating Performance								
Network Sales Growth	10.4%	10.6%	274.2%	6.8%	1.4%	1.6%		
Total Revenue Growth	12.0%	15.1%	383.5%	14.4%	(9.1%)	(7.3%)		
Adjusted Revenue Growth						16.8%		
EBITDA Growth	8.8%	25.3%	187.9%	16.5%	7.9%	2.2%	9.4%	3.1%
EBIT Growth	10.1%	24.5%	182.0%	17.2%	8.7%	3.0%	10.5%	3.8%
NPAT Growth		27.1%	134.7%	33.4%	10.6%	4.6%	12.8%	5.7%
Basic EPS Growth		22.1%	89.5%	19.1%	6.8%	0.4%	8.5%	1.6%
Franchise								
Franchised Outlets	332	360	1,052	1,063	1,122	1,148		
New Outlets	27	37	742	59	97	87		

- (1) Results from 'Core Operations' exclude amounts recognised in the income statement relating to the pre-tax impact of:
- derivative financial instruments (interest rate swaps) (FY11: \$1.0m loss; FY10: \$0.5m loss); and,
 - derivative financial instruments (foreign exchange forward contract) (FY11: \$0.1m gain; FY10: \$nil).
- (2) Derived from financial information including franchisee-reported turnover and not subject to audit.
- (3) Excludes revenue derived from marketing activities (FY11: \$15.7m; FY10: \$15.4m; FY09: \$12.6m; FY08: \$10.3m; FY07: \$6.2m; FY06: \$6.4m).
- (4) Adjusted Revenue excludes sales derived from the wholesale bakery supply to Michel's Patisserie outlets (FY11: \$32.2m; FY10: \$52.0m).

Directors	Mr John Thomas Cowley <i>Chairman & Independent Director</i>
	Mr Anthony James Alford <i>Managing Director & Chief Executive Officer</i>
	Mr Nigel Norman Nixon <i>Executive Director & Corporate Counsel</i>
	Mr Colin Cameron Archer <i>Independent Director</i>
	Mr Bruce Alan Hancox <i>Independent Director</i>
Company Secretary	Mr Anthony Mark Connors
Registered Office	RFG House 1 Olympic Circuit Southport QLD 4215
Principal Place Of Business	RFG House 1 Olympic Circuit Southport QLD 4215
Share Register	Computershare Investor Services Level 19, 307 Queen Street Brisbane QLD 4000
Solicitors	McCullough Robertson Lawyers Level 11, 66 Eagle Street Brisbane QLD 4000
Auditors	Deloitte Touche Tohmatsu Level 25, 123 Eagle Street Brisbane QLD 4000
Bankers	National Australia Bank Limited Level 20, 100 Creek Street Brisbane QLD 4000
Stock Exchange Listings	Retail Food Group Limited shares are listed on the Australian Securities Exchange (ASX:RFG).
Website Address	www.rfg.com.au

Overview

Retail Food Group Limited (the Company) and the Board of Directors (the Board) are committed to achieving and demonstrating the highest standards of corporate governance. The Board endorses the 2nd edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles) issued by the ASX Corporate Governance Council in August 2007.

Set out below is a table describing the various ASX Principles and statements as to 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
1.	Lay Solid Foundations For Management And Oversight		
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
2.	Structure The Board To Add Value		
2.1	A majority of the Board should be independent Directors.	Refer page 6, 7	Complied
2.2	The Chair should be an independent Director.	Refer page 6, 7	Complied
2.3	The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.	Refer page 7	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 8,9	Complied
2.6	Provide the information in the Guide to reporting on Principle 2.	Refer page 8	Complied
3.	Promote Ethical And Responsible Decision-Making		
3.1	Establish a code of conduct and disclose the code or summary of the code as to: - the practices necessary to maintain confidence in the Company's integrity; - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Refer page 9	Complied
3.2	Establish a policy concerning trading in Company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.	Refer page 9, 10	Complied
3.3	Provide the information in the Guide to reporting on Principle 3.	Refer page 9	Complied
4.	Safeguard Integrity In Financial Reporting		
4.1	The Board should establish an audit committee.	Refer page 10	Complied
4.2	The audit committee should be structured so that it: - consists only of non-executive Directors; - consists of a majority of independent Directors; - is chaired by an independent Chair, who is not Chair of the Board; and - has at least three members.	Refer page 10, 11	Complied
4.3	The audit committee should have a formal Charter.	Refer page 10, 11	Complied
4.4	Provide the information in the Guide to reporting on Principle 4.	Refer page 10	Complied

Principle Number	Best Practice Recommendation	Compliance	Reason For Non-Compliance
5.	Make Timely And Balanced Disclosures		
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
6.	Respect The Rights Of Shareholders		
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
7.	Recognise And Manage Risk		
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
8.	Remunerate Fairly And Responsibly		
8.1	The Board should establish a remuneration committee.	Refer page 12	Complied
8.2	Clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	Refer page 13	Complied
8.3	Provide the information in the Guide to reporting on Principle 8.	Refer page 12	Complied

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;
- Board Nomination Charter;
- Audit & Risk Compliance 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 management; and
- to take and fulfill 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 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 management of the Group. These delegations are reviewed as appropriate.

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 management and performance is assessed against these performance targets. A performance assessment for the Chief Executive Officer and senior management last took place in January 2010.

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. These 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 represent 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 two executive Directors and three non-executive Directors (including the Chairman). The three non-executive Directors have no relationships adversely affecting independence and so are deemed independent under the principles set out above.

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.

Mr Nigel Nixon, 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 Nixon previously held the position of joint master franchisee of the Donut King franchise system and the Board considers that it is in the best interests of all shareholders to have a Director with Mr Nixon'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.

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 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 specifies that these (the role of the Chairman and Chief Executive Officer) are separate roles to be undertaken by separate people.

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 fourteen Board meetings during FY11.

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 2011, 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 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 work.

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 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 and Remuneration Committees are majority comprised of non-executive Directors. The Audit & risk Management Committee is 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 of these charters are reviewed on an annual basis. All matters determined by the committees are submitted to the Board as recommendations for Board consideration.

Minutes of committee meetings are tabled at the subsequent Board meeting.

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 management. The Nominations Committee consists of the following Directors:

- Mr John Cowley (Chairman);
- Mr Colin Archer; and
- Mr Bruce Hancox.

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, 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 management; and
- ensuring that the performance of each Director, and of all members of senior management, is reviewed and assessed each year in accordance with procedures adopted by the Board.

Nominations Committee (cont.)

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 fully endorsed by the Board and applies to all Directors and employees. The Code is regularly 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 Management And Employees

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

The Code of Conduct for Transactions in Securities provides that trading is normally permitted during the four weeks immediately following the announcement of the Company's half and full year results and during the four weeks following the Company's Annual General Meeting (or such other times as the Board may agree from time to time). In such instances trading is only permitted where such persons are not privy to price sensitive information or where such trading is not for short term or speculative gain.

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

The sale of securities is also permitted with the written authority of the Board where, for example, it can be shown that the securities are being sold:

- to realise cash in time of need;
- for asset portfolio management purposes;
- to enable the disposer to realign business investments;
- as a consequence of the disposer determining to change his or her investment weighting; or,
- where the securities are transferred from one member of a family or trust to another when to delay the transaction to the next permitted trading period would be detrimental to the family's affairs,

and provided that such trading is not considered to be:

- contrary to law;
- for speculative gain;
- to take advantage of insider knowledge; and,
- perceived by the public, press, other shareholders or ASX as unfair.

No person to whom the Code applies can sell more than \$200,000 worth of securities without having first sought counsel from the Company's Chairman as to the form and timing of the sale of such securities.

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 Colin Archer (Committee Chairman);
- Mr John Cowley; and
- Mr Bruce Hancox.

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 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;
- monitoring compliance with relevant legislative and regulatory requirements (including continuous disclosure obligations) and declarations by the Company Secretary in relation to those requirements;
- reviewing significant transactions which are not a normal part of the Group's business;
- reviewing the nomination, performance and independence of the external auditors, including recommendations to the Board for the appointment or removal of any external auditor;
- liaising with the external auditor and ensuring that the annual audit is conducted in an effective manner that is consistent with Committee members' information and knowledge and is adequate for shareholder needs;
- reviewing management processes supporting external reporting;
- 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.

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 2007.

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 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, 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 is 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.

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 management are responsible for identifying, evaluating and monitoring risk in accordance with the risk management framework. Senior 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 management's position on risk throughout the Group.

In particular, at the Board and senior management strategy planning sessions held throughout the year, the Chief Executive Officer and senior 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 Company'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 Company and are in accordance with the relevant Accounting Standards; and,
- the above 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 Company'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 for senior management and non-executive Directors. Its current members are:

- Mr John Cowley (Chairman);
- Mr Colin Archer; and
- Mr Bruce Hancox.

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 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 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.

Remuneration Committee (cont.)

The Committee reviews and sets key performance indicators (KPI's) relating to financial and non-financial targets for senior 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.

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 management of the Group are set out in the "Remuneration Report" section of the Directors' Report.

Remuneration for executive Directors and senior 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 and are granted share options.

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 2011. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Information About The Directors And Senior Management

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

Name	Particulars
Mr John Cowley	Independent non-executive Chairman, joined the Board on 13 October 2005. Mr Cowley is a member of the Audit and Risk Management Committee, and Chairman of the Nominations and Remuneration Committees. Mr Cowley has significant corporate and media experience having been involved in the media industry for more than 40 years. Mr Cowley is a member of the Order of Australia (General Division). Mr Cowley was re-elected to the Board at the Company's AGM held on 27 November 2009 following retirement by rotation.
Mr Anthony (Tony) Alford	Chief Executive Officer and Managing Director, Bachelor of Business (Accountancy), CPA. Mr Alford joined the Board on 28 October 2003. He has been an 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.
Mr Nigel Nixon	Corporate Counsel and Executive Director, Solicitor of the Supreme Court of Queensland and the Australian Capital Territory. Mr Nixon joined the Board on 29 November 2003. Mr Nixon is a former joint master franchisee of the Donut King South East Queensland and Northern New South Wales franchise territory. He also has experience in the operation of other franchise systems. Mr Nixon joined Retail Food Group in August 2002. Mr Nixon was re-elected to the Board at the Company's AGM held on 27 November 2009 following retirement by rotation.
Mr Colin Archer	Independent non-executive Director, Bachelor of Economics, CA, joined the Board on 12 April 2006. He has been an accountant in public practice for in excess of 25 years. Mr Archer is a Chartered Accountant, registered auditor and tax agent. He specialises in management and letting rights, property trusts, mergers and acquisitions and corporate governance. Mr Archer is Chairman of the Audit and Risk Management Committee and a member of the Nominations and Remuneration Committees. Mr Archer was re-elected to the Board at the Company's AGM held on 30 November 2010 following retirement by rotation.
Mr Bruce Hancox	Independent non-executive Director, joined the Board 14 December 2007. Mr Hancox has over 35 years corporate experience in manufacturing and retailing including 19 years with Brierley Investments Limited where he occupied the position of Chief Executive Officer and Chairman of the Board. He is a member of the Company's Nominations, Remuneration and Audit and Risk Management Committees. Mr Hancox was re-elected to the Board at the Company's AGM held on 30 November 2010 following retirement by rotation.

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 John Cowley	Oaks Hotels and Resorts Limited	2 November 2005 to 26 May 2011
Mr Colin Archer	Oaks Hotels and Resorts Limited	24 April 2005 to 26 May 2011

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 John Cowley	257,195	-
Mr Anthony (Tony) Alford	22,636,385	-
Mr Nigel Nixon	5,650,387	210,333
Mr Colin Archer	362,844	-
Mr Bruce Hancox	-	-

Remuneration Of Directors And Senior Management

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

Share Options Granted To Directors And Senior Management

During and since the end of the financial year an aggregate of 625,000 share options were granted to the following Directors and senior management of the Company as part of their remuneration:

Directors And Senior Management	Number Options Granted	Issuing Entity	Number Ordinary Shares Under Option	Number Options Subsequently Cancelled
Mr Anthony (Tony) Alford	250,000	Retail Food Group Limited	250,000	250,000
Mr Anthony Mark Connors	25,000	Retail Food Group Limited	25,000	-
Mr Gary Best	50,000	Retail Food Group Limited	50,000	-
Mr Damien Peters	40,000	Retail Food Group Limited	40,000	-
Ms Tracey Catterall	20,000	Retail Food Group Limited	20,000	-
Mr Gary Alford	20,000	Retail Food Group Limited	20,000	-
Mr Gavin Nixon	20,000	Retail Food Group Limited	20,000	-
Mr Nigel Nixon	200,000	Retail Food Group Limited	200,000	100,000

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, 14 Board meetings, 4 Audit and Risk Management Committee meetings, 2 Remuneration Committee meetings and 2 Nominations Committee meetings were held.

Directors	Board of Directors		Audit Committee		Remuneration Committee		Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr John Cowley	14	13	4	4	2	2	2	2
Mr Anthony (Tony) Alford	14	14	n/a	n/a	n/a	n/a	n/a	n/a
Mr Nigel Nixon	14	14	n/a	n/a	n/a	n/a	n/a	n/a
Mr Colin Archer	14	12	4	3	2	2	2	2
Mr Bruce Hancox	14	14	4	4	2	2	2	2

Mr John Cowley and Mr Colin Archer were excluded from 1 directors' meeting as they were conflicted on the topic under discussion.

Company Secretary

The Company Secretary is 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 Bakeries, Michel's Patisserie, and Esquires Coffee Houses franchise systems;
- development and management of the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquires Coffee Houses franchise systems throughout Australia and New Zealand, and international licensor throughout the rest of world of all systems excluding Esquires Coffee Houses; and,
- development and management of the Coffee Roasting Facility and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquires Coffee Houses franchise systems.

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:

- the acquisition of the:
 - Esquires Coffee Houses franchise system on 7 February 2011.
- the continuing structural enhancement of the Michel's Patisserie franchise system from a wholesale supply and distribution model to a traditional royalty based model.

Review Of Operations And Financial Condition

Group Overview

The following table summarises the Group's results for the financial years 30 June 2011 and 2010:

	FY11	FY10	Change
Adjusted Revenue	\$77.8m	\$66.6m	16.8%
EBIT	\$45.1m	\$43.8m	3.0%
NPAT (Core Operations)	\$27.9m	\$26.4m	5.7%
NPAT	\$27.2m	\$26.0m	4.6%
EPS (Core Operations)	26.0 cps	25.6 cps	1.6%
EPS (Basic)	25.4 cps	25.3 cps	0.4%
Final Dividend per Share (DPS)	7.5 cps	6.5 cps	15.4%
Franchised Outlets	1,148	1,122	+26 outlets
Net Debt	\$70.5m	\$72.8m	(3.2%)

The Group's results for the 2011 financial year reflect a solid performance from its resilient business model in difficult economic, retail and climactic conditions.

The Group and approximately 17% (or 193) of its franchisees were directly affected by devastating natural disasters and weather events over the critical Christmas / January trading period. The unfavourable impact of these events on EBITDA and NPAT has been estimated to be \$2.9 million and \$2.0 million, respectively.

Total network sales across the Group's five franchise systems for FY11 were \$651.1 million, an increase of \$10.5 million over the previous year.

Network sales increased as a consequence of:

- moderate increases in average weekly sales and average transaction values (ATV) across the Donut King, bb's Café, Brumby's Bakeries and Michel's Patisserie franchise systems; and,
- 40 organic outlet commissionings augmented by the acquisition of 47 new Esquires Coffee Houses outlets.

Earnings per share (EPS) for the year increased 0.4% (or 0.1 cents) to 25.4 cents.

Given the Group's continuing strong cash position, the Directors declared a fully franked final ordinary dividend of 7.5 cents per share, taking the full year dividend to 14.5 cents per share, an increase of 23.4% on the prior year.

Review Of Operations And Financial Condition (cont.)

The Company's NPAT represents the sixth successive year that RFG has delivered shareholders record annual profit growth, reflecting a cumulative average growth rate (CAGR) of 35.75% for NPAT and 24.18% for EPS since Listing in June 2006.

Acquisitions

Esquires Coffee Houses Franchise System

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

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

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

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

- \$6.9 million (NZD\$9.1 million) cash paid to the vendor on settlement; and,
- an earnout payable in scrip in the Company to a maximum value of NZD\$0.6 million. (At the acquisition date, the Directors determined that a further payment would not be probable and estimated the fair value of this obligation to be nil).

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

Earnings Performance

Total revenue (excluding marketing) for FY11 was \$110.0 million, or \$8.6 million (7.3%) less than FY10 total revenue.

The decrease in total revenue is a consequence of the transition of the Michel's Patisserie franchise system from a wholesale bakery supply and distribution model to a traditional royalty based model typically operated by the Group. Total revenue will continue to decline until this transition has been completed.

After excluding the decrease in revenue as a result of the transition, FY11 adjusted revenue increased by 16.8% (\$11.2 million) to \$77.8 million.

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

Franchising Operations

Franchising Operations incorporates the development and management of the Group's retail franchise systems – Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquires Coffee Houses – and involves the following principal activities:

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

Segment revenue for FY11 was \$69.0 million (FY10: \$61.3 million), representing growth of \$7.7 million (or 12.6%), driven by:

- new outlet openings;
- growth in average weekly sales (of which the Group earns a royalty); and,
- the additional business attributable to four acquisitions completed by the Group during FY10.

Segment revenue includes revenues derived from marketing activities of \$15.7 million (FY10: \$15.4 million).

Review Of Operations And Financial Condition (cont.)

Earnings Performance (cont.)

Wholesale / Retail Operations

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

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

Segment revenue for FY11 was \$56.4 million (FY10: \$72.5 million), representing a decline of \$16.1 million.

As noted previously, the decrease in wholesale / retail revenue is a consequence of the strategic transition of the Michel's Patisserie franchise system from a wholesale bakery supply and distribution model to a traditional royalty based model typically operated by the Group.

Wholesale / retail revenue includes sales revenue of \$32.2 million (FY10: \$52.0 million) derived from the wholesale bakery supply to Michel's Patisserie outlets.

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

Segment	Segment Revenues		Segment Profit	
	FY11 \$'000	FY10 \$'000	FY11 \$'000	FY10 \$'000
Franchising Operations	68,950	61,340	36,221	30,133
Wholesale / Retail Operations	56,360	72,493	9,653	15,488
	125,310	133,833	45,874	45,621
Other gains and losses			(96)	(623)
Interest revenue	345	155	345	155
Finance costs			(6,939)	(7,606)
Unallocated	-	38	(748)	(976)
Profit before tax			38,436	36,571
Income tax expense			(11,212)	(10,552)
Revenue and profit for the year	125,655	134,026	27,224	26,019

Consolidated Result

Net Profit After Tax (NPAT) of \$27.2 million was up 4.6% (or \$1.2 million) on the prior year.

Ignoring the impacts of derivative financial instruments (interest rate swaps) (FY11: \$1.0 million loss; FY10: \$0.5 million loss) and non-recurring gains (FY11: \$0.1m gain, FY10: \$nil), NPAT from Core Operations of \$27.9 million represents a 5.7% increase on underlying NPAT achieved in FY10.

Other highlights included:

- gross margin expansion to 71.3% (based on combined performance of wholesale/retail and franchising operations segments) reflected benefits of Michel's Patisserie system conversion and related distribution savings, as well as increasing contribution from coffee operations;
- increase in coffee revenue to \$13.8 million from supply to RFG's franchise systems and third party contracts; and,
- strong earnings performance supporting cash flows and allowing an increased dividend payout ratio to 57.4% with a record dividend to shareholders.

Review Of Operations And Financial Condition (cont.)

Financial Position and Cash Flows

Total net assets of \$156.8 million have increased by \$18.0 million (13.0%) from FY10 reflecting the Group's reducing working capital requirements and debt management.

Overall increase in cash holdings by \$2.1 million (15.8%) in FY11 reflects continuing strong cash flows – a feature of Retail Food Group's business model – supported by balanced investment and financing activities.

Cash inflows from operating activities for FY11 were \$26.8 million, decrease of 8.2% on FY10 (\$2.4 million), and reflected a conversion to EBITDA of 97.3% (FY10: 98.2%). The decrease in cash from operating activities reflects additional expenditure of \$1.2 million on point of sale system inventory and \$1.0 million timing differences resulting from the Michel's Patisserie distribution restructuring.

Surplus free cash from operations was used to fund:

- the increase in dividend payout ratio to 57.4% (FY10: 46.7%);
- the acquisition of Esquires Coffee Houses franchise system in New Zealand, and the Australian and New Zealand right to the Esquires Intellectual Property (\$8.4 million);
- the further voluntary debt reduction of \$9.0 million; and,
- the acquisition and fit out of the new Group national office incorporating expanded training and R&D facilities (\$5.6 million).

Debt Structure

As at 30 June 2011, the Group's total debt was \$85.6 million and is shown as a non-current liability in the Statement of Financial Position, reflecting its maturity date of August 2013.

The Group's senior debt facility was refinanced with the National Australia Bank (NAB) in August 2010, key points of which are as follows:

- 3 year term;
- the loan structure allows for the voluntary repayment of debt (repayments of \$9.0 million and \$10.0 million made in July 2010 and July 2011, respectively);
- the loan covenants are limited to interest cover, leverage and gearing; and,
- there are stepdown loan pricing targets (range 170bps to 150bps over BBSY).

The foregoing is consistent with the Group's stated capital management policies.

The Group continues to be totally compliant with lending covenants.

The Group holds some interest rate swaps to manage interest rate exposure. At 30 June 2011, these swaps had a notional principal of \$67.8 million and a weighted average interest rate of 7.42%.

In July 2008, the Group designated the interest rate swaps as hedges, reducing the ongoing volatility in the income statement. The aggregate fair value of the Group's interest rate swaps at 30 June 2011 was \$2.1 million payable (FY10: \$3.7 million payable).

The Group's leverage ratio of 1.51 times (FY10: 1.89) and gearing ratio of 30.1% (FY10: 34.4%) reflect the execution of an active capital management strategy throughout FY11.

Performance Indicators

New Outlets

New outlets for FY11 totalled 87 (FY10: 97) and were derived from:

- 47 by franchise system acquisition – during FY11, the Group acquired the Esquires Coffee Houses franchise system; and,
- 40 by organic growth.

The FY11 organic new outlet growth was reflective of depressed shopping centre development, reduced premium site opportunities, and prospective franchisee caution.

Review Of Operations And Financial Condition (cont.)

Performance Indicators (cont.)

Franchise System	Details
Donut King	23 new outlet commissionings (FY10: 19) and 16 outlet closures (FY10: 9) resulting in organic Donut King net system growth during FY11 of 7 (FY10: 10). As at 30 June 2011 there were 348 Donut King outlets operating in Australia, predominantly in New South Wales (145 outlets) and Queensland (97 outlets). As at 30 June 2011 there were 17 Donut King outlets located in international locations, as follows: • 14 in China • 1 in New Zealand • 1 in Papua New Guinea • 1 Saudi Arabia
Brumby's Bakeries (including Big Dad's Pies)	8 new outlet commissionings (FY10: 10) and 11 outlet closures (FY10: 11) resulting in Brumby's Bakeries net system reduction during FY11 of 3 (FY10: 1). As at 30 June 2011 there were 310 Brumby's Bakeries outlets operating in Australia with outlet commissionings growth being experienced primarily in Queensland, Victoria and Western Australia. As at 30 June 2011 there were 16 Brumby's Bakeries outlets located in New Zealand, and 1 outlet located in Papua New Guinea. As at 30 June 2011, there were 22 Big Dad's Pies outlets operating in South East Queensland. 1 new Big Dad's Pies outlet was commissioned in FY11, while 16 outlets were closed. Fourteen of the 16 closed outlets were associated with the insolvency of the original owner and vendor of the Big Dad's Pies franchise system.
Michel's Patisserie	7 new outlets commissionings (FY10: 7) and 12 outlet closures (FY10: 15) resulting in Michel's Patisserie net system reduction during FY11 of 5 (FY10: 8). As at 30 June 2011 there were 328 Michel's Patisserie outlets operating in Australia with outlet commissionings growth being experienced primarily in Victoria, South Australia and Western Australia. In New South Wales, outlet numbers declined. As at 30 June 2011 there were 4 Michel's Patisserie outlets located in New Zealand.
bb's café	5 outlet closures (FY10: 3) resulting in bb's café net system reduction during FY11 of 5 (FY10: 2). As at 30 June 2011 there were 55 bb's café outlets (FY10: 60), 19 of which are located in New Zealand (FY10: 22).
Esquire's Coffee Houses	The Esquires Coffee Houses franchise system was acquired on 7 February 2011, with 47 outlets located in New Zealand. As at 30 June 2011 there were 47 outlets in New Zealand.

Review Of Operations And Financial Condition (cont.)

Performance Indicators (cont.)

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

Franchise System (Australia Only)	Average Weekly Sales (AWS)			Average Transaction Value (ATV)		
	2009 \$	2010 \$	2011 \$	2009 \$	2010 \$	2011 \$
Donut King	9,256	9,357	9,469	4.93	5.11	5.23
<i>Growth</i>	<i>0.8%</i>	<i>1.1%</i>	<i>1.2%</i>	<i>7.4%</i>	<i>3.7%</i>	<i>2.4%</i>
bb's café	11,242	11,329	11,499	7.16	7.41	7.57
<i>Growth</i>	<i>9.4%</i>	<i>0.8%</i>	<i>1.5%</i>	<i>7.9%</i>	<i>3.4%</i>	<i>2.1%</i>
Brumby's Bakeries	13,410	13,488	13,528	5.65	5.81	5.97
<i>Growth</i>	<i>6.2%</i>	<i>0.6%</i>	<i>0.3%</i>	<i>5.6%</i>	<i>2.8%</i>	<i>2.7%</i>
Michel's Patisserie	11,868	12,140	12,383	6.08	6.35	6.52
<i>Growth</i>	<i>4.2%</i>	<i>2.3%</i>	<i>2.0%</i>	<i>2.5%</i>	<i>4.4%</i>	<i>2.7%</i>

Donut King outlet average weekly sales growth of 1.2% was assisted by a 2.4% increase in average transaction values as a result of the continued proliferation of qualified Barista's in every store, coffee centric marketing campaigns & a strong emphasis on up-selling.

The bb's café outlet average weekly sales growth for Australian outlets was 1.5% on FY10 driven by a strong focus on driving ATV through menu extension into the lunch day part.

Brumby's Bakeries outlet average weekly sales growth of 0.3% was assisted by a 2.4% increase in average transaction values through new product development centred around higher RRP items and a strong emphasis on product bundling.

Michel's Patisserie outlet average weekly sales growth of 2.3% was assisted by a 2.7% increase in average transaction values from capitalizing on the announcement of "Best Tasting Coffee" voted by Choice Magazine and the 'soft' launch of online cake ordering.

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

Future Developments

Performance Indicators

New Outlet Growth

Total outlets for the Group as at 30 June 2012 are forecast to be 1,162 a net increase of 14 stores based on forecast organic new store growth of 50 outlets, and 36 forecast closures. This forecast recognises the present impact on the Group of stagnant shopping centre development and reduced premium site opportunities.

FY12 Outlets Forecast	Donut King	bb's café	Brumby's Bakeries	Michel's Patisserie	Esquires Coffee Houses	Total
Beginning stores	365	55	349	332	47	1,148
Commissionings	20	-	10	11	9	50
Conversions	-	(3)	-	-	3	-
Closures	(11)	(2)	(10)	(11)	(2)	(36)
Net growth anticipated	9	(5)	-	-	10	14
Closing stores	374	50	349	332	57	1,162

Future Developments (cont.)

Performance Indicators (cont.)

Outlet Average Weekly Sales (AWS) and Average Transaction Values (ATV)

The maintenance of positive weighted average AWS growth (in excess of 1.5%) across all systems in FY11 continues to support the proposition that the Group's five franchise systems are resilient to significant changes in economic conditions. In addition, an increasing ATV fortifies franchisee and outlet performance against increasing competition and decline in retail traffic flow.

The Group views FY12 as being a continuation of the very challenging economic and retail environment experienced in FY11.

Operational and Financial Targets

In FY12, management's focus will continue to be on sustaining growth and positioning its franchisees (particularly those impacted by recent natural disasters) to emerge in good order from the current challenging economic environment.

It is anticipated that the transition of remaining Michel's Patisserie franchisees from the acquired "wholesale-distribution" based system to a traditional "royalty-based" system will reach 300, backed by progress in the development of the national bakery distribution model.

Other growth strategies will continue to be directed towards:

- the completion of further international licensing opportunities for the Donut King, Brumby's, Michel's and Esquires Coffee Houses systems;
- further development and establishment of non-traditional sites;
- expansion of coffee opportunities (including third party contracts) domestically and internationally via the recently acquired Evolution Coffee Group;
- introduction of the Digital Loyalty Program;
- further development of digital menu panels and screens, "in store" designs and refurbishments;
- investment in in-store technology and social engagement media to create stronger brand experience and advocacy;
- fortification of franchise gross margin;
- continual conversion of bb's café outlets into Esquires Coffee Houses where viable;
- category menu re-invigoration incorporating all parts of the day offers and combination offers; and,
- maximising supply-chain efficiencies across all systems, for the benefit of all concerned stakeholders.

The Group also expects the strong cash flows of FY11 to continue in FY12, with a view to further reducing its net debt position and progressively increasing the dividend payout ratio to circa 60%.

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

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 believe 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:

Final Dividend

On 16 August 2011, the Board of Directors declared a final dividend in respect of profits of the financial year ending 30 June 2011. The final dividend of 7.50 cents per share (based on 108,146,283 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 6 October 2011. The final dividend was approved by the Directors following the conclusion of FY11 and therefore was not provided for in the year end financial report. The Board also resolved to suspend the Company's Dividend Reinvestment Plan ("DRP"). The final FY11 dividend will not constitute an eligible dividend for the purpose of the DRP.

Significant Events After The Balance Date (cont.)

Debt Management

On 4 July 2011, as part of the Group's debt facility management strategy, the Group made a voluntary debt reduction of \$10.0 million, thereby reducing the drawn amount of the Group's Debt Facility to \$75.6 million.

Acquisition Of Esquires Coffee Houses

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

The MF Contract provided for the issue of scrip in the Company subject to a sliding scale mechanism dependent upon the vendor meeting certain performance conditions with regard to the establishment of additional ECH outlets.

On 7 August 2011, the Group determined that the contingent consideration payable in accordance with the sliding scale mechanism would be nil.

Acquisition Of New Zealand Coffee Assets

On 28 July 2011, the Group announced that it had reached an agreement, subject to normal contractual terms and finalisation of due diligence enquiry, by which the business and intellectual property assets of the New Zealand domiciled Evolution Coffee Roasters Group, would be acquired. The Evolution Roasters Group comprises:

- (1) Evolution Coffee Roasters: operator of a state-of-the-art coffee roasting facility in Auckland that presently manufactures and distributes approximately 170 tonnes annually of premium coffee products on a wholesale and contract roasting basis throughout New Zealand (including 60 tonnes presently supplied to RFG's Esquires Coffee Houses franchise system), Asia and the Middle East;
- (2) Roasted Addition Coffee Dealers: merchandiser of a range of proprietary premium coffee blends and syrups (under the 'Roasted Addition' brand) to an existing customer base of approximately 150 cafes, restaurants and supermarkets throughout New Zealand; and,
- (3) Evil Child Beverage Co.: manufacturer of premium drinking chocolate powders and frappe blends (under the 'Evil Child Beverages' brand) supplying cafes, restaurants and supermarkets throughout New Zealand.

Settlement was completed on 1 September 2011, with control of the business and intellectual property transferring to the Group at that time.

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.

Dividends

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

Company	FY11		FY10	
	Cents Per Share	Total \$'000	Cents Per Share	Total \$'000
Recognised amounts				
<u>Fully paid ordinary shares</u>				
Final dividend – fully franked at 30% tax rate ⁽¹⁾	6.500	6,934	4.750	4,765
Interim dividend – fully franked at 30% tax rate ⁽²⁾	7.000	7,515	5.250	5,441
	13.500	14,449	10.000	10,206
Unrecognised amounts				
<u>Fully paid ordinary shares</u>				
Final dividend – fully franked at 30% tax rate ⁽³⁾	7.500	8,111	6.500	6,934

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

(2) In respect of profits of the financial year ended 30 June 2011, an interim dividend of 7.00 cents per share (based on 107,359,927 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 6 April 2011. The interim dividend was approved by the Directors on 17 February 2011 and it was resolved that the interim dividend would 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 2011, a final dividend of 7.50 cents per share (based on 108,146,283 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 6 October 2011. The final dividend was approved by the Directors on 16 August 2011 and therefore was not provided for in the Company's financial report. The Board resolved to suspend the Company's DRP therefore the final FY11 dividend will not constitute an eligible dividend for the purpose of the DRP.

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	203,334	Ordinary	\$1.00	31/07/12
Retail Food Group Limited	66,665	Ordinary	\$1.15	31/07/12
Retail Food Group Limited	80,004	Ordinary	\$1.15	31/07/13
Retail Food Group Limited	117,500	Ordinary	\$1.32	31/07/12
Retail Food Group Limited	70,000	Ordinary	\$1.32	31/07/13
Retail Food Group Limited	90,000	Ordinary	\$1.32	31/07/14
Retail Food Group Limited	145,000	Ordinary	\$1.50	16/02/12
Retail Food Group Limited	100,000	Ordinary	\$1.50	30/11/12
Retail Food Group Limited	260,000	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.

Shares Under Option Or Issued On Exercise Of Options (cont.)

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	1,202,368	Ordinary	\$1,336,109	\$nil

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 (as named above), 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 (in it) 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 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 35 of the financial report.

Rounding Off Of Amounts

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

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 management for the financial year ended 30 June 2011. The prescribed details for each person covered by this report are contained below under the following headings:

- Director and senior management details;
- remuneration policy;
- relationship between the remuneration policy and Group performance;
- remuneration of Directors and senior 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 Management Details

The Company does not remunerate any of its Directors, key management personnel or specific executives. Rather, the Directors, key management personnel and specific executives are remunerated via subsidiaries of the Company. Hence, separate remuneration disclosure for the Company is not required.

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

- Mr John Cowley (Chairman)
- Mr Anthony (Tony) Alford (Managing Director and Chief Executive Officer)
- Mr Nigel Nixon
- Mr Colin Archer
- Mr Bruce Hancox

The term 'senior management' is used in this remuneration report to refer to the following persons. 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 Anthony Mark Connors (Company Secretary and Legal Counsel)
- Mr Gary Best (Chief Operating Officer)
- Mr Damien Peters (Chief Financial Officer)
- Ms Tracey Catterall (Chief Marketing Officer)
- Mr Gary Alford (Head of Strategy – Franchise)
- Mr Gavin Nixon (Head of Emerging Markets)

2. Remuneration Policy

The Group 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 congested and competitive marketplace.

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

- motivate executive and non-executive personnel to successfully manage and lead the Group with a view to 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.

When determining executive remuneration packages, the Group 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,
- 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.

Remuneration Report (cont.)

2. Remuneration Policy (cont.)

When determining non-executive remuneration packages, the Group 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 for senior management and non-executive Directors.

Among the functions performed by the Committee are the following:

- review and evaluation of market practices and trends on remuneration matters;
- 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 management and non-executive Directors; and,
- recommendations to the Board in relation to the remuneration of senior management and non-executive Directors.

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

- annual review of executive and senior management member packages by reference to Group performance, executive performance, comparable information from industry sectors and other listed companies;
- the need to attract, retain and motivate the highest calibre executives and reward them for performance which results in long-term growth in shareholder value;
- all bonuses, options and incentives must be linked to pre-determined performance criteria; and,
- any changes must be referential to measurable performance criteria.

3. Relationship Between Remuneration Policy And Group Performance

The compensation structures outlined below 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 control and deliver the Group's forecast results;
- the attainment of pre-determined KPIs developed specially for the executive's role;
- the Group's performance including:
 - the Group's earnings;
 - the growth in earnings per share and return on shareholder wealth; and,
- the amount of 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.

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, 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%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Remuneration Report (cont.)

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

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 executives. The KPIs generally include 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 believes achievement of the annual forecast and budget is therefore the most relevant short-term performance condition.

The financial performance objectives include but are not 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 commissionings, 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 Committee with an objective assessment of the individual's performance.

Long-term Incentive Bonus

Options have been 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.

The table below sets out summary information about the Group's earnings and movements in shareholder wealth for the five years to June 2011:

Metrics	FY07	FY08	FY09	FY10	FY11
EBIT	\$12.2m	\$34.4m	\$40.3m	\$43.8m	\$45.1m
NPAT	\$7.5m	\$17.6m	\$23.5m	\$26.0m	\$27.2m
Share price at start of financial year	\$0.85	\$1.49	\$1.27	\$1.60	\$2.65
Share price at end of financial year	\$1.49	\$1.27	\$1.60	\$2.65	\$2.41
Interim dividend	3.125 cps	4.0 cps	4.5 cps	5.25 cps	7.00 cps
Final dividend	3.125 cps	4.5 cps	4.75 cps	6.50 cps	7.50 cps
Basic EPS	10.5 cps	19.9 cps	23.7 cps	25.3 cps	25.4 cps
Diluted EPS	10.4 cps	19.8 cps	23.6 cps	25.0 cps	25.2 cps

Remuneration Report (cont.)

4. Remuneration Of Directors And Senior Management

FY11	Short-term Employment Benefits			Post Employment Benefits	Share-based Payments	Total	Consisting of Options
	Salary & Fees	Bonus	Other	Super-annuation	Options		
	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors							
Mr John Cowley	68,808	-	-	6,193	731	75,732	1.0
Mr Colin Archer	56,881	-	-	5,119	731	62,731	1.2
Mr Bruce Hancox	62,000	-	-	-	-	62,000	-
Executive Directors and senior management							
Mr Anthony (Tony) Alford ⁽²⁾	524,789	-	-	16,200	1,448	542,437	0.3
Mr Nigel Nixon ⁽²⁾	360,368	-	-	-	109,241	469,609	23.3
Mr Anthony Mark Connors ⁽¹⁾	190,565	-	-	17,151	9,240	216,956	4.3
Mr Gary Best ⁽¹⁾	238,356	-	-	20,642	17,032	276,030	6.2
Mr Damien Peters ⁽¹⁾	168,948	-	-	15,205	13,684	197,837	6.9
Ms Tracey Catterall	130,616	-	1,800	11,755	6,233	150,404	4.1
Mr Gary Alford ⁽¹⁾	204,031	-	-	18,363	7,682	230,076	3.3
Mr Gavin Nixon ⁽¹⁾	207,020	-	4,200	-	7,682	218,902	3.5

⁽¹⁾ denotes one of the 5 highest paid executives of the Group (excluding executive directors), as required to be disclosed under the Corporations Act 2001.

⁽²⁾ Tier 10 options were granted to Mr Anthony (Tony) Alford and Mr Nigel Nixon during the FY11 year. The options were cancelled on 30 June 2011. The value of these options were \$121,805 and \$48,722 respectively.

Remuneration Report (cont.)

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

FY10	Short-term Employment Benefits			Post Employment Benefits	Share-based Payments	Total	Consisting of Options
	Salary & Fees	Bonus	Other	Super-annuation	Options		
	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors							
Mr John Cowley	68,808	-	-	6,193	3,253	78,254	4.2
Mr Colin Archer	56,881	-	-	5,119	3,181	65,181	4.9
Mr Bruce Hancox	62,000	-	-	-	-	62,000	-
Executive Directors and senior management							
Mr Anthony (Tony) Alford	491,000	120,000	-	16,200	6,215	633,415	1.0
Mr Nigel Nixon	350,000	50,000	1,141	-	6,127	407,268	1.5
Mr Anthony Mark Connors ⁽¹⁾	178,899	15,000	-	16,101	33,693	243,693	13.8
Mr Gary Best ⁽¹⁾	229,358	21,588	-	20,642	75,270	346,858	21.7
Mr Damien Peters ⁽¹⁾	160,550	48,750	415	14,450	37,536	261,701	14.4
Ms Tracey Catterall	112,004	4,000	1,800	10,080	6,911	134,795	5.1
Mr Gary Alford ⁽¹⁾	196,329	10,000	914	17,670	26,912	251,825	10.7
Mr Gavin Nixon ⁽¹⁾	205,000	5,000	4,200	-	26,824	241,024	11.1

⁽¹⁾ denotes one of the 5 highest paid executives of the Group (excluding executive directors), as required to be disclosed under the Corporations Act 2001.

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

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

	Fixed		Short-Term Incentive		Long-Term Incentive	
	FY11	FY10	FY11	FY10	FY11	FY10
Non-Executive Directors						
Mr John Cowley	99.0%	95.8%	-	-	1.0%	4.2%
Mr Colin Archer	98.8%	95.1%	-	-	1.2%	4.9%
Mr Bruce Hancox	100.0%	100.0%	-	-	-	-
Executive Directors and senior management						
Mr Anthony (Tony) Alford	99.7%	80.1%	-	18.9%	0.3%	1.0%
Mr Nigel Nixon	76.7%	86.2%	-	12.3%	23.3%	1.5%
Mr Anthony Mark Connors	95.7%	80.0%	-	6.2%	4.3%	13.8%
Mr Gary Best	93.8%	72.1%	-	6.2%	6.2%	21.7%
Mr Damien Peters	93.1%	67.0%	-	18.6%	6.9%	14.4%
Ms Tracey Catterall	95.9%	91.9%	-	3.0%	4.1%	5.1%
Mr Gary Alford	96.7%	85.3%	-	4.0%	3.3%	10.7%
Mr Gavin Nixon	96.5%	86.8%	-	2.1%	3.5%	11.1%

Bonuses

There were no short term incentive bonuses awarded to Directors or senior management for their performance during the year ended 30 June 2011.

Remuneration Report (cont.)

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

Executive Share Option Plan

The Group has an ownership-based compensation scheme for Directors, executives and senior employees of the Group. 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 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.

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 1A	01/08/06	31/07/10	\$0.1480	\$1.00	01/08/07
Tier 1B	01/08/06	31/07/11	\$0.1704	\$1.00	01/08/08
Tier 1C	01/08/06	31/07/12	\$0.1849	\$1.00	01/08/09
Tier 2A	01/08/07	31/07/11	\$0.5813	\$1.15	01/08/08
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 4A	01/04/08	31/03/11	\$0.1782	\$1.67	01/04/08
Tier 5A	01/04/08	31/03/12	\$0.1909	\$1.92	01/04/09
Tier 6A	17/02/10	16/02/12	\$1.3822	\$1.50	17/02/10
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
Tier 10	01/12/10	30/11/13	\$0.4872	\$2.78	01/12/11

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 management to the Group. Options are forfeited if the Director, executive or senior management ceases to be employed by the Group prior to the exercise of the option.

The Tier 10 options were cancelled on 30 June 2011.

Remuneration Report (cont.)

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

Executive Share Option Plan (cont.)

The following grants of share-based payment compensation to Directors and senior management relate to the financial year:

Name	Option Series	During The Financial Year			
		No. Granted	No. Vested	% Of Grant Vested	% Of Grant Forfeited
Mr John Cowley	Tier 2C	-	7,034	100%	-
	Tier 3B	-	5,000	100%	-
Mr Anthony (Tony) Alford	Tier 2C	-	13,334	100%	-
	Tier 3B	-	10,000	100%	-
	Tier 10*	250,000	-	-	-
Mr Nigel Nixon	Tier 2C	-	13,334	100%	-
	Tier 3B	-	10,000	100%	-
	Tier 8	100,000	100,000	100%	-
	Tier 10*	100,000	-	-	-
Mr Colin Archer	Tier 2C	-	7,034	100%	-
	Tier 3B	-	5,000	100%	-
Mr Anthony Mark Connors	Tier 2C	-	13,334	100%	-
	Tier 3B	-	10,000	100%	-
	Tier 9	25,000	-	-	-
Mr Gary Best	Tier 2C	-	13,334	100%	-
	Tier 3B	-	10,000	100%	-
	Tier 9	50,000	-	-	-
Mr Damien Peters	Tier 3B	-	10,000	100%	-
	Tier 9	40,000	-	-	-
Ms Tracey Catterall	Tier 9	20,000	-	-	-
Mr Gary Alford	Tier 2C	-	13,334	100%	-
	Tier 3B	-	10,000	100%	-
	Tier 9	20,000	-	-	-
Mr Gavin Nixon	Tier 2C	-	13,334	100%	-
	Tier 3B	-	10,000	100%	-
	Tier 9	20,000	-	-	-

*Tier 10 options granted during the year were cancelled on 30 June 2011.

During the financial year, the following Directors and senior 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 Anthony (Tony) Alford	23,334	23,334	\$28,534	\$nil
Mr Colin Archer	100,000	100,000	\$100,000	\$nil
Mr Damien Peters	90,004	90,004	\$141,055	\$nil
Mr Gary Alford	63,333	63,333	\$63,333	\$nil
Mr John Cowley	46,667	46,667	\$46,667	\$nil

Remuneration Report (cont.)

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

Executive Share Option Plan (cont.)

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

	Value Of Options Granted At The Grant Date ⁽¹⁾	Value Of Options Exercised At The Exercise Date	Value Of Options Lapsed At The Date Of Lapse	Value Of Options Cancelled At The Date Of Cancellation
	\$	\$	\$	\$
Non-Executive Directors				
Mr John Cowley	-	74,667	-	-
Mr Colin Archer	-	160,000	-	-
Mr Bruce Hancox	-	-	-	-
Executive Directors and senior management				
Mr Anthony (Tony) Alford	121,805	29,801	-	98,360
Mr Nigel Nixon	156,514	-	-	39,344
Mr Anthony Mark Connors	11,653	-	-	-
Mr Gary Best	23,306	-	-	-
Mr Damien Peters	18,645	92,205	-	-
Ms Tracey Catterall	9,322	-	-	-
Mr Gary Alford	9,322	101,333	-	-
Mr Gavin Nixon	9,322	-	-	-

(1) The value of options granted during the year is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

5. Key Terms Of Employment Contracts

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

Name	Particulars
Mr John Cowley	No written employment contract has been entered into with the Company.
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.
Mr Bruce Hancox	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.

Remuneration Report (cont.)

5. Key Terms Of Employment Contracts (cont.)

The employment specifics of the executive Directors and senior 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) required the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd could terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Nigel Nixon	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) required the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd could terminate the employee by giving at least six (6) 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.
Mr Gary Best	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) required the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd could terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Damien Peters	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 one (1) month notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least one (1) month 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.
Mr Gavin Nixon	No written employment contract has been entered into with the Company.

The Directors believe 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 change in the scope of the role performed by the executive and any changes required to meet the principles of the Remuneration Policy.

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 J (TONY) ALFORD
Managing Director and CEO
Southport, 20th September 2011



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

20 September 2011

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 2011, 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

A stylized, handwritten signature in blue ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in blue ink that reads "M. Sheerin".

M G Sheerin
Partner
Chartered Accountants

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RETAIL FOOD GROUP LIMITED



Deloitte Touche Tohmatsu
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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 2011, 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 38 to 98.

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 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 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 entity'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 entity'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.

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

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 2011 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 26 to 34 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



M G Sheerin
Partner
Chartered Accountants
Brisbane, 20 September 2011

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, 20th September 2011

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Consolidated	Note	FY11 \$'000	FY10 \$'000
Continuing operations			
Revenue from sale of goods	6	56,360	72,493
Cost of sales	10	(36,471)	(48,321)
Gross profit		19,889	24,172
Other revenue	6	69,295	61,533
Other gains and losses	7	(96)	(623)
Selling expenses		(6,032)	(4,124)
Marketing expenses		(15,739)	(15,324)
Occupancy expenses		(1,899)	(1,881)
Administration expenses		(4,784)	(4,724)
Operating expenses		(13,030)	(13,322)
Finance costs	8	(6,939)	(7,606)
Other expenses		(2,229)	(1,530)
Profit before tax		38,436	36,571
Income tax expense	9	(11,212)	(10,552)
Profit for the year	10	27,224	26,019
Other comprehensive income			
Net gain on cash flow hedges		1,616	1,616
Net gain on net investment hedge		72	-
Other comprehensive income for the year, net of tax		1,688	1,616
Total comprehensive income for the year		28,912	27,635
Profit attributable to:			
Equity holders of the parent		27,224	26,019
Total comprehensive income attributable to:			
Equity holders of the parent		28,912	27,635
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)	11	25.4	25.3
Diluted (cents per share)	11	25.2	25.0
From continuing operations:			
Basic (cents per share)	11	25.4	25.3
Diluted (cents per share)	11	25.2	25.0

The statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

Consolidated	Note	FY11 \$'000	FY10 \$'000
Current assets			
Cash and cash equivalents	32	15,173	13,105
Trade and other receivables	12	12,066	13,094
Other financial assets	13	3,103	2,591
Inventories	14	2,359	2,299
Other	15	179	432
Total current assets		32,880	31,521
Non-current assets			
Trade and other receivables	12	138	-
Property, plant and equipment	16	7,853	2,749
Deferred tax assets	9	1,242	2,104
Intangible assets	17	215,658	207,118
Total non-current assets		224,891	211,971
Total assets		257,771	243,492
Current liabilities			
Trade and other payables	19	6,210	7,474
Borrowings	20	-	85,852
Current tax liabilities	9	4,556	4,963
Provisions	21	1,645	1,855
Other	22	745	788
Total current liabilities		13,156	100,932
Non-current liabilities			
Borrowings	20	85,638	-
Provisions	21	356	293
Other	22	1,772	3,462
Total non-current liabilities		87,766	3,755
Total liabilities		100,922	104,687
Net assets		156,849	138,805
Equity			
Issued capital	23	98,772	95,146
Reserves	24	(829)	(2,472)
Retained earnings	25	58,906	46,131
Total equity		156,849	138,805

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Consolidated		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 2009		80,959	606	(4,867)	30,318	107,016
Profit for the year		-	-	-	26,019	26,019
Other comprehensive income		-	-	1,616	-	1,616
Total comprehensive income		-	-	1,616	26,019	27,635
Issue of ordinary shares		12,124	-	-	-	12,124
Share issue costs		(204)	-	-	-	(204)
Related income tax		61	-	-	-	61
Issue of ordinary shares under DRP		1,326	-	-	-	1,326
Recognition of share-based payments		-	363	-	-	363
Issue of shares under executive share option plan		690	-	-	-	690
Transfer from equity-settled employee benefits reserve		190	(190)	-	-	-
Payment of dividends		-	-	-	(10,206)	(10,206)
Balance as at 30 June 2010		95,146	779	(3,251)	46,131	138,805
Balance as at 1 July 2010		95,146	779	(3,251)	46,131	138,805
Profit for the year		-	-	-	27,224	27,224
Other comprehensive income		-	-	1,688	-	1,688
Total comprehensive income		-	-	1,688	27,224	28,912
Share issue costs		(25)	-	-	-	(25)
Related income tax		8	-	-	-	8
Issue of ordinary shares under DRP		2,535	-	-	-	2,535
Recognition of share-based payments		-	194	-	-	194
Issue of shares under executive share option plan		869	-	-	-	869
Transfer from equity-settled employee benefits reserve		239	(239)	-	-	-
Payment of dividends		-	-	-	(14,449)	(14,449)
Balance as at 30 June 2011		98,772	734	(1,563)	58,906	156,849

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Consolidated	Note	FY11 \$'000	FY10 \$'000
Cash flows from operating activities			
Receipts from customers		136,830	147,726
Payments to suppliers and employees		(92,013)	(103,618)
Interest and other costs of finance paid		(6,555)	(6,877)
Income taxes paid		(11,422)	(7,990)
Net cash provided by operating activities		26,840	29,241
Cash flows from investing activities			
Payments to acquire financial assets		(2,200)	-
Proceeds from sale of financial assets		3,021	-
Interest received		345	154
Amounts advanced to other entities		(42)	(346)
Payments for property, plant and equipment		(5,800)	(644)
Proceeds from sale of property, plant and equipment		64	23
Payment for intangible assets	31	(1,517)	(5,200)
Payment for business	31	(6,920)	(6,300)
Net cash used in investing activities		(13,049)	(12,313)
Cash flows from financing activities			
Proceeds from issues of equity securities		869	10,004
Payment for share issue costs		(25)	(204)
Proceeds from borrowings		8,638	-
Payment for debt costs		(291)	(157)
Repayment of borrowings		(9,000)	(10,000)
Dividends paid		(11,914)	(8,880)
Net cash used in financing activities		(11,723)	(9,237)
Net (decrease) / increase in cash and cash equivalents		2,068	7,691
Cash and cash equivalents at the beginning of year		13,105	5,414
Cash and cash equivalents at the end of year	32	15,173	13,105

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

1. General Information

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

Registered Office	Principal Administration Office
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 Bakeries, Michel's Patisserie and Esquires Coffee Houses franchise systems;
- development and management of the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquires Coffee Houses franchise systems throughout Australia and New Zealand, and international licensor throughout the rest of world; and,
- development and management of the Coffee Roasting Facility and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquires Coffee Houses 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.

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 20 September 2011.

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 98/0100, 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 2011.

Going Concern Basis

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

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 (see below). 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 (see below), 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.

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 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; 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.

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 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.

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, 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'; and,
- 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.

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.

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.

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 so as 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.

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

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

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.

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.

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 authorization of the financial statements, the Standards and Interpretations listed below 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 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	30 June 2014
AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012
AASB 2010-4 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	1 July 2011	30 June 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement'	1 January 2013	30 June 2014

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

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 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. These 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 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. Refer to note 17 for 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.

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

5.2 Segment Revenues And Results

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

Segment	Segment Revenues		Segment Profit	
	FY11 \$'000	FY10 \$'000	FY11 \$'000	FY10 \$'000
Franchising Operations	68,950	61,340	36,221	30,133
Wholesale / Retail Operations	56,360	72,493	9,653	15,488
	125,310	133,833	45,874	45,621
Other gains and losses			(96)	(623)
Interest revenue	345	155	345	155
Finance costs			(6,939)	(7,606)
Unallocated	-	38	(748)	(976)
Profit before tax			38,436	36,571
Income tax expense			(11,212)	(10,552)
Revenue and profit for the year	125,655	134,026	27,224	26,019

Revenue reported above represents revenue generated from external customers.

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

5. Segment Information (cont.)

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 is the measure 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 as follows:

Consolidated	FY11 \$'000	FY10 \$'000
Revenue from the sale of goods ⁽¹⁾	56,360	72,493
Revenue from the rendering of services	68,950	61,340
	125,310	133,833
Interest revenue:		
Bank deposits	306	148
Other loans and receivables	39	7
	345	155
Rental revenue – operating lease rental revenue	-	38
	125,655	134,026

(1) Excluding sales derived from wholesale bakery sales (relating to Michel's Patisserie outlets), adjusted revenue from the sale of goods for FY11 was \$24.2 million (FY10: \$20.5 million).

7. Other Gains And Losses

Consolidated	FY11 \$'000	FY10 \$'000
Gain on disposal of financial assets	821	-
Gain on foreign exchange forward contract	70	-
Gain / (loss) on disposal of property, plant and equipment	2	(94)
Loss on cash flow hedges	(989)	(529)
	(96)	(623)

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	FY11 \$'000	FY10 \$'000
Interest on bank overdrafts and loans	6,673	7,210
Interest on obligations under finance leases	-	-
Total interest expense	6,673	7,210
Other finance costs	266	396
	6,939	7,606

9. Income Taxes

9.1 Income Tax Recognised In Profit Or Loss

Consolidated	FY11 \$'000	FY10 \$'000
Tax expense comprises:		
Current tax expense in respect of the current year	11,436	10,128
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Tax concessions received in relation to research & development	(371)	-
Deferred tax expense relating to the origination and reversal of temporary differences	147	424
	11,212	10,552

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

Consolidated	FY11 \$'000	FY10 \$'000
Profit from continuing operations	38,436	36,571
Income tax expense calculated at 30%	11,531	10,971
Effect of:		
Revenue that is exempt from taxation	(6)	(113)
Expenses that are not deductible in determining taxable profit	58	110
Effect of concessions (research and development and other allowances)	(371)	-
Effect of unused tax losses and tax offsets not previously recognised as deferred tax assets	-	(208)
Effect of previously unrecognised and unused tax losses and tax offsets now recognised as deferred tax assets	-	(208)
Other	-	-
	11,212	10,552
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Income tax expense recognised in profit or loss	11,212	10,552

The tax rate used for the FY11 and FY10 reconciliations above 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.

9.2 Income Tax Recognised Directly In Equity

Consolidated	FY11 \$'000	FY10 \$'000
Deferred tax:		
Share issue costs	8	61
Translation of foreign operations	(31)	-
Total income tax recognised directly in equity	(23)	61

9. Income Taxes (cont.)

9.3 Income Tax Recognised In Other Comprehensive Income

Consolidated	FY11 \$'000	FY10 \$'000
Deferred tax:		
Interest rate swap	(692)	(693)
Total income tax recognised in other comprehensive income	(692)	(693)

9.4 Current Tax Liabilities

Consolidated	FY11 \$'000	FY10 \$'000
Income tax payable	4,556	4,963
	4,556	4,963

9.5 Deferred Tax Balances

Consolidated – FY11	Opening Balance	Charged To Income	Credited To Equity	Recognised In Other Comprehensive Income	Closing Balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Temporary differences					
Intangible assets	(376)	-	-	-	(376)
Employee benefits	490	50	-	-	540
Provisions	182	(89)	-	-	93
Doubtful debts	264	6	-	-	270
Share issue costs	181	(80)	8	-	109
Interest rate swap	1,096	233	-	(692)	637
Other	59	(59)	(31)	-	(31)
	1,896	61	(23)	(692)	1,242
Unused tax losses and credits					
Other – 'black hole' expenses	208	(208)	-	-	-
	208	(208)	-	-	-
	2,104	(147)	(23)	(692)	1,242

9. Income Taxes (cont.)

9.5 Deferred Tax Balances (cont.)

Consolidated – FY10	Opening Balance	Charged To Income	Credited To Equity	Recognised In Other Comprehensive Income	Closing Balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Temporary differences					
Intangible assets	(376)	-	-	-	(376)
Employee benefits	465	25	-	-	490
Provisions	385	(203)	-	-	182
Doubtful debts	557	(293)	-	-	264
IPO listing costs	136	(136)	-	-	-
Share issue costs	197	(78)	61	-	181
Interest rate swap	1,677	112	-	(693)	1,096
Other	118	(59)	-	-	59
	3,159	(632)	61	(693)	1,896
Unused tax losses and credits					
Other – 'black hole' expenses	-	208	-	-	208
	-	208	-	-	208
	3,159	(424)	61	(693)	2,104

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

Consolidated	FY11 \$'000	FY10 \$'000
Deferred tax assets	1,242	2,104
Deferred tax liabilities	-	-
	1,242	2,104

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. The members of the tax-consolidated group are identified in note 30. 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.

9. Income Taxes (cont.)

9.6 Tax Consolidation (cont.)

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 has 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	FY11 \$'000	FY10 \$'000
Cost of sales	36,471	48,321
Inventory write-down of inventory to net realisable value	360	300
Impairment of trade receivables	1,104	543
Depreciation of property, plant and equipment	748	1,108
Employee benefits expenses:		
Post employment benefits (defined contribution plans)	1,343	1,234
Share-based payments (equity-settled share-based payments)	194	363
Termination benefits	6	97
Other employee benefits (wages and salaries)	20,623	18,758
	22,166	20,452

11. Earnings Per Share

Consolidated	FY11 Cents Per Share	FY10 Cents Per Share
Basic earnings per share		
From continuing operations	25.4	25.3
From discontinued operations	-	-
	25.4	25.3
Diluted earnings per share		
From continuing operations	25.2	25.0
From discontinued operations	-	-
	25.2	25.0

11. Earnings Per Share (cont.)

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	FY11 \$'000	FY10 \$'000
Profit for the year	27,224	26,019
Earnings used in the calculation of basic EPS	27,224	26,019
Adjustments to exclude profit from discontinued operations	-	-
Earnings used in the calculation of basic EPS from continuing operations	27,224	26,019

	FY11 No. '000	FY10 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	107,160	102,922

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	FY11 \$'000	FY10 \$'000
Profit for the year	27,224	26,019
Earnings used in the calculation of diluted EPS	27,224	26,019
Adjustments to exclude profit from discontinued operations	-	-
Earnings used in the calculation of diluted EPS from continuing operations	27,224	26,019

	FY11 No. '000	FY10 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	107,160	102,922
Shares deemed to be issued for no consideration in respect of executive options	685	1,031
Weighted average number of ordinary shares for the purpose of diluted EPS	107,845	103,953

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:

	FY11 No. '000	FY10 No. '000
Executive share options	260	-

12. Trade And Other Receivables

Consolidated	FY11 \$'000	FY10 \$'000
Current		
Trade receivables	10,579	10,509
Allowance for doubtful debts	(900)	(880)
	9,679	9,629
Accrued income	2,172	3,083
Sundry debtors	215	382
Balance at the end of the year	12,066	13,094
	FY11 \$'000	FY10 \$'000
Non Current		
Trade receivables	138	-
Balance at the end of the year	138	-

Trade receivables disclosed above 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 above include amounts (see below 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

Consolidated	FY11 \$'000	FY10 \$'000
31 – 60 days	775	904
61 – 90 days	646	500
91 + days	4,328	4,808
	5,748	6,212

12.2 Movement In The Allowance For Doubtful Debts

Consolidated	FY11 \$'000	FY10 \$'000
Balance at the beginning of the year	880	1,856
Impairment losses recognised on receivables	1,104	543
Amounts written off as uncollectable	(1,084)	(1,519)
Balance at the end of the year	900	880

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 believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to \$900 thousand (FY10: \$880 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.

12. Trade And Other Receivables (cont.)

12.3 Ageing Of Impaired Trade Receivables

Consolidated	FY11 \$'000	FY10 \$'000
1 – 30 days	-	-
31 – 60 days	-	-
61 – 90 days	54	8
91 + days	846	872
	900	880

13. Other Financial Assets

Consolidated	FY11 \$'000	FY10 \$'000
Loans and receivables carried at amortised cost		
Vendor finance ⁽¹⁾	1,132	1,073
Loans to associated national marketing funds ⁽²⁾	1,938	1,468
Other	33	50
	3,103	2,591

- (1) Vendor finance represents short-term funding provided to franchisees for the purpose of acquiring a franchised outlet, and are secured by the franchised outlet, including the business and shop fittings.
- (2) Loans to associated national marketing funds represents short-term funding provided to certain marketing funds associated with the Group's five franchise systems. Typically, amounts outstanding are repaid within 30 days by the relevant marketing fund.

14. Inventories

Consolidated	FY11 \$'000	FY10 \$'000
Stock held for wholesale supply	459	537
Equipment held for resale	592	-
Stores held for resale	1,308	1,762
	2,359	2,299

The cost of inventories recognised as an expense during the period in respect of continuing operations was \$36,471 thousand (FY10: \$48,321 thousand). Additionally, an amount of \$360 thousand (FY10: \$300 thousand) has been expensed in the year in respect of write-downs of stores held for resale to their assessed net realisable value.

15. Other Assets

Consolidated	FY11 \$'000	FY10 \$'000
Current		
Prepayments	70	275
Other	109	157
	179	432

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
Gross carrying amount					
Balance as at 1 July 2009	-	396	5,248	247	5,891
Additions	-	12	632	-	644
Disposals	-	-	(120)	(13)	(133)
Balance as at 1 July 2010	-	408	5,760	234	6,402
Additions	4,149	2	1,711	52	5,914
Disposals	-	-	(49)	(59)	(108)
Balance as at 30 June 2011	4,149	410	7,422	227	12,208
Accumulated depreciation					
Balance as at 1 July 2009	-	(142)	(2,270)	(149)	(2,561)
Disposals	-	-	13	3	16
Depreciation expense	-	(50)	(1,029)	(29)	(1,108)
Balance as at 1 July 2010	-	(192)	(3,286)	(175)	(3,653)
Disposals	-	-	4	42	46
Depreciation expense	-	(36)	(698)	(14)	(748)
Balance as at 30 June 2011	-	(228)	(3,980)	(147)	(4,355)
Net book value					
As at 30 June 2010	-	216	2,474	59	2,749
As at 30 June 2011	4,149	182	3,442	80	7,853

17. Intangible Assets

Consolidated	Goodwill	Indefinite Life		Finite Life	Total
		Franchise Networks	Intellectual Property Rights	Other	
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount					
Balance as at 1 July 2009	23,746	165,367	3,695	21	192,829
Additions	-	5,500	-	-	5,500
Acquisitions through business combinations	-	8,600	-	210	8,810
Balance as at 1 July 2010	23,746	179,467	3,695	231	207,139
Additions	-	-	73	-	73
Acquisitions through business combinations	-	6,920	1,444	-	8,364
Effect of foreign currency exchange differences	-	103	-	-	103
Balance as at 30 June 2011	23,746	186,490	5,212	231	215,679
Accumulated amortisation					
Balance as at 1 July 2009	-	-	-	(21)	(21)
Balance as at 1 July 2010	-	-	-	(21)	(21)
Balance as at 30 June 2011	-	-	-	(21)	(21)
Net book value					
As at 30 June 2010	23,746	179,467	3,695	210	207,118
As at 30 June 2011	23,746	186,490	5,212	210	215,658

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 as 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.

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	FY11 \$'000	FY10 \$'000
Donut King franchise system	246	246
bb's café franchise system	62	62
Michel's Patisserie franchise system	23,438	23,438
	23,746	23,746

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

Indefinite Life Intangibles Allocation	FY11 \$'000	FY10 \$'000
Donut King franchise system	38,398	38,323
bb's café franchise system (including Esquires Coffee Houses)	14,571	6,106
Brumby's Bakeries franchise system (including Big Dad's Pies) ⁽¹⁾	56,533	56,533
Michel's Patisserie franchise system	82,200	82,200
	191,702	183,162

(1) See note 17.4 for reclassification of FY10 information.

17.4 Assessments Of Cash-Generating Units

Previously, the Group had determined the existence of 5 cash-generating units based on the operation of 5 identifiable franchise systems. As a result of the realignment of the Big Dad's Pies outlets to the Brumby's Bakeries brand, the Group has reassessed the number of identifiable cash generating units (CGU's) to 4, with the carrying value of the Big Dad's Pies CGU (\$3.1 million) to be incorporated in the Brumby's Bakeries CGU for the purposes of future impairment testing. The comparative information in note 17.3 has been reclassified to reflect the realignment of the Big Dad's Pies franchise system to the Brumby's Bakeries CGU.

The carrying value of the Esquires Coffee Houses franchise system acquired during the year has been allocated to the bb's café franchise system CGU, in accordance with the Groups plans for the bb's café and Esquires Coffee Houses franchise systems.

The operations of the franchise systems within the 4 CGU's are similar, and their recoverable amounts are based on similar assumptions. 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 FY12 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 commissionings.

The cash flows in years two to five are based on the expected average percentage growth rate of 3% for each of the CGU's. The growth rates applied are based on management's estimate of forecast cash flow by franchise system after considering FY11 with the FY12 budget year. Management believes the growth rates applied are reasonable considering forecast sales growth and forecast store count growth.

A pre-tax discount rate of 17.5% 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 2.5% has been used in determining the terminal value for each of the CGU's.

Management believes 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 repledge the assets other than in an event of default.

19. Trade And Other Payables

Consolidated	FY11 \$'000	FY10 \$'000
Trade payables ⁽¹⁾	4,364	4,723
Accruals and other creditors	1,508	2,732
Goods and services tax (GST) payable	338	19
	6,210	7,474

(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	FY11 \$'000	FY10 \$'000
Secured at amortised cost		
Current		
Bank loans	-	85,852
	-	85,852
Non-current		
Bank loans	85,638	-
	85,638	-
	85,638	85,852

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

21. Provisions

Consolidated	FY11 \$'000	FY10 \$'000
Current		
Employee benefits ⁽¹⁾	1,445	1,340
Onerous leases and make-good ⁽²⁾	200	400
Legal claims ⁽³⁾	-	115
	1,645	1,855
Non-current		
Employee benefits ⁽¹⁾	356	293
	356	293
	2,001	2,148

21. Provisions (cont.)

	Onerous Leases and Make-Good	Legal Claims
	\$'000	\$'000
Balance at 1 July 2010	400	115
Additional provisions recognised	140	-
Payments made	(250)	(115)
Reductions resulting from remeasurement or settlement without cost	(90)	-
Balance at 30 June 2011	200	-

- (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.
- (3) The provision for legal claims represents the present value of the Directors' best estimate of anticipated future outflows in connection with certain disputes with franchisees. Refer to commentary in note 27.

22. Other Liabilities

Consolidated	FY11 \$'000	FY10 \$'000
Current		
Retention bonds and deposits	393	581
Unearned income	-	17
Fair value of derivative financial instruments (interest rate swaps) ⁽¹⁾	352	190
	745	788
Non-current		
Fair value of derivative financial instruments (interest rate swaps) ⁽¹⁾	1,772	3,462
	1,772	3,462
	2,517	4,250

- (1) The Group holds interest rate swaps and an interest rate cap to manage interest rate exposure. The aggregate fair value of the Group's interest rate swaps and interest rate cap at the end of the reporting period was \$2,124 thousand payable (FY10: \$3,652 thousand payable). The aggregate fair value payable has been disclosed as \$352 thousand current liability and \$1,772 thousand non-current liability consistent with the maturity dates of the individual interest rate swaps and interest rate cap. Refer to commentary in note 33.

23. Issued Capital

Consolidated	FY11 \$'000	FY10 \$'000
107,788,918 fully paid ordinary shares (FY10: 106,020,137)	98,772	95,146
	98,772	95,146

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.

	FY11		FY10	
	No. '000	\$'000	No. '000	\$'000
Fully paid ordinary shares ⁽¹⁾				
Balance at beginning of period	106,020	95,146	100,263	80,959
Issue of ordinary shares ⁽²⁾	-	-	4,601	12,124
Share issue costs	-	(25)	-	(204)
Related income tax	-	8	-	61
Issue of ordinary shares under DRP ⁽³⁾	995	2,535	516	1,326
Issue of shares under executive share option plan ⁽⁴⁾	774	869	640	690
Transfer from equity-settled employee benefits reserve	-	239	-	190
Balance at end of period	107,789	98,772	106,020	95,146

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

(2) Issue of ordinary shares:

There were nil ordinary shares issued during the year ended 30 June 2011 (2010: 4,601,915), other than the those issued under the DRP and ESOP.

In the year ended 2010, the issue of 4,601,915 ordinary shares comprised the following:

DRP Shortfall Placements

A total of a total of 3,627,579 fully-paid ordinary shares in the Company were issued for \$9,314 thousand, which approximated the dollar value of RFG dividends paid during the year ended 30 June 2010, less the value of shares issued to shareholders participating in the Company's Dividend Reinvestment Plan (DRP).

Acquisition Consideration

A total of a total of 974,336 fully-paid ordinary shares in the Company were issued for \$2,810 thousand, as consideration for acquisitions the Company completed during the year ended 30 June 2010 (see note 31).

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

- On 7 October 2010, the Company issued a total of 566,118 fully-paid ordinary shares in accordance with the DRP, attributable to the payment of the final dividend for the financial year ended 30 June 2010. The issue price of the shares was \$2.42 per share.
- On 6 April 2011, the Company issued a total of 428,991 fully-paid ordinary shares in accordance with the DRP, attributable to the payment of the interim dividend for the financial year ended 30 June 2011. The issue price of the shares was \$2.72 per share.
- In the year ended 30 June 2010, the Company issued a total of 515,524 ordinary shares in accordance with the DRP.

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

- During the year a total of 773,671 shares were issued following the exercise of options (2010: 639,666).

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 2011, Directors, executives and senior employees have options over 1,561,197 ordinary shares (of which 370,000 are unvested), in aggregate, with 245,898 of those options expiring on 31 July 2011, 145,000 expiring on 16 February 2012, 526,230 expiring on 31 July 2012, 100,000 expiring on 30 November 2012, 174,072 expiring on 31 July 2013, 260,000 expiring on 19 October 2013 and the remainder expiring on 31 July 2014. As at 30 June 2010, Directors, executives and senior employees have options over 2,004,869 ordinary shares (of which 384,074 are unvested), in aggregate, with 289,999 of those options expiring on 31 July 2010, 25,000 expiring on 31 March 2011, 429,228 expiring on 31 July 2011, 185,000 expiring on 16 February 2012, 15,000 expiring on 31 March 2012, 676,568 expiring on 31 July 2012, 264,074 expiring on 31 July 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	FY11 \$'000	FY10 \$'000
Equity-settled employee benefits reserve	734	779
Hedging reserve	(1,563)	(3,251)
	(829)	(2,472)

Equity-settled employee benefits reserve	FY11 \$'000	FY10 \$'000
Balance at beginning of year	779	606
Share-based payments	194	363
Transfer to share capital	(239)	(190)
Balance at end of year	734	779

The equity-settled employee benefits reserve arises on the grant of share options to Directors, executives and senior 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	FY11 \$'000	FY10 \$'000
Balance at beginning of year	(3,251)	(4,867)
Gain / (loss) recognised on:		
Changes in fair value of cash flow hedges (interest rate swaps)	2,308	2,309
Net investment hedge	103	-
Income tax related to amounts recognised in equity	(723)	(693)
Balance at end of year	(1,563)	(3,251)

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. 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 policy as set out in note 2(e).

25. Retained Earnings

Consolidated	FY11 \$'000	FY10 \$'000
Balance at beginning of year	46,131	30,318
Net profit attributable to members of the parent entity	27,224	26,019
Dividends provided for or paid	(14,449)	(10,206)
Balance at end of year	58,906	46,131

26. Dividends

Company	FY11		FY10	
	Cents Per Share	Total \$'000	Cents Per Share	Total \$'000
Recognised amounts				
<u>Fully paid ordinary shares</u>				
Final dividend – fully franked at 30% tax rate ⁽¹⁾	6.500	6,934	4.750	4,765
Interim dividend – fully franked at 30% tax rate ⁽²⁾	7.000	7,515	5.250	5,441
	13.500	14,449	10.000	10,206
Unrecognised amounts				
<u>Fully paid ordinary shares</u>				
Final dividend – fully franked at 30% tax rate ⁽³⁾	7.500	8,111	6.500	6,934

- (1) In respect of the financial year ended 30 June 2010, as detailed in the Directors' report for that financial year, a final dividend of 6.50 cents per share (based on 106,680,807 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 7 October 2010. The final dividend was approved by the Directors following the conclusion of the 30 June 2010 financial year and therefore was not provided for in the Company's financial report. It was resolved that the final dividend would constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.
- (2) In respect of profits of the financial year ended 30 June 2011, an interim dividend of 7.00 cents per share (based on 107,359,927 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 6 April 2011. The interim dividend was approved by the Directors on 17 February 2011 and it was resolved that the interim dividend would 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 2011, a final dividend of 7.50 cents per share (based on 108,146,283 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 6 October 2011. The final dividend was approved by the Directors on 16 August 2011 and therefore was not provided for in the Company's financial report. The Board resolved to suspend the Company's DRP therefore the final FY11 dividend will not constitute an eligible dividend for the purpose of the DRP.

Company	FY11 \$'000	FY10 \$'000
Adjusted franking account balance	28,311	25,647

27. Contingent Liabilities

Consolidated	FY11 \$'000	FY10 \$'000
Contingent liabilities		
Financial guarantees ⁽¹⁾	814	924
Rental guarantees ⁽²⁾	528	812
	1,342	1,736

(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 during FY12.

(2) The Group, via 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.

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 supplier (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 manufacture and supply product to Michel's Patisserie franchisees in those States.

The plaintiffs have partially quantified their claim at approximately \$2.36m.

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

The defendants consider the plaintiffs' claims to be variously misconceived and lacking in substance. Without limitation, a significant portion of the claim is reliant upon the plaintiffs successfully obtaining an order from the Court, on grounds that RFG considers to be extremely tenuous, declaring void certain settlement agreements previously entered into and performed by the parties. In any event, should these agreements be set aside the defendants will be entitled to enliven various offsetting claims and cross claims. The plaintiffs' claims otherwise purport to ignore various commercial arrangements agreed upon and or performed in whole or in part by the parties.

Ultimately, the defendants wholly deny the plaintiffs' entitlement to the relief claimed by them and are vigorously defending same. Additionally, RFG and or its subsidiaries have filed a cross-claim against the plaintiffs and its guarantors for damages in connection with matters the subject of prior settlements as aforesaid and otherwise damages arising out of the conduct of the plaintiffs subsequent to those settlement agreements.

No liability has been recognised in relation to these matters as the Directors remain confident that the plaintiffs' allegations will be successfully defended.

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	FY11 \$'000	FY10 \$'000
Minimum lease payments	3,575	3,924
	3,575	3,924

28.3 Non-cancellable Operating Lease Commitments

Consolidated	FY11 \$'000	FY10 \$'000
Not longer than 1 year	3,209	2,282
Longer than 1 year and not longer than 5 years	6,405	6,522
Longer than 5 years	102	580
	9,716	9,384

28.4 Liabilities Recognised In Respect Of Non-cancellable Operating Leases

Consolidated	FY11 \$'000	FY10 \$'000
Onerous leases and make-good (note 21)	200	400
	200	400

29. Commitments For Expenditure

Consolidated	FY11 \$'000	FY10 \$'000
Plant and equipment (not longer than 1 year)	-	-
	-	-

30. Subsidiaries

Name Of Entity	Country Of Incorporation	Ownership Interest	
		FY11 (%)	FY10 (%)
Parent entity			
Retail Food Group Limited ⁽¹⁾	Australia		
Subsidiaries			
Aroma Grande Pty Ltd ⁽²⁾	Australia	100	100
Barista Pty Ltd ⁽²⁾	Australia	100	100
BB System Lease Pty Ltd ⁽²⁾	Australia	100	100
BBH System Lease Pty Ltd ⁽²⁾	Australia	100	100
bb's Bagel Pty Ltd ⁽²⁾	Australia	100	100
bb's café System Pty Ltd ⁽²⁾	Australia	100	100
bb's Plantation Pty Ltd ⁽²⁾	Australia	100	100
BDP Franchise Pty Ltd ⁽²⁾	Australia	100	100
BDP Leasing Pty Ltd ⁽²⁾	Australia	100	100
BDP System Pty Ltd ⁽²⁾	Australia	100	100
Biloela Coffee Pty Ltd ⁽²⁾	Australia	100	100
Booming Pty Ltd ⁽²⁾	Australia	100	100
Breadsmith Pty Ltd ⁽²⁾	Australia	100	100
Bruffin Pty Ltd ⁽²⁾	Australia	100	100
Brumby's Bakeries Franchise Pty Ltd (formerly Regional Franchisor Pty Ltd) ⁽²⁾	Australia	100	100
Brumby's Bakeries Holdings Pty Ltd ⁽²⁾	Australia	100	100
Brumby's Bakeries Pty Ltd ⁽²⁾	Australia	100	100
Brumby's Bakeries System Pty Ltd (formerly RFG Investments Pty Ltd) ⁽²⁾	Australia	100	100
Caffe Coffee Pty Ltd ⁽²⁾	Australia	100	100
Cappuccino Frappe Pty Ltd ⁽²⁾	Australia	100	100
Chatslease Pty Ltd ⁽²⁾	Australia	100	100
Cheddarmite Pty Ltd ⁽²⁾	Australia	100	100
Choppa Loaf Pty Ltd ⁽²⁾	Australia	100	100
Coleville Enterprises Pty Ltd ⁽²⁾	Australia	100	100
DCM System Lease Pty Ltd (formerly DK System Lease Pty Ltd) ⁽²⁾	Australia	100	100
DCM System Pty Ltd (formerly DK Franchisor Pty Ltd) ⁽²⁾	Australia	100	100
DK Chadstone Pty Ltd ⁽²⁾	Australia	100	100
DK China Pty Ltd ⁽²⁾	Australia	100	100
DK Syduni Leasing Company Pty Ltd ⁽²⁾	Australia	100	-
Donquay Pty Ltd ⁽²⁾	Australia	100	100
Donut King Franchise Pty Ltd ⁽²⁾	Australia	100	100
Donut King System Pty Ltd ⁽²⁾	Australia	100	100
Donut Mac Pty Ltd ⁽²⁾	Australia	100	100
Donut Management Pty Ltd ⁽²⁾	Australia	100	100
Donutino Pty Ltd ⁽²⁾	Australia	100	100
Esquires Coffee Houses System Pty Ltd ⁽²⁾	Australia	100	-

30. Subsidiaries (cont.)

Name Of Entity	Country Of Incorporation	Ownership Interest	
		FY11 (%)	FY10 (%)
Esquires Leasing Pty Ltd ⁽²⁾	Australia	100	-
Frapaccino Pty Ltd ⁽²⁾	Australia	100	100
Frosty Cappuccino Pty Ltd ⁽²⁾	Australia	100	100
Fuznik Pty Ltd ⁽²⁾	Australia	100	100
Hot Dog Construction Zone (Aust) Pty Ltd ⁽²⁾	Australia	100	100
HP Lease Pty Ltd ⁽²⁾	Australia	100	-
International Franchisor Pty Ltd ⁽²⁾	Australia	100	100
Jonamill Pty Ltd ⁽²⁾	Australia	100	100
Michel's Leasing Pty Ltd ⁽²⁾	Australia	100	100
Michel's Leasing QLD Pty Ltd ⁽²⁾	Australia	100	100
Michel's Leasing Regional Pty Ltd ⁽²⁾	Australia	100	100
Michel's Leasing VIC Pty Ltd ⁽²⁾	Australia	100	100
Michel's Patisserie (SA) Pty Ltd ⁽²⁾	Australia	100	100
Michel's Patisserie (VQ) Pty Ltd ⁽²⁾	Australia	100	100
Michel's Patisserie (VQL) Pty Ltd ⁽²⁾	Australia	100	100
Michel's Patisserie (WA) Pty Ltd ⁽²⁾	Australia	100	100
Michel's Patisserie Management Pty Ltd ⁽²⁾	Australia	100	100
Michel's Patisserie Operations Pty Ltd ⁽²⁾	Australia	100	100
Michel's Patisserie System Pty Ltd ⁽²⁾	Australia	100	100
MP System Lease Pty Ltd ⁽²⁾	Australia	100	100
Mule Enterprises Pty Ltd ⁽²⁾	Australia	100	100
Patisserie Delights Pty Ltd ⁽²⁾	Australia	100	-
Regional Franchising Systems Pty Ltd ⁽²⁾	Australia	100	100
RFG Finance Pty Ltd ⁽²⁾	Australia	100	100
RFGA Equitech Pty Ltd (formerly RFGA CMF Pty Ltd) ⁽²⁾	Australia	100	100
RFGA Holdings (Aust) Pty Ltd ⁽²⁾	Australia	100	100
RFGA Holdings Pty Ltd ⁽²⁾	Australia	100	100
RFGA Management Pty Ltd ⁽²⁾	Australia	100	100
RFGA Master Lease Pty Ltd ⁽²⁾	Australia	100	100
Roasted Beans Pty Ltd ⁽²⁾	Australia	100	100
Rouse Hill Leasing Pty Ltd ⁽²⁾	Australia	100	100
Snowycold No 1 Pty Ltd ⁽²⁾	Australia	100	100
Snowycold Pty Ltd ⁽²⁾	Australia	100	100
Strawberry Cushion Pty Ltd ⁽²⁾	Australia	100	100
Systems Franchisor Pty Ltd ⁽²⁾	Australia	100	100
Tear'n'Share Pty Ltd ⁽²⁾	Australia	100	100
The Big Mule Trust ⁽²⁾	Australia	100	100
The Bread Centre Securities Trust ⁽²⁾	Australia	100	100
The Donquay Trust ⁽²⁾	Australia	100	100
The Michel's Group Australia Pty Ltd ⁽²⁾	Australia	100	100

30. Subsidiaries (cont.)

Name Of Entity	Country Of Incorporation	Ownership Interest	
		FY11 (%)	FY10 (%)
Albany Coffee Limited	New Zealand	100	-
Bayfair Coffee Limited	New Zealand	100	-
bb's Coffee and Bake (NZ) Leasing Limited	New Zealand	100	100
bb's New Zealand Ltd	New Zealand	100	100
Birkenhead Coffee Limited	New Zealand	100	-
Botany Pavillions Coffee Limited	New Zealand	100	-
Brumby's Bakeries (NZ) Ltd	New Zealand	100	100
Brumby's Bakeries System (NZ) Limited	New Zealand	100	100
Caffe Coffee (NZ) Limited	New Zealand	100	-
Chartwell Coffee Limited	New Zealand	100	-
Courtenay Place Coffee Limited	New Zealand	100	-
Customs St Coffee No2 Limited	New Zealand	100	-
Devon Coffee Limited	New Zealand	100	-
Devonport Coffee Limited	New Zealand	100	-
ECH System (NZ) Limited	New Zealand	100	-
Esquires Coffee Auckland Limited	New Zealand	100	-
Ferry Building Coffee Limited	New Zealand	100	-
Gibraltar Coffee Limited	New Zealand	100	-
Goddards Coffee Limited	New Zealand	100	-
Greenlane Coffee Limited	New Zealand	100	-
Hobson Coffee No 2 Limited	New Zealand	100	-
Hornby Coffee Limited	New Zealand	100	-
Howick Coffee Limited	New Zealand	100	-
Library Coffee Limited	New Zealand	100	-
Lorne Street Coffee Limited	New Zealand	100	-
Manukau Coffee House Limited	New Zealand	100	-
Mercer Coffee Limited	New Zealand	100	-
Metropolis Coffee Limited	New Zealand	100	-
Michel's Patisserie Systems (NZ) Limited	New Zealand	100	100
Mills Lane Coffee Limited	New Zealand	100	-
MP (NZ) Leasing Limited	New Zealand	100	100
Napier Coffee Limited	New Zealand	100	-
Nelson Coffee Limited	New Zealand	100	-
North City Coffee Limited	New Zealand	100	-
Northwood Coffee Limited	New Zealand	100	-
Papkurua Coffee Limited	New Zealand	100	-
Plaza Corner Coffee Limited	New Zealand	100	-
PWC Coffee Limited	New Zealand	100	-
Quay St Coffee Limited	New Zealand	100	-
RFG Master Lease (NZ) Limited	New Zealand	100	-

30. Subsidiaries (cont.)

Name Of Entity	Country Of Incorporation	Ownership Interest	
		FY11 (%)	FY10 (%)
RFG (NZ) Holdings Limited	New Zealand	100	100
RFG (NZ) Limited	New Zealand	100	100
Sky Met Coffee Limited	New Zealand	100	-
St Lukes Coffee House Limited	New Zealand	100	-
Sunset Terrace Coffee Limited	New Zealand	100	-
Trentham City Coffee Limited	New Zealand	100	-
Vincent Street Coffee Limited	New Zealand	100	-
Waitakere Coffee Limited	New Zealand	100	-
Wards St Coffee Limited	New Zealand	100	-
Waterfront Coffee Limited	New Zealand	100	-
Whangarei Coffee Limited	New Zealand	100	-
Woodward Coffee Limited	New Zealand	100	-
Wyndham Coffee 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.

31. Acquisitions

31.1 FY11 Acquisitions

Name Of Businesses / Intellectual Property Acquired	Principal Activity	Date Of Acquisition	Total Cost Of Acquisition \$'000	Cash Cost Of Acquisition \$'000	Scrip Cost Of Acquisition \$'000
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Acquisition Of Businesses:

Esquires Coffee Houses	Sub-Franchisor of the Esquires Coffee Houses franchise system for New Zealand (MF Contract)	7 February 2011	6,920	6,920	-
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Acquisition Of Intangible Assets:

Esquires Coffee Houses	Intellectual property rights (IP Contract)	7 February 2011	1,444	1,444	-
Total Consideration:			8,364	8,364	-

Esquires Coffee Houses Franchise System

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

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

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

31. Acquisitions (cont.)

31.1 FY11 Acquisitions (cont.)

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

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

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

Consideration Transferred	FY11 \$'000
Cash	6,920
Contingent consideration	-
Total	6,920

Under the contingent consideration arrangement, the Group was required to pay the vendors an earnout payable in scrip in the Company to a maximum value of NZD\$0.6 million on 7 August 2011 subject to a sliding scale mechanism dependent upon the vendor meeting certain performance conditions with regard to the establishment of additional ECH outlets. On 7 August 2011, the Group determined that the contingent consideration payable in accordance with the sliding scale mechanism would be nil.

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
Non-current assets			
Intangible assets (franchise network)	-	6,920	6,920
	-	6,920	6,920
Goodwill on acquisition of business			-
			6,920

Net Cash Flow On Acquisition	FY11 \$'000
Total purchase consideration	6,920
Less: non-cash consideration for Esquires Coffee Houses	-
Consideration paid in cash	6,920
Less: cash and cash equivalent balances acquired	-
	6,920

31. Acquisitions (cont.)

31.2 FY10 Acquisitions

Name Of Businesses / Intangible Assets Acquired	Principal Activity	Date Of Acquisition	Total Cost Of Acquisition	Cash Cost Of Acquisition	Scrip Cost Of Acquisition
			\$'000	\$'000	\$'000
Acquisition of businesses					
Brumby's Bakeries North Queensland & New Zealand	Sub-Franchisor of the Brumby's Bakeries franchise system for the territories of North Queensland & New Zealand Master Territory	15 January 2010	4,000	2,680	1,320
Brumby's Bakeries Western Australia & the Northern Territory	Sub-Franchisor of the Brumby's Bakeries franchise system for the territories of Western Australia & the Northern Territory	16 February 2010	4,810	3,620	1,190
			8,810	6,300	2,510
Acquisition of intangible assets					
DCM Coffee & Donuts	Franchise network comprising the DCM Coffee & Donuts franchise system	13 January 2010	2,400	2,100	300
Big Dad's Pies	Franchise network comprising the Big Dad's Pies franchise system	1 April 2010	3,100	3,100	-
			5,500	5,200	300
Total consideration:			14,310	11,500	2,810

Acquisition Of Businesses

Brumby's Bakeries North Queensland & New Zealand Master Territory Acquisition

On 27 November 2009, the Group announced that it had reached an agreement, subject to normal contractual terms and finalisation of due diligence enquiry, by which the Brumby's Bakeries master franchise territories for North Queensland and New Zealand would be acquired. The acquisition consisted of the purchase of the master license rights from the vendor for the geographical territories of Far North Queensland and New Zealand, and the assignment of the existing franchise agreements held by the vendor to the Group. At the date of control, there were 37 outlets within the Far North Queensland territory and a further 19 outlets in New Zealand.

Settlement was completed on 15 January 2010, with control of the master franchise territories transferring to the Group at that time. The purchase price was \$4,000 thousand, consisting of \$2,680 thousand cash and scrip in the Company to the value of \$1,320 thousand. The Company issued 447,458 ordinary shares at \$2.95 each (\$2.95 being the volume weighted market price for all RFG shares sold on the ASX during the 5 trading days immediately preceding the Completion Date).

Brumby's Bakeries Western Australia & Northern Territory Master Territory Acquisition

On 7 January 2010, the Group announced that it had reached an agreement, subject to normal contractual terms and finalisation of due diligence enquiry, by which the Brumby's Bakeries master franchise territories for Western Australia and the Northern Territory would be acquired. The acquisition consisted of the purchase of the master license rights from the vendor for the geographical territories of Western Australia and the Northern Territory, and the assignment of the existing franchise agreements held by the vendor to the Group. At the date of control, there were 50 outlets within the Western Australian territory and a further 8 outlets in the Northern Territory.

Settlement was completed on 16 February 2010, with control of the master franchise territories transferring to the Group at that time. The purchase price was \$4,810 thousand, consisting of \$3,620 thousand cash and scrip in the Company to the value of \$1,190 thousand. The Company issued 420,495 ordinary shares at \$2.83 each (\$2.83 being the volume weighted market price for all RFG shares sold on the ASX during the 5 trading days immediately preceding the Completion Date).

31. Acquisitions (cont.)

31.2 FY10 Acquisitions (cont.)

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

Net Assets Acquired	Book Value	Fair Value Adjustment	Fair Value On Acquisition
	\$'000	\$'000	\$'000
Non-current assets			
Intangible assets (territory rights)	-	210	210
Intangible assets (franchise network)	-	8,600	8,600
	-	8,810	8,810
Goodwill on acquisition of businesses			-
			8,810
Net Cash Flow On Acquisition			FY10 \$'000
Total purchase consideration			8,810
Less: non-cash consideration for Brumby's Bakeries Master Territories			(2,510)
Consideration paid in cash			6,300
Less: cash and cash equivalent balances acquired			-
			6,300

Acquisition Of Intangible Assets

DCM Coffee & Donuts Franchise System

On 27 November 2009, the Group announced that it had reached an agreement, subject to normal contractual terms and finalisation of due diligence enquiry, by which the DCM Coffee & Donuts franchise system would be acquired. The DCM Coffee & Donuts franchise system represents a direct competitor to the Donut King franchise system and comprises 23 coffee/donut outlets in NSW. The DCM Coffee & Donuts franchise system was acquired for re-branding and integration into the Donut King franchise system, thereby accelerating total Donut King outlet population growth whilst affording DCM Coffee & Donuts franchisees the opportunity to partake in the benefits that accrue from membership in a nationally established and iconic retail franchise brand.

Settlement was completed on 13 January 2010, with control of the franchise system transferring to the Group at that time. The purchase price was \$2,400 thousand, consisting of \$2,100 thousand cash and scrip in the Company to the value of \$300 thousand. The Company issued 106,383 ordinary shares at \$2.82 each (\$2.82 being the volume weighted market price for all RFG shares sold on the ASX during the 5 trading days immediately preceding the Completion Date).

Big Dad's Pies Franchise System

On 23 December 2009, the Group announced it had reached an agreement, subject to normal contractual terms and finalization of due diligence enquiry, by which the South East Queensland based 37 outlet Big Dad's Pies franchise system would be acquired.

Settlement was completed on 1 April 2010, following the completion of due diligence, with control of the franchise system transferring to the Group at that time, for a cash consideration of \$3,100 thousand.

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	FY11 \$'000	FY10 \$'000
Cash and bank balances	15,173	13,105
	15,173	13,105

32.2 Financing Facilities

Consolidated	FY11 \$'000	FY10 \$'000
Secured bank overdraft facility, reviewed annually and payable at call:		
amount used	-	-
amount unused	-	100
	-	100
Secured bank loan facility:		
amount used (before deducting debt issue costs)	85,638	86,000
amount unused	9,362	9,000
	95,000	95,000
Secured ancillary bank facilities (guarantees):		
amount used	528	812
amount unused	946	188
	1,474	1,000
Secured ancillary bank facilities (asset finance):		
amount used	-	-
amount unused	1,034	-
	1,034	-

The Group has access to financing facilities at reporting date as indicated above. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

32. Cash And Cash Equivalents (cont.)

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

Consolidated	FY11 \$'000	FY10 \$'000
Profit for the year	27,224	26,019
Loss / (gain) on disposal of property, plant and equipment	(2)	94
Loss / (gain) on disposal of Financial Assets	(821)	-
Depreciation of non-current assets	748	1,108
Equity-settled share-based payment	194	363
Interest income received and receivable	(345)	(155)
Amortisation of borrowing costs	266	396
Hedge ineffectiveness on cash flow hedges	989	529
Effect of concessions received in relation to research & development	(371)	-
Increase / (decrease) in current tax liability	(407)	2,138
Increase / (decrease) in deferred tax balances	147	424
Movements in working capital:		
Trade and other receivables	890	1,881
Inventories	(60)	(411)
Other assets	(110)	(1,801)
Trade and other payables	(1,150)	(207)
Provisions	(147)	(625)
Other liabilities	(205)	(512)
Net cash generated by operating activities	26,840	29,241

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 a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from FY10.

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 management and Board review the capital structure on an annual basis. As a part of this review, management and the Board considers 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 and the Board, the Group will 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.

33. Financial Instruments (cont.)

33.2 Gearing Ratio (cont.)

The gearing ratio at the end of the reporting period was as follows:

Consolidated	FY11 \$'000	FY10 \$'000
Debt ⁽¹⁾	85,638	85,852
Cash and bank balances	(15,173)	(13,105)
Net debt	70,465	72,747
Equity ⁽²⁾	156,849	138,805
Net debt to equity ratio	30.1%	34.4%

(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.

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	FY11 \$'000	FY10 \$'000
Financial assets		
Loans and receivables		
Trade and other receivables	12,204	13,094
Loans and receivables	3,103	2,591
Cash and cash equivalents	15,173	13,105
Financial liabilities		
Trade payables	4,364	4,723
Other payables	1,846	2,751
Retention bonds and deposits	393	581
Derivative instruments in designated hedge accounting relationships	2,124	3,652
Bank loan (at amortised cost)	85,638	85,852

33.5 Financial Risk Management Objectives

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

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. The Group holds interest rate swap contracts 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 sensitivity analysis below 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 \$133 thousand (FY10: \$9 thousand) and increase by \$133 thousand (FY10: \$9 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.
- hedge reserve would decrease (favourable) by \$443 thousand (FY10: \$910 thousand) and increase (unfavourable) by \$408 thousand (FY10: \$897 thousand).

The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in total debt, combined with a reduction in the 'unhedged' portion of total debt, that is, an overall increase in the interest rate swaps to swap floating rate debt to fixed, primarily caused by the reduction in total debt, and the maintenance of the total hedged amount.

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)	
	FY11 %	FY10 %	FY11 \$'000	FY10 \$'000	FY11 \$'000	FY10 \$'000
Less than 1 year	7.27	6.13	16,887	22,800	(352)	(190)
1 to 2 years	7.47	7.27	50,913	19,887	(1,772)	(774)
2 to 3 years	-	7.47	-	42,513	-	(2,689)
			67,800	85,200	(2,124)	(3,653)

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 settle on a quarterly basis. The Group will settle the difference between the fixed and floating interest rate on a net basis.

33. Financial Instruments (cont.)

33.7 Interest Rate Risk Management (cont.)

Interest Rate Cap Contract

Under an interest rate cap contract, the Group receives payment (based on a notional amount) at the end of each quarter in which the interest rate exceeds the agreed strike price. The contract was terminated during the year.

Such a contract enables the Group to mitigate the risk of rising interest rates on a portion of the floating interest debt held and participate in any fall in interest rates below the agreed strike price applicable to that debt. The average interest rate is based on the outstanding balances at the end of the reporting period.

Interest rate cap at 7.27%	Average Contracted Fixed Interest Rate		Notional Principal Amount		Fair Value Asset / (Liability)	
	FY11 %	FY10 %	FY11 \$'000	FY10 \$'000	FY11 \$'000	FY10 \$'000
1 to 2 years	-	7.27	-	7,800	-	1
			-	7,800	-	1

33.8 Credit Risk Management

Credit risk refers to the risk that a 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	FY11 \$'000	FY10 \$'000
Contingent liabilities		
Financial guarantees	814	924
Rental guarantees	528	812
	1,342	1,736

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 based on 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 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.

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
FY11				
Trade payables	-	4,364	-	4,364
Other payables	-	1,846	-	1,846
Retention bonds and deposits	-	393	-	393
Bank loan	6.6	5,623	92,460	98,083
Financial guarantee contracts	-	814	-	814
		13,040	92,460	105,500
FY10				
Trade payables	-	4,723	-	4,723
Other payables	-	2,751	-	2,751
Retention bonds and deposits	-	581	-	581
Bank loan	7.1	88,544	-	88,544
Financial guarantee contracts	-	924	-	924
		97,523	-	97,523

The maximum amount the Group could be forced to settle under the financial guarantee contracts if the fully guaranteed amount is claimed by the counterparty to the guarantee is \$814 thousand (FY10: \$924 thousand). At the end of the reporting period, it was not considered probable that the counterparty to the financial guarantee contract will claim under the contract.

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
FY11				
Cash and cash equivalents	-	15,173	-	15,173
Loans and receivables	-	15,169	138	15,307
		30,342	138	30,480
FY10				
Cash and cash equivalents	-	13,105	-	13,105
Loans and receivables	-	15,685	-	15,685
		28,790	-	28,790

The Group has access to financing facilities as described in note 32.2, of which \$11,342 thousand were unused at the end of the reporting period (FY10: \$9,288 thousand). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

33. Financial Instruments (cont.)

33.10 Fair Value Of Financial Instruments

The fair values of derivative instruments are determined as follows:

- the fair value of interest rate swaps is 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.

As of 1 July 2009, the Group has adopted the amendment to AASB 7 'Financial Instruments: Disclosures' which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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 2011, the Group has outstanding interest rate swaps which are classified as level 2 financial instruments. There are no level 1 or level 3 financial instruments. As at 30 June 2010, 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.

33.11 Foreign Currency Risk Management

The Group's Australian operations are predominantly in Australian dollars and there is limited foreign currency exchange risk associated with the Australian business. The Group's New Zealand operations are predominantly in New Zealand dollars. Due to the insignificant contribution of the New Zealand operations to the Group, the risk of exposure of movements in foreign currencies is considered insignificant.

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 employees and Directors 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 1A	786,663	01/08/06	31/07/10	01/08/07	\$1.00	\$0.1480
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 4A	25,000	01/04/08	31/03/11	01/04/08	\$1.67	\$0.1782
Tier 5A	15,000	01/04/08	31/03/12	01/04/09	\$1.92	\$0.1909
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
Tier 10	350,000	01/12/10	30/11/13	01/12/11	\$2.78	\$0.4872

34. Share-based Payments (cont.)

34.2 Fair Value Of Share Options Granted In The Year

The weighted average fair value of the share options granted during the financial year is \$0.5627 (FY10: \$1.3822). 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 behavioral 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 1A	\$0.84	\$1.00	45.00%	2.5 yrs	6.50%	5.17%
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 4A	\$1.39	\$1.67	42.00%	1.5 yrs	5.50%	6.09%
Tier 5A	\$1.39	\$1.92	42.00%	2.5 yrs	5.50%	6.09%
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%
Tier 10	\$2.60	\$2.78	42.00%	2.0 yrs	5.06%	4.91%

34.3 Movements In Share Options During The Financial Year

The following reconciles the outstanding share options granted under the ESOP at the beginning and the end of the financial year:

	FY11		FY10	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance at beginning of the financial year	2,004,869	\$1.16	2,445,868	\$1.11
Granted during the financial year	710,000	\$2.60	212,000	\$1.50
Forfeited during the financial year	(30,000)	\$1.26	(13,333)	\$1.25
Exercised during the financial year	(773,672)	\$1.12	(639,666)	\$1.08
Cancelled during the financial year	(350,000)	\$2.78	-	-
Balance at end of the financial year	1,561,197	\$1.47	2,004,869	\$1.16
Exercisable at end of the financial year	1,191,200	\$1.20	1,620,795	\$1.14

34. Share-based Payments (cont.)

34.4 Share Options Exercised During The Financial Year

The following share options were exercised during the financial year:

FY11 – Option Series	Number Exercised	Exercise Date	Share Price At Exercise Date
Tier 1A – Issued 1 August 2006	20,000	13/07/2010	\$2.50
	58,000	23/07/2010	\$2.65
	13,333	26/07/2010	\$2.65
	55,333	30/07/2010	\$2.65
	143,333	02/08/2010	\$2.60
Tier 1B – Issued 1 August 2006	33,333	02/08/2010	\$2.60
	42,000	10/09/2010	\$2.47
	44,667	23/03/2011	\$2.84
Tier 1C – Issued 1 August 2006	33,334	02/08/2010	\$2.60
	42,000	10/09/2010	\$2.47
Tier 2A – Issued 1 August 2007	26,666	26/07/2010	\$2.65
	13,333	10/09/2010	\$2.47
	13,334	23/03/2011	\$2.84
Tier 2B – Issued 1 August 2007	13,333	10/09/2010	\$2.47
	13,333	10/11/2010	\$2.56
Tier 2C – Issued 1 August 2007	13,334	30/08/2010	\$2.50
	23,334	10/09/2010	\$2.47
	13,334	19/01/2011	\$2.72
Tier 3A – Issued 1 August 2008	15,004	30/07/2010	\$2.65
	10,000	10/09/2010	\$2.47
	13,334	19/01/2010	\$2.72
Tier 3B – Issued 1 August 2008	20,000	30/08/2010	\$2.50
	20,000	10/09/2010	\$2.47
Tier 4A – Issued 1 April 2008	25,000	30/07/2010	\$2.65
Tier 5A – Issued 1 April 2008	15,000	30/07/2010	\$2.65
Tier 6A – Issued 17 February 2010	25,000	30/08/2010	\$2.50
	15,000	16/12/2010	\$2.78
	773,672		

34. Share-based Payments (cont.)

34.4 Share Options Exercised During The Financial Year (cont.)

FY10 – Option Series	Number Exercised	Exercise Date	Share Price At Exercise Date
Tier 1A – Issued 1 August 2006	13,333	20/08/2009	\$2.18
	33,333	14/10/2009	\$2.62
	13,333	29/10/2009	\$2.60
	39,333	16/02/2010	\$2.89
Tier 1B – Issued 1 August 2006	33,333	5/11/2009	\$2.41
	33,333	15/01/2010	\$3.00
	60,000	7/05/2010	\$2.65
Tier 1C – Issued 1 August 2006	25,000	25/09/2009	\$2.56
	70,000	29/09/2009	\$2.59
	20,000	5/11/2009	\$2.41
	33,334	16/02/2010	\$2.89
	13,334	30/03/2010	\$2.63
	60,000	11/05/2010	\$2.61
Tier 2A – Issued 1 August 2007	13,333	21/07/2009	\$1.85
	15,000	29/10/2009	\$2.60
	17,500	17/11/2009	\$2.65
	6,667	30/03/2010	\$2.63
	13,333	7/05/2010	\$2.65
Tier 2B – Issued 1 August 2007	10,000	25/09/2009	\$2.56
	13,333	29/09/2009	\$2.59
	6,667	30/03/2010	\$2.63
Tier 3A – Issued 1 August 2008	10,000	29/09/2009	\$2.59
	10,000	1/10/2009	\$2.64
	13,334	13/10/2009	\$2.58
	15,000	29/10/2009	\$2.60
	17,500	20/11/2009	\$2.70
	3,333	30/03/2010	\$2.63
Tier 6A – Issued 17 February 2010	12,000	16/03/2010	\$2.78
	15,000	8/04/2010	\$2.55
	639,666		

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:

	FY11		FY10	
	Number Outstanding	Remaining Life (in days)	Number Outstanding	Remaining Life (in days)
Tier 1A	-	-	289,999	31
Tier 1B	149,333	31	269,333	396
Tier 1C	294,666	397	370,000	762
Tier 2A	96,562	31	159,895	396
Tier 2B	94,064	397	120,730	762
Tier 2C	94,072	762	144,074	1,127
Tier 3A	137,500	397	185,838	762
Tier 3B	80,000	762	120,000	1,127
Tier 3C	110,000	1,127	120,000	1,492
Tier 4A	-	-	25,000	274
Tier 5A	-	-	15,000	640
Tier 6A	145,000	231	185,000	596
Tier 8	100,000	519	-	-
Tier 9	260,000	842	-	-
	<u>1,561,197</u>		<u>2,004,869</u>	

35. Key Management Personnel Compensation

The aggregate compensation made to key management personnel of the Group is set out below:

Consolidated	FY11 \$	FY10 \$
Short-term employee benefits	2,218,382	2,393,637
Post-employment benefits	110,628	106,455
Share-based payment	173,704	225,922
	<u>2,502,714</u>	<u>2,726,014</u>

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 below.

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.

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 (FY10: \$nil) to key management personnel or their related parties.

Key Management Personnel Equity Holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY11	Balance 1 July 2010	Granted As Compensation	Received On Exercise Of Options	Net Other Change	Balance 30 June 2011	Balance Held Nominally
	Number	Number	Number	Number	Number	Number
Mr John Cowley	59,586	-	46,667	21,509	127,762	-
Mr Anthony (Tony) Alford	24,224,076	-	23,334	(1,852,466)	22,394,944	822,507
Mr Nigel Nixon	5,649,625	-	-	762	5,650,387	2,698,201
Mr Colin Archer	223,618	-	100,000	3,126	326,744	-
Mr Bruce Hancox	-	-	-	-	-	-
Mr Anthony Mark Connors	1,900	-	-	-	1,900	-
Mr Gary Best	1,232,879	-	-	(84,114)	1,148,765	-
Mr Damien Peters	-	-	90,004	-	90,004	-
Ms Tracey Catterall	-	-	-	-	-	-
Mr Gary Alford	1,427,933	-	63,333	(258,829)	1,232,437	-
Mr Gavin Nixon	5,635,871	-	-	762	5,636,633	2,812,666
	38,455,488	-	323,338	(2,169,250)	36,609,576	6,333,374

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:

FY10	Balance 1 July 2009	Granted As Compensation	Received On Exercise Of Options	Net Other Change	Balance 30 June 2010	Balance Held Nominally
	Number	Number	Number	Number	Number	Number
Mr John Cowley	57,330	-	-	2,256	59,586	-
Mr Anthony (Tony) Alford	24,145,476	-	93,333	(14,733)	24,224,076	758,454
Mr Nigel Nixon	5,649,083	-	-	542	5,649,625	2,698,201
Mr Colin Archer	221,397	-	-	2,221	223,618	-
Mr Bruce Hancox	-	-	-	-	-	-
Mr Anthony Mark Connors	9,900	-	39,333	(47,333)	1,900	-
Mr Gary Best	1,445,092	-	133,333	(345,546)	1,232,879	-
Mr Damien Peters	-	-	-	-	-	-
Ms Tracey Catterall	-	-	-	-	-	-
Mr Gary Alford	1,524,534	-	-	(96,601)	1,427,933	-
Mr Gavin Nixon	5,635,329	-	-	542	5,635,871	2,812,666
	38,688,141	-	265,999	(498,652)	38,455,488	6,269,321

Executive share options of Retail Food Group Limited:

FY11	Balance 1 July 2010	Granted As Compensation	Exercised	Net Other Change	Balance 30 June 2011	Balance Vested 30 June 2011	Vested But Not Exercisable	Vested And Exercisable	Options Vested During The Year
	Number	Number	Number	Number	Number	Number	Number	Number	Number
Mr John Cowley	176,100	-	(46,667)	-	129,433	124,433	-	124,433	12,034
Mr Anthony (Tony) Alford	33,334	250,000	(23,334)	(250,000)	10,000	-	-	-	23,334
Mr Nigel Nixon	110,332	200,000	-	(100,000)	210,332	200,333	-	200,333	123,334
Mr Colin Archer	136,100	-	(100,000)	-	36,100	31,100	-	31,100	12,034
Mr Bruce Hancox	-	-	-	-	-	-	-	-	-
Mr Anthony Mark Connors	168,667	25,000	-	-	193,667	158,667	-	158,667	23,334
Mr Gary Best	106,667	50,000	-	-	156,667	96,667	-	96,667	23,334
Mr Damien Peters	100,004	40,000	(90,004)	-	50,000	-	-	-	10,000
Ms Tracey Catterall	5,000	20,000	-	-	25,000	5,000	-	5,000	-
Mr Gary Alford	275,000	20,000	(63,333)	-	231,667	201,667	-	201,667	23,334
Mr Gavin Nixon	118,666	20,000	-	-	138,666	108,667	-	108,667	23,334
	1,229,870	625,000	(323,338)	(350,000)	1,181,532	926,534	-	926,534	274,072

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:

FY10	Balance 1 July 2009	Granted As Compensation	Exercised	Net Other Change	Balance 30 June 2010	Balance Vested 30 June 2010	Vested But Not Exercisable	Vested And Exercisable	Options Vested During The Year
	Number	Number	Number	Number	Number	Number	Number	Number	Number
Mr John Cowley	176,100	-	-	-	176,100	159,066	-	159,066	58,699
Mr Anthony (Tony) Alford	126,667	-	(93,333)	-	33,334	-	-	-	93,333
Mr Nigel Nixon	110,332	-	-	-	110,332	76,999	-	76,999	76,999
Mr Colin Archer	136,100	-	-	-	136,100	119,066	-	119,066	45,367
Mr Bruce Hancox	-	-	-	-	-	-	-	-	-
Mr Anthony Mark Connors	188,000	20,000	(39,333)	-	168,667	135,333	-	135,333	82,667
Mr Gary Best	190,000	50,000	(133,333)	-	106,667	73,333	-	73,333	133,333
Mr Damien Peters	75,004	25,000	-	-	100,004	80,004	-	80,004	40,004
Ms Tracey Catterall	-	5,000	-	-	5,000	5,000	-	5,000	5,000
Mr Gary Alford	260,000	15,000	-	-	275,000	241,666	-	241,666	101,667
Mr Gavin Nixon	103,666	15,000	-	-	118,666	85,333	-	85,333	85,333
	1,365,869	130,000	(265,999)	-	1,229,870	975,800	-	975,800	722,402

During the financial year, 323,338 options (FY10: 265,999) were exercised by key management personnel at an exercise price of \$1.00 per option for 210,000 ordinary shares (FY10: 229,333), \$1.15 per option for 13,334 (FY10: 26,666), \$1.32 per option for 35,004 ordinary shares (FY10: 10,000), \$1.50 per option for 25,000 ordinary shares (FY10: \$nil), \$1.67 per option for 25,000 ordinary shares (FY10: \$nil) and \$1.92 per option for 15,000 ordinary shares in Retail Food Group Limited. 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 FY11 and FY10 are contained in note 34.

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	FY11 \$	FY10 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:		
Franchise revenue	111,926	99,915
	111,926	99,915
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:		
Rental expense	24,086	24,086
Other administration expenses	26,026	8,680
	50,112	32,766
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel or their related parties:		
Current	1,134	6,760
Allowance for doubtful debts	-	-
Non-current	-	-
	1,134	6,760
Total liabilities arising from transactions other than compensation with key management personnel or their related parties:		
Current	-	-
Non-current	-	-
	-	-

36.3 Transactions With Other Related Parties

Transactions Involving Other Related Parties

All transactions disclosed below are made on arms 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 \$24,086.40 (excluding GST) was paid or payable during the year. (FY10: \$24,086.40 excluding GST).

Bureau Services Pty Ltd is a related party of Mr Antony (Tony) Alford. It was not reimbursed for any business related expenditure during the financial year (FY10: \$716.97 excluding GST).

CGFH Holdings Pty Ltd is a related party of Mr Antony (Tony) Alford and Mr Gary Alford. It was reimbursed \$26,026.41 (excluding GST) for business related expenditure during the financial year (FY10: \$7,962.94).

Donut Holdings Pty Ltd is a related party of Mr Gavin Nixon. Donut Holdings Pty Ltd owned and operated one Donut King outlet during the year. Included in revenue for the year is an amount of \$71,534.58 (excluding GST) earned by the Group in respect of royalties and product sales to this store. (FY10: \$72,388.52). As at 30 June 2011 Donut Holdings Pty Ltd no longer owned the outlet and there were no trading debts outstanding (FY10: \$1,286.58).

Holiday Loaf Pty Ltd is a related party of Mr Gavin Nixon. Holiday Loaf Pty Ltd owned and operated one Brumby's Bakeries outlet during the year. Included in revenue for the year is an amount of \$40,391.35 (excluding GST) earned by the Group in respect of royalties and product sales to this store. (FY10: \$27,526.28). As at 30 June 2011, trading debts of \$1,133.97 were outstanding (FY10: \$5,473.06).

37. Remuneration Of Auditors

Consolidated	FY11 \$	FY10 \$
Audit Services		
<i>Auditors of the parent entity</i>		
Audit of the financial report	222,500	193,500
Review of the half-year financial report	45,230	40,000
	267,730	233,500
<i>Other auditors:</i>		
Audit of the financial report	11,304	17,634
	279,034	251,134
Other Services		
<i>Auditors of the parent entity</i>		
Taxation Services	35,000	-
	35,000	-

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:

Final Dividend

On 16 August 2011, the Board of Directors declared a final dividend for the financial year ended 30 June 2011, as set out in the "Dividends" section of this financial report.

Acquisition Of New Zealand Coffee Assets

On 28 July 2011, the Group announced that it had reached an agreement, subject to normal contractual terms and finalisation of due diligence enquiry, by which the business and intellectual property assets of the New Zealand domiciled Evolution Coffee Roasters Group, would be acquired. The Evolution Roasters Group comprises:

- Evolution Coffee Roasters: operator of a state-of-the-art coffee roasting facility in Auckland that presently manufactures and distributes approximately 170 tonnes annually of premium coffee products on a wholesale and contract roasting basis throughout New Zealand (including 60 tonnes presently supplied to RFG's Esquires Coffee Houses franchise system), Asia and the Middle East;
- Roasted Addition Coffee Dealers: merchandiser of a range of proprietary premium coffee blends and syrups (under the 'Roasted Addition' brand) to an existing customer base of approximately 150 cafes, restaurants and supermarkets throughout New Zealand; and,
- Evil Child Beverage Co.: manufacturer of premium drinking chocolate powders and frappe blends (under the 'Evil Child Beverages' brand) supplying cafes, restaurants and supermarkets throughout New Zealand.

Settlement was completed on 1 September 2011, with control of the business and intellectual property transferring to the Group at that time.

Debt Facility Management

On 4 July 2011, as part of the Group's debt facility management strategy, the Group made a voluntary debt reduction of \$10.0 million, thereby reducing the drawn amount of the Group's Debt Facility to \$75.6 million.

38. Events After The Reporting Period(cont.)

Acquisition Of Esquires Coffee Houses

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

The MF Contract provided for the issue of scrip in the Company subject to a sliding scale mechanism dependent upon the vendor meeting certain performance conditions with regard to the establishment of additional ECH outlets.

On 7 August 2011, the Group determined that the contingent consideration payable in accordance with the sliding scale mechanism would be nil.

39. Parent Entity Disclosures

The parent entity in the Group is Retail Food Group Limited.

39.1 Financial Position

Parent Entity	FY11 \$'000	FY10 \$'000
Assets		
Current assets	25,007	25,099
Non-current assets	205,378	172,618
Total assets	230,385	197,717
Liabilities		
Current liabilities	7,239	91,166
Non-current liabilities	85,638	3,462
Total liabilities	92,877	94,628
Equity		
Issued capital	98,772	95,146
Retained earnings	39,637	10,415
Reserves		
Equity-settled employee benefits	734	779
Hedging reserve	(1,635)	(3,251)
Total equity	137,508	103,089

39.2 Financial Performance

Parent Entity	FY11 \$'000	FY10 \$'000
Profit for the year	42,056	15,608
Other comprehensive income	1,616	1,616
Total comprehensive income	43,672	17,224

39.3 Other Commitments

The parent entity has no contingent liabilities or expenditure commitments as at 30 June 2011 (FY10: nil).

Number Of Holders Of Equity Securities

Ordinary Share Capital

- 108,219,282 fully paid ordinary shares are held by 1,939 individual shareholders.

All issued ordinary shares carry one vote per share.

Options

- 203,334 options granted on 1 August 2006 are held by 4 individual option holders
- 146,669 options granted on 1 August 2007 are held by 6 individual option holders
- 277,500 options granted on 1 August 2008 are held by 11 individual option holders
- 145,000 options granted on 17 February 2010 are held by 9 individual option holders
- 260,000 options granted on 16 November 2010 are held by 11 individual option holders
- 100,000 options granted on 1 December 2010 are held by 1 option holder

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	525	239,181	0.22	-	-
1,001 – 5,000	812	2,317,551	2.14	-	-
5,001 – 10,000	297	2,259,089	2.09	1	10,000
10,001 – 100,000	261	6,753,680	6.24	12	320,834
100,001 and over	44	96,649,781	89.31	5	801,669
	1,939	108,219,282	100.00	18	1,132,503
Holding less than a marketable parcel	182	11,556			

Substantial Shareholders

Ordinary Shareholders	Fully Paid		Partly Paid	
	Number	Percentage	Number	Percentage
Mr Anthony (Tony) Alford	22,636,385	20.9%	-	-
Mawer Investment Management Limited	12,050,450	11.1%	-	-
Thorney Holdings Pty Ltd / Thorney Pty Ltd	9,450,000	8.7%	-	-
Gotham City Limited	7,000,000	6.5%	-	-
Brecot Pty Ltd	5,510,867	5.1%	-	-

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 15 SEPTEMBER 2011

Twenty Largest Holders Of Quoted Equity Instruments

Ordinary Shareholders	Fully Paid		Partly Paid	
	Number	Percentage	Number	Percentage
1. JP Morgan Nominees Australia	16,691,934	15.4%	-	-
2. HSBC Custody Nominees	13,472,181	12.4%	-	-
3. CGFH C2 Pty Ltd	9,001,959	8.3%	-	-
4. Gotham City Limited	7,000,000	6.5%	-	-
5. Alford Holdings (Qld) Pty Ltd	6,628,359	6.1%	-	-
6. Cogent Nominees Limited	5,729,679	5.3%	-	-
7. Breco Pty Ltd	5,510,867	5.1%	-	-
8. National Nominees Limited	5,355,980	4.9%	-	-
9. Aust Executor Trustees NSW Limited	4,814,051	4.4%	-	-
10. Citicorp Nominees Pty Ltd	3,811,385	3.5%	-	-
11. Anttra Pty Ltd	3,700,698	3.4%	-	-
12. AMA Holdings (Qld) Pty Ltd	1,212,725	1.1%	-	-
13. WSS Holdings (Aust) Pty Ltd	1,131,534	1.0%	-	-
14. UBS Nominees Pty Ltd	1,126,933	1.0%	-	-
15. Alicia Jayne Atkinson	1,050,649	1.0%	-	-
16. FTT Holdings Pty Ltd	941,603	0.9%	-	-
17. Risby Investments Pty Ltd	882,008	0.8%	-	-
18. Saga Investments Pty Ltd	860,512	0.8%	-	-
19. C G F H Holdings Pty Ltd	846,434	0.8%	-	-
20. BHM Enterprises Pty Ltd	750,770	0.7%	-	-
Total	90,520,261	83.6%	-	-

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



Roasted Addition
COFFEE DEALERS

BARISTA'S
CHOICE

Evil
Child
Beverage Co.

evolution
COFFEE ROASTERS

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