



# **RETAILFOODGROUP LIMITED**

## **APPENDIX 4D**

### **INTERIM FINANCIAL REPORT**

#### **HALF YEAR ENDED – 31 DECEMBER 2011**

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

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# SUMMARY FINANCIAL INFORMATION

|                              | REPORTED |          |          |          |          | CORE OPERATIONS <sup>(1)</sup> |          |
|------------------------------|----------|----------|----------|----------|----------|--------------------------------|----------|
|                              | 1H08     | 1H09     | 1H10     | 1H11     | 1H12     | 1H11                           | 1H12     |
| <b>Financial</b>             |          |          |          |          |          |                                |          |
| Network Sales <sup>(2)</sup> | \$306.3m | \$320.9m | \$321.2m | \$326.7m | \$344.2  |                                |          |
| Total Revenue <sup>(3)</sup> | \$50.2m  | \$69.7m  | \$61.3m  | \$60.3m  | \$49.5m  | \$60.3m                        | \$49.5m  |
| EBITDA                       | \$17.2m  | \$20.6m  | \$22.0m  | \$22.6m  | \$24.4m  | \$23.3m                        | \$25.1m  |
| EBIT                         | \$16.8m  | \$19.8m  | \$21.5m  | \$22.2m  | \$24.0m  | \$22.9m                        | \$24.7m  |
| NPAT                         | \$8.9m   | \$10.6m  | \$12.5m  | \$13.6m  | \$14.5m  | \$14.1m                        | \$15.0m  |
| Basic EPS                    | 11.2 cps | 10.7 cps | 12.4 cps | 12.8 cps | 13.4 cps | 13.2 cps                       | 13.8 cps |
| <b>Operating</b>             |          |          |          |          |          |                                |          |
| Network Sales Growth         | 286.7%   | 4.8%     | 0.1%     | 1.7%     | 5.4%     |                                |          |
| Total Revenue Growth         | 304.8%   | 38.8%    | (12.1%)  | (1.6%)   | (17.9%)  | (1.6%)                         | (17.9%)  |
| EBITDA Growth                | 168.8%   | 19.8%    | 6.8%     | 2.6%     | 8.0%     | 5.6%                           | 7.5%     |
| EBIT Growth                  | 166.7%   | 17.9%    | 8.6%     | 3.3%     | 8.1%     | 6.4%                           | 7.9%     |
| NPAT Growth                  | 128.2%   | 19.1%    | 18.3%    | 8.9%     | 6.7%     | 12.6%                          | 6.0%     |
| Basic EPS Growth             | 103.6%   | (4.7%)   | 15.9%    | 3.2%     | 5.3%     | 6.5%                           | 4.6%     |
| Dividend (interim)           | 4.0 cps  | 4.5 cps  | 5.25 cps | 7.0 cps  | 8.5cps   |                                |          |
| Outlet Population            | 1,051    | 1,066    | 1,055    | 1,102    | 1,136    |                                |          |
| New Outlets                  | 41       | 37       | 20       | 20       | 20       |                                |          |

- (1) Results from 'Core Operations' exclude amounts recognised in the income statement relating to the pre-tax impact of:
- derivative financial instruments (interest rate swaps) (1H12: \$0.1m loss; 1H11: \$0.9m loss); and,
  - derivative financial instruments (foreign exchange forward contract) (1H12: \$nil; 1H11: \$0.1m gain).
  - Corporate restructuring costs (1H12: \$0.5m; 1H11: \$nil) Costs are attributable to office closures (\$0.3m) & employee redundancy payments (\$0.2m)
- (2) Derived from financial information including franchisee-reported turnover and not subject to audit.
- (3) Excludes revenue derived from marketing activities (1H12: \$6.8m; 1H11: \$7.1m; 1H10: \$8.1m; 1H09: \$6.9m; 1H08: \$5.2m).

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

### Reporting Period

Current Reporting Period: Half Year Ended 31 December 2011

Previous Corresponding Period: Half Year Ended 31 December 2010

### Revenue and Net Profit

| Details   |      | Growth PCP<br>% |    | 1H12<br>\$'000 |
|---|------|-----------------|----|----------------|
| Revenue from operations   | down | 16.4%           | to | 56,441         |
| Profit from ordinary activities after tax attributable to members | up   | 6.7%            | to | 14,522         |
| Net profit attributable to members                                | up   | 6.7%            | to | 14,522         |

### Dividends

| Details | Cents Per Share | Total Amount<br>\$'000 | Franked /<br>Unfranked | Payment Date |
|---------|-----------------|------------------------|------------------------|--------------|
|---------|-----------------|------------------------|------------------------|--------------|

#### Declared and paid during the half-year

|                     |      |       |              |                |
|---------------------|------|-------|--------------|----------------|
| Final FY11 dividend | 7.50 | 8,116 | 100% Franked | 6 October 2011 |
|---------------------|------|-------|--------------|----------------|

#### Declared after the end of the half-year

|                       |      |       |              |              |
|-----------------------|------|-------|--------------|--------------|
| Interim FY12 dividend | 8.50 | 9,211 | 100% Franked | 4 April 2012 |
|-----------------------|------|-------|--------------|--------------|

Record date for determining entitlements to the interim FY12 dividend: 21 March 2012

### Net Tangible Assets Per Security

| Details   | 31 December<br>2011         | 30 June<br>2011             |
|---|-----------------------------|-----------------------------|
| Net tangible assets (liabilities) per security <sup>(1)</sup> | (50.3 cents) <sup>(2)</sup> | (54.6 cents) <sup>(3)</sup> |

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

(2) 31 December 2011 calculation based on 108,229,282 shares.

(3) 30 June 2011 calculation based on 107,788,918 shares.

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

For comments on trading performance during the half-year, refer to the 1H12 media release and the Directors' Report.

The interim fully franked dividend of 8.5 cents per share was approved by the Directors on 28 February 2012. In complying with accounting standards, as the dividend was not approved prior to period end, no provision has been taken up for this dividend in the half-year financial statements.



# RETAILFOODGROUP LIMITED

## CONDENSED FINANCIAL REPORT

### HALF YEAR ENDED – 31 DECEMBER 2011

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The Directors of Retail Food Group Limited submit herewith the financial report of Retail Food Group Limited (referred to hereafter as the Company) and its subsidiaries (referred to hereafter as the Group) for the half-year ended 31 December 2011. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

## Information About The Directors

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

| Name                    | Title  |
|-------------------------|--|
| Mr Bruce Alan Hancox    | Chairman (Appointed September 2011) & Independent Director |
| Mr John Thomas Cowley   | Chairman (until September 2011) & Independent Director     |
| Mr Colin Cameron Archer | Independent Director                                       |
| Mr Anthony James Alford | Managing Director & Chief Executive Officer                |
| Mr Nigel Norman Nixon   | Executive Director & Corporate Counsel                     |

The above named Directors held office during the whole of the half-year, except for:

- Mr John Thomas Cowley: Mr Cowley was required by rotation to resign as a director at the Company's 2011 Annual General Meeting convened on 25 November 2011. He did not seek re-election.

## Principal Activities

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

- ownership of the intellectual property relating to the Donut King, bb's café, Brumby's Bakeries (including Big Dad's Pies) and Michel's Patisserie franchise systems, and save for territories outside of Australia & New Zealand, the Esquire's Coffee Houses franchise system;
- the development and management of the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquire's Coffee Houses franchise systems throughout Australia and New Zealand together with (save for the Esquires Coffee Houses system) international licensing activities connected with those brands;
- the development and management of proprietary coffee roasting and wholesaling businesses within Australia and New Zealand; and
- the wholesale supply of certain products to the the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquire's Coffee Houses franchise networks.

## Changes In State Of Affairs

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

## Review Of Operations And Financial Condition

### Group Overview

During 1H12 Retail Food Group further validated the robustness of its unique business model, recording a 6.7% increase in Net Profit After Tax (NPAT) to \$14.5m (1H11:\$13.6m).

Wholesale/retail operations performed solidly whilst the Group's franchise systems continued to demonstrate resilience to ongoing economic pressures and a challenged retail marketplace.

Core NPAT for 1H12 was \$15.0, an increase of 6.0% on 1H11 Core NPAT of \$14.1m, after discounting the impact of:

- derivative financial instruments (\$0.1 million);
- make good and other costs associated with closing redundant bakery operations in Old and NSW (\$0.1 million);
- make good and other costs associated with closure of the Company's previous national office following relocation to new purpose built administrative headquarters and a state-of-the-art training academy (\$0.2 million); and
- planned restructuring costs, including staff redundancies, associated with streamlining bakery and corporate functions (\$0.2 million).

Network Sales across the Group's franchise systems for 1H12 were \$344.2 million, an increase of \$17.5 million (5.4%) over the previous corresponding period (pcp) largely due to moderate increases in average weekly sales (AWS) together with the contributions made by the Esquires Coffee Houses franchise system (acquired in February 2011) and the Evolution Coffee Roasting Group (acquired in September 2011).

Earnings per share (EPS) for the half-year increased 5.3% (or 0.6 cents) to 13.4 cents.

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

### Group Overview (cont.)

Other 1H12 highlights included:

- continuing improvement in gross margin (from 66.4% to 83.9%) resulting from practical completion of the transition by Michel's Patisserie franchisees to a traditional royalty model coupled with implementation of the bakery distribution model;
- a 27% increase in high margin coffee revenues stemming from organic sales growth and the acquisition of New Zealand based franchise system Esquires Coffee Houses and wholesale coffee roaster, the Evolution Coffee Roasting Group;
- realization of a number of synergies attributable to corporate restructuring programs; and
- strong earnings performance supporting cash flows and facilitating an increased dividend payout ratio of over 63%.

In recognition of the Company's first half result and the Board's commitment to increase the Company's dividend payout ratio where appropriate, the Directors determined to pay a fully franked interim ordinary dividend of 8.5 cents per share, an increase of 21.4% on the pcp. The interim dividend was approved by the Directors subsequent to 31 December 2011 and is therefore not provided for in the half-year financial statements.

### Earnings Performance

Total Revenue (excluding marketing) for 1H12 was \$49.5 million, or \$10.8 million (17.9%) less than 1H11.

The foregoing decrease is attributable to continued execution of the Company's strategic objective to transition the Michel's Patisserie franchise system from a wholesale bakery supply and distribution model to a traditional royalty model as adopted by the Group's other franchise systems.

Approximately 85% of Michel's Patisserie franchisees have completed the transition to the traditional royalty model.

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

### *Franchising Operations*

Franchising Operations incorporates the development and management of the Group's retail franchise systems – Donut King, bb's café, Brumby's Bakeries (including Big Dad's Pies), 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, franchisee compliance, franchisee training and administration; and,
- the performance of marketing and promotional activities, brand development and awareness, product research and development.

Segment revenue for 1H12 was \$38.3 million (1H11: \$33.6 million), representing growth of \$4.7 million (or 14.0%).

This growth was driven by:

- the additional revenues generated by the acquisition of the Esquires Coffee Houses in February 2011;
- the continuing transition of Michel's Patisserie outlets to the traditional royalty model;
- new outlet commissionings; and,
- positive growth in average weekly sales (upon which the Group derives a royalty).

Segment revenue includes revenues derived from marketing activities of \$6.8 million (1H11: \$7.1 million).

### *Wholesale / Retail Operations*

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

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

Segment revenue for 1H12 was \$18.0 million (1H11: \$33.7 million), representing a decline of \$15.7 million.

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

Excluding sales revenue derived from the wholesale bakery sales (referred to above), adjusted segment revenue for 1H12 was \$16.2 million (1H11: \$12.0 million).

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

### Earnings Performance (cont.)

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

| Segment                       | Segment Revenues |                | Segment Result |                |
|-------------------------------|------------------|----------------|----------------|----------------|
|                               | 1H12<br>\$'000   | 1H11<br>\$'000 | 1H12<br>\$'000 | 1H11<br>\$'000 |
| Franchising Operations        | 38,291           | 33,595         | 21,602         | 17,201         |
| Wholesale / Retail Operations | 18,039           | 33,723         | 2,943          | 6,220          |
|                               | 56,330           | 67,318         | 24,545         | 23,421         |
| Unallocated                   | 111              | 146            | (3,948)        | (4,448)        |
| Profit before tax             |                  |                | 20,597         | 18,973         |
| Income tax expense            |                  |                | (6,075)        | (5,356)        |
| Revenue and NPAT for the year | 56,441           | 67,464         | 14,522         | 13,617         |

### Financial Position and Cash Flows

Net Assets of \$163.8 million have increased by \$6.9 million (4.4%) from 30 June 2011 reflecting the Group's well managed capital, debt and equity structures.

Cash inflows from operating activities for 1H12 remain strong at \$13.1 million (1H11: \$13.3 million) reflecting a conversion to EBITDA of 94.5% (1H11: 101.3%).

Surplus free cash derived from operations funded:

- a \$6m reduction in gross borrowings to \$79.6m (resulting in facility headroom of \$15.4 million);
- ongoing development of the Company's national administrative, training, research and development facility. As of 31 December 2011, acquisition, refurbishment and fitout costs incurred totaled approximately \$6m; and
- acquisition of the New Zealand based Evolution Coffee Roasters Group in September 2011 (\$3.2 million).

The Group's leverage ratio (net debt / trailing EBITDA) of 1.46 times and gearing ratio (net debt / (net debt + equity excluding hedge reserve)) of 29.5% remain comfortably within banking covenants.

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

At 31 December 2011, two interest rate swaps remain with a notional principal of \$68m and a weighted average interest rate of 7.4%.

The aggregate fair value of the Group's interest rate swaps at 31 December 2011 was \$2m payable (30 June 2011: \$2.1 million payable). The maturity dates of the remaining interest rate swaps fall prior to 31 December 2012. Accordingly, the amounts payable on the Group's interest rate swaps are classified as current liabilities in the Statement of Financial Position at 31 December 2011.

### Operational Performance

#### *Outlet Population*

During 1H12, total outlet population across the Group's franchise systems experienced a net decline of 12 outlets. Placed in perspective, the net decline represents a decrease of 1.0% over total outlet population as at 30 June 2011 and arose as a consequence of:

- continuing stagnant new shopping centre development, together with limited redevelopment amongst existing shopping centres, which results in reduced new site opportunities;
- a reduction in premium site opportunities within traditional trading spheres; and,
- ongoing rationalization of non-performing outlets due to various reasons including site location, servicing costs, franchisee suitability, prevailing outlet lease terms and debt servicing capability.

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

### Operational Performance (cont.)

|                                  | Donut King | bb's café | Brumby's Bakeries<br>(inc BDP) | Michel's Patisserie | Esquires Coffee Houses | Total |
|----------------------------------|------------|-----------|--------------------------------|---------------------|------------------------|-------|
| Outlets (as at 30 June 2011)     | 365        | 55        | 349                            | 332                 | 47                     | 1,148 |
| Commissionings & Conversions     | 5          | -         | 6                              | 4                   | 5                      | 20    |
| Closures                         | (8)        | (5)       | (12)                           | (5)                 | (2)                    | (32)  |
| Net outlet increase / decrease   | (3)        | (5)       | (6)                            | (1)                 | 3                      | (12)  |
| Outlets (as at 31 December 2011) | 362        | 50        | 343                            | 331                 | 50                     | 1,136 |

| Franchise System                                | Details   |
|---|---|
| Donut King                                      | <p>5 outlet commissionings (1H11: 7) and 8 closures (1H11: 9) resulting in Donut King net system reduction during 1H12 of 3.</p> <p>As at 31 December 2011, there were 362 Donut King outlets (1H11: 356), of which 15 are located in China (1H11: 7). One outlet exists in each of New Zealand, Papua New Guinea and Saudi Arabia, respectively.</p>   |
| bb's café                                       | <p>Nil commissionings (1H11: nil) and 5 closures (1H11: 2) resulting in bb's cafe net system reduction during 1H12 of 5.</p> <p>As at 31 December 2011, there were 50 bb's cafe outlets (1H11: 58), of which 16 are located in New Zealand (1H11: 21).</p>  |
| Brumby's Bakeries<br>(including Big Dad's Pies) | <p>6 outlet commissionings (1H11: 7) and 12 closures (1H11: 20) resulting in Brumby's Bakeries net system reduction during 1H12 of 6.</p> <p>Of these, 2 closures related to the Big Dad's Pies franchise system.</p> <p>As at 31 December 2011, there were 343 Brumby's Bakeries outlets (1H11: 354), of which 15 are located in New Zealand (1H11: 17), and one outlet in Papua New Guinea.</p> |
| Michel's Patisserie                             | <p>4 outlet commissionings (1H11: 6) and 5 closures (1H11: 9) resulting in Michel's Patisserie net system reduction during 1H12 of 1.</p> <p>As at 31 December 2011, there were 331 Michel's Patisserie outlets (1H11: 334), of which 3 are located in New Zealand and 1 in Indonesia.</p>  |
| Esquires Coffee Houses                          | <p>5 outlet commissionings and 2 closures resulting in Esquires Coffee Houses net system growth during 1H12 of 3.</p> <p>As at 31 December 2011, there were 50 Esquires Coffee Houses outlets, of which 1 is located in Australia.</p>  |



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

### Operational Performance (cont.)

Compared to 1H11, the Group's franchise systems exhibited modest but positive:

- weighted average weekly sales (AWS) growth of 1.7%; and
- weighted average transaction value (ATV) growth of 1.8%.

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

| Franchise System       | Average Weekly Sales (AWS) |        |        | Average Transaction Value (ATV) |      |      |
|------------------------|----------------------------|--------|--------|---------------------------------|------|------|
|                        | 1H10                       | 1H11   | 1H12   | 1H10                            | 1H11 | 1H12 |
|                        | \$                         | \$     | \$     | \$                              | \$   | \$   |
| Donut King             | 9,716                      | 9,853  | 9,972  | 5.08                            | 5.25 | 5.37 |
| Growth                 | 0.7%                       | 1.4%   | 1.2%   | 4.3%                            | 3.4% | 2.2% |
| bb's café              | 11,408                     | 11,715 | 11,983 | 7.37                            | 7.59 | 7.70 |
| Growth                 | 0.2%                       | 2.7%   | 2.3%   | 2.9%                            | 3.0% | 1.5% |
| Brumby's Bakeries      | 13,731                     | 13,766 | 13,983 | 5.85                            | 5.94 | 6.00 |
| Growth                 | 1.1%                       | 0.3%   | 1.6%   | 4.1%                            | 1.6% | 1.0% |
| Michel's Patisserie    | 12,517                     | 12,881 | 12,935 | 6.43                            | 6.55 | 6.57 |
| Growth                 | 1.5%                       | 2.9%   | 0.4%   | 0.2%                            | 1.8% | 0.3% |
| Esquires Coffee Houses |                            |        | 8,865  |                                 |      | 8.35 |
| Growth                 |                            |        |        |                                 |      |      |

As previously noted Donut King, bb's café and Michel's Patisserie outlets are predominantly located in shopping centres.

In these locations, the group continues to focus on value driven strategies that are placed above the brand systems average transaction values to compensate for lower traffic flows and depressed consumer sentiment.

Donut King outlet average weekly sales growth of 1.2% was underpinned by social media promotions offering enhanced bundling offers, and renewed focus on high growth categories such as coffee and hot dogs.

bb's café outlet average weekly sales growth for Australian outlets was 2.3% on 1H11 reflecting the success of its "Shout A Friend" ((buy one, get one free) promotion together with up-selling beverage strategies, and increased customer recognition of the brand's quality coffee offer.

Brumby's Bakeries outlet average weekly sales growth of 1.6% was assisted by its largest product category launch in almost ten years, known as "Pure Bake". Under this launch, Brumby's Bakeries became the first bakery chain in Australia to launch a "No Numbers or Artificial colours" premium product offering across 120 of its bread products.

Michel's Patisserie outlet average weekly sales growth of 0.4% was assisted by cross pollination strategies of its café & cake categories through promotions like "Free coffee with any Whole Cake Purchase" as well as strengthening its online strategy through increased range, site optimization and awareness marketing campaigns.

### Acquisitions

On 1 September 2011, the Group acquired the business and intellectual property assets of the New Zealand domiciled Evolution Coffee Roasters Group for cash consideration of \$3.2m.

### Significant Events After The Balance Date

#### Interim Dividend

On 28 February 2012, the Board of Directors determined to pay an interim dividend in respect of profits of the financial year ending 30 June 2012. The interim dividend of 8.5 cents per share (based on 108,369,282 shares on issue as at 28 February 2012), franked to 100% at 30% corporate income tax rate will be paid on 4 April 2012. The interim dividend was approved by the Directors following the conclusion of 1H12 and therefore was not provided for in the half-year financial report. The Board resolved to suspend the Company's Dividend Reinvestment Plan ('DRP'), therefore the 1H12 dividend will not constitute an eligible dividend for the purpose of the DRP.

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

### Acquisition of Pizza Capers Gourmet Kitchen franchise system

On 28 February 2012, the Group announced that it had reached an agreement, subject to normal contractual terms and finalisation of due diligence enquiry, by which the Pizza Capers Gourmet Kitchen franchise system (Pizza Capers) would be acquired. The Pizza Capers system is represented by 110 outlets predominantly based in Queensland.

Whilst the due diligence process is not yet completed, Pizza Capers is expected to contribute \$4.3 million in earnings before interest & tax (EBIT) to the Group in FY13. Consideration for the transaction is based on a multiple of 7 times FY13 EBIT.

The consideration payable for the acquisition will be settled from existing cash reserves and available debt facilities. Settlement is anticipated on or about April 2012.

### Dividends

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

| Dividend Details                               | Cents Per Share | Total Amount<br>\$'000 | Franked /<br>Unfranked | Payment Date   |
|--|-----------------|------------------------|------------------------|----------------|
| <b>Declared and paid during the half-year</b>  |                 |                        |                        |                |
| Final FY11 dividend                            | 7.50            | 8,116                  | 100% Franked           | 6 October 2011 |
| <b>Declared after the end of the half-year</b> |                 |                        |                        |                |
| Interim FY12 dividend                          | 8.50            | 9,211                  | 100% Franked           | 4 April 2012   |

In respect of profits of the financial year ended 30 June 2011, a final dividend of 7.50 cents per share (based on 108,219,282 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 6 October 2011. The final dividend was approved by the Directors on 16 August 2011. 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.

In respect of profits of the financial year ending 30 June 2012, an interim dividend of 8.5 cents per share (based on 108,369,282 shares on issue as at 28 February 2012), franked to 100% at 30% corporate income tax rate will be paid on 4 April 2012. The interim dividend was approved by the Directors following the conclusion of 1H12 and therefore was not provided for in the half-year financial report. The Board resolved to suspend the Company's Dividend Reinvestment Plan ('DRP'), therefore the 1H12 dividend will not constitute an eligible dividend for the purpose of the DRP.

### Auditor's Independence Declaration

The auditor's independence declaration is included on page 11 of the half-year condensed financial report.

### Rounding Off Of Amounts

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

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

On behalf of the Directors

### RETAIL FOOD GROUP LIMITED



**A J (TONY) ALFORD**  
Managing Director and CEO  
Southport, 28 February 2012



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The Directors  
Retail Food Group Limited  
1-3 Olympic Circuit  
Southport, QLD 4215

28 February 2012

Dear Board Members,

## **Retail Food Group Limited**

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

As lead audit partner for the review of the financial statements of Retail Food Group Limited for the half-year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

A handwritten signature in dark ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in dark ink, appearing to be "Tendai Mkwanzani".

Tendai Mkwanzani  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
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## Independent Auditor's Review Report to the Members of Retail Food Group Limited

We have reviewed the accompanying half-year financial report of Retail Food Group Limited, which comprises the condensed statement of financial position as at 31 December 2011, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 14 to 26.

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

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Retail Food Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

*Auditor's Independence Declaration*

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

*Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Tendai Mkwanzani  
Partner  
Chartered Accountants  
Brisbane, 28 February 2012

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

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

On behalf of the Directors

**RETAIL FOOD GROUP LIMITED**



**A J (TONY) ALFORD**

Managing Director and CEO  
Southport, 28 February 2012

# CONDENSED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE HALF YEAR ENDED 31 DECEMBER 2011

| Consolidated  | Note | 1H12<br>\$'000 | 1H11<br>\$'000 |
|---|------|----------------|----------------|
| <b>Continuing operations</b>                        |      |                |                |
| Revenue from sale of goods                          | 4    | 18,039         | 33,723         |
| Cost of sales                                       | 6    | (9,062)        | (22,651)       |
| Gross profit  |      | 8,977          | 11,072         |
| Other revenue                                       | 4    | 38,402         | 33,741         |
| Other gains and losses                              | 5    | (233)          | (742)          |
| Selling expenses                                    |      | (3,864)        | (3,172)        |
| Marketing expenses                                  |      | (6,815)        | (7,102)        |
| Occupancy expenses                                  |      | (1,447)        | (1,128)        |
| Administration expenses                             |      | (2,420)        | (2,495)        |
| Operating expenses                                  |      | (7,431)        | (6,547)        |
| Finance costs                                       |      | (3,415)        | (3,441)        |
| Other expenses                                      |      | (1,157)        | (1,213)        |
| Profit before tax                                   |      | 20,597         | 18,973         |
| Income tax expense                                  |      | (6,075)        | (5,356)        |
| Profit for the year from continuing operations      |      | 14,522         | 13,617         |
| <b>Discontinued operations</b>                      |      |                |                |
| Profit for the year from discontinued operations    |      | -              | -              |
| <b>Profit for the year</b>                          |      | 14,522         | 13,617         |
| <b>Other comprehensive income</b>                   |      |                |                |
| Net gain on cash flow hedges                        |      | 207            | 1,430          |
| Net loss on net investment hedge                    |      | (167)          | -              |
| Other comprehensive income for the year, net of tax |      | 40             | 1,430          |
| <b>Total comprehensive income for the year</b>      |      | 14,562         | 15,047         |
| Profit attributable to:                             |      |                |                |
| Equity holders of the parent                        |      | 14,522         | 13,617         |
| Total comprehensive income attributable to:         |      |                |                |
| Equity holders of the parent                        |      | 14,562         | 15,047         |
| <b>Earnings per share</b>                           |      |                |                |
| From continuing and discontinued operations:        |      |                |                |
| Basic (cents per share)                             |      | 13.4           | 12.8           |
| Diluted (cents per share)                           |      | 13.4           | 12.7           |
| From continuing operations:                         |      |                |                |
| Basic (cents per share)                             |      | 13.4           | 12.8           |
| Diluted (cents per share)                           |      | 13.4           | 12.7           |

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

# CONDENSED STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2011

| Consolidated                         | Note | 1H12<br>\$'000 | FY11<br>\$'000 |
|--------------------------------------|------|----------------|----------------|
| <b>Current assets</b>                |      |                |                |
| Cash and cash equivalents            |      | 10,470         | 15,173         |
| Trade and other receivables          |      | 13,464         | 12,066         |
| Other financial assets               |      | 3,864          | 3,103          |
| Inventories                          |      | 2,488          | 2,359          |
| Other                                |      | 385            | 179            |
| <b>Total current assets</b>          |      | <b>30,671</b>  | <b>32,880</b>  |
| <b>Non-current assets</b>            |      |                |                |
| Trade and other receivables          |      | 69             | 138            |
| Property, plant and equipment        |      | 7,855          | 7,853          |
| Deferred tax assets                  |      | 1,212          | 1,242          |
| Intangible assets                    | 7    | 218,258        | 215,658        |
| <b>Total non-current assets</b>      |      | <b>227,394</b> | <b>224,891</b> |
| <b>Total assets</b>                  |      | <b>258,065</b> | <b>257,771</b> |
| <b>Current liabilities</b>           |      |                |                |
| Trade and other payables             |      | 5,504          | 6,210          |
| Current tax liabilities              |      | 4,141          | 4,556          |
| Provisions                           |      | 1,486          | 1,645          |
| Other                                |      | 3,154          | 745            |
| <b>Total current liabilities</b>     |      | <b>14,285</b>  | <b>13,156</b>  |
| <b>Non-current liabilities</b>       |      |                |                |
| Borrowings                           |      | 79,638         | 85,638         |
| Provisions                           |      | 349            | 356            |
| Other                                |      | -              | 1,772          |
| <b>Total non-current liabilities</b> |      | <b>79,987</b>  | <b>87,766</b>  |
| <b>Total liabilities</b>             |      | <b>94,272</b>  | <b>100,922</b> |
| <b>Net assets</b>                    |      | <b>163,793</b> | <b>156,849</b> |
| <b>Equity</b>                        |      |                |                |
| Issued capital                       | 8    | 99,387         | 98,772         |
| Reserves                             | 9    | (906)          | (829)          |
| Retained earnings                    | 10   | 65,312         | 58,906         |
| <b>Total equity</b>                  |      | <b>163,793</b> | <b>156,849</b> |

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



# CONDENSED STATEMENT OF CHANGES IN EQUITY

## FOR THE HALF YEAR ENDED 31 DECEMBER 2011

| Consolidated   | Fully Paid Ordinary Shares | Equity Settled Employee Benefits Reserve | Hedging Reserve | Retained Earnings | Total          |
|--|----------------------------|--|-----------------|-------------------|----------------|
|  | \$'000                     | \$'000                                   | \$'000          | \$'000            | \$'000         |
| Balance as at 1 July 2010                              | 95,146                     | 779                                      | (3,251)         | 46,131            | 138,805        |
| Profit for the year                                    | -                          | -  | -               | 13,617            | 13,617         |
| Other comprehensive income                             | -                          | -  | 1,430           | -                 | 1,430          |
| Total comprehensive income                             | -                          | -  | 1,430           | 13,617            | 15,047         |
| Share issue costs                                      | (17)                       | -  | -               | -                 | (17)           |
| Related income tax                                     | 5                          | -  | -               | -                 | 5              |
| Issue of ordinary shares under DRP                     | 1,369                      | -  | -               | -                 | 1,369          |
| Recognition of share-based payments                    | -                          | 140                                      | -               | -                 | 140            |
| Issue of shares under executive share option plan      | 776                        | -  | -               | -                 | 776            |
| Transfer from equity-settled employee benefits reserve | 212                        | (212)                                    | -               | -                 | -              |
| Payment of dividends                                   | -                          | -  | -               | (6,934)           | (6,934)        |
| <b>Balance as at 31 December 2010</b>                  | <b>97,491</b>              | <b>707</b>                               | <b>(1,821)</b>  | <b>52,814</b>     | <b>149,191</b> |
| Balance as at 1 July 2011                              | 98,772                     | 734                                      | (1,563)         | 58,906            | 156,849        |
| Profit for the year                                    | -                          | -  | -               | 14,522            | 14,522         |
| Other comprehensive income                             | -                          | -  | 40              | -                 | 40             |
| Total comprehensive income                             | -                          | -  | 40              | 14,522            | 14,522         |
| Share issue costs                                      | (9)                        | -  | -               | -                 | (9)            |
| Related income tax                                     | 2                          | -  | -               | -                 | 2              |
| Issue of ordinary shares under DRP                     | -                          | -  | -               | -                 | -              |
| Recognition of share-based payments                    | -                          | 24                                       | -               | -                 | 24             |
| Issue of shares under executive share option plan      | 481                        | -  | -               | -                 | 481            |
| Transfer from equity-settled employee benefits reserve | 141                        | (141)                                    | -               | -                 | -              |
| Payment of dividends                                   | -                          | -  | -               | (8,116)           | (8,116)        |
| <b>Balance as at 31 December 2011</b>                  | <b>99,387</b>              | <b>617</b>                               | <b>(1,523)</b>  | <b>65,312</b>     | <b>163,793</b> |

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

# CONDENSED STATEMENT OF CASH FLOWS

## FOR THE HALF YEAR ENDED 31 DECEMBER 2011

| Consolidated   | Note | 1H12<br>\$'000  | 1H11<br>\$'000  |
|--|------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>                  |      |                 |                 |
| Receipts from customers                                      |      | 59,807          | 74,836          |
| Payments to suppliers and employees                          |      | (36,739)        | (51,914)        |
| Interest and other costs of finance paid                     |      | (3,394)         | (2,720)         |
| Income taxes paid  |      | (6,535)         | (6,909)         |
| <b>Net cash provided by operating activities</b>             |      | <b>13,139</b>   | <b>13,293</b>   |
| <b>Cash flows from investing activities</b>                  |      |                 |                 |
| Interest received  |      | 111             | 146             |
| Proceeds from repayment of related party loans               |      | -               | 11              |
| Amounts advanced to other entities                           |      | (901)           | (287)           |
| Payments for property, plant and equipment                   |      | (203)           | (3,014)         |
| Proceeds from sale of property, plant and equipment          |      | 9               | 13              |
| Payment for intangible assets                                |      | (18)            | -               |
| Payment for business   |      | (3,196)         | -               |
| <b>Net cash used in investing activities</b>                 |      | <b>(4,198)</b>  | <b>(3,131)</b>  |
| <b>Cash flows from financing activities</b>                  |      |                 |                 |
| Proceeds from issues of equity securities                    |      | 481             | 776             |
| Payment for share issue costs                                |      | (9)             | (17)            |
| Proceeds from borrowings                                     |      | 4,000           | 338             |
| Payment for debt costs                                       |      | -               | (208)           |
| Repayment of borrowings                                      |      | (10,000)        | (9,000)         |
| Dividends paid   |      | (8,116)         | (5,565)         |
| <b>Net cash used in financing activities</b>                 |      | <b>(13,644)</b> | <b>(13,676)</b> |
| Net (decrease) / increase in cash and cash equivalents       |      | (4,703)         | (3,514)         |
| Cash and cash equivalents at the beginning of the half year  |      | 15,173          | 13,105          |
| <b>Cash and cash equivalents at the end of the half year</b> |      | <b>10,470</b>   | <b>9,591</b>    |

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

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 1. General Information

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

| Registered Office                                    | Principal Administration Office                      |
|--|--|
| RFG House<br>1 Olympic Circuit<br>Southport QLD 4215 | RFG House<br>1 Olympic Circuit<br>Southport QLD 4215 |

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

- the intellectual property ownership of the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and, save for territories outside of Australia & New Zealand, 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 (save for the Esquires Coffee Houses system), international licensor throughout the rest of world; and,
- development and management of the Coffee Roasting Facilities and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquires Coffee Houses franchise systems.

## 2. Significant Accounting Policies

### 2.1 Statement Of Compliance

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

The half year financial report was authorised for issue by the Directors on 28 February 2012.

### 2.2 Basis Of Preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

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

- Amendments to AASB 124 as a consequence of AASB 2009-12 *Amendments to Australian Accounting Standards*; and
- Amendments to AASB 7, 101 and 134 as a consequence of AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and has no affect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements.

### 2.3 Reassessment of Cash-Generating Units

Previously, the Group has determined the existence of 4 cash-generating units (CGU) based on the operation of the Group's 5 identifiable franchise systems. At the date of acquisition of the Evolution Coffee Roasters Group (Evolution) during the period, the Group has determined this business represents a separate CGU for the purpose of future impairment testing, being the lowest level within the entity at which the goodwill is monitored for internal management purposes.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 3. Segment Information

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

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

| Segment                       | Description   |
|-------------------------------|---|
| Franchising Operations        | Franchising Operations incorporates the development and management of the Group's retail franchise systems – Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie and Esquires Coffee Houses – and involves the following principal activities: <ul style="list-style-type: none"> <li>the establishment and grant of new franchises;</li> <li>the administration of royalties collection, supplier licensing, franchise compliance, franchise training and administration; and,</li> <li>the performance of marketing and promotional activities, brand development and awareness, and product research and development.</li> </ul>   |
| Wholesale / Retail Operations | 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: <ul style="list-style-type: none"> <li>the manufacture, procurement, sale and distribution of bakery and other related items to Michel's Patisserie franchisees;</li> <li>the manufacture and sale of roasted coffee and related products to franchisees and external customers;</li> <li>the interim operation of non-voluntary company owned or company managed stores across each of the franchise systems; and,</li> <li>the sale of company owned stores.</li> </ul> |

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

| Segment                           | Segment Revenues |                | Segment Profit |                |
|-----------------------------------|------------------|----------------|----------------|----------------|
|                                   | 1H12<br>\$'000   | 1H11<br>\$'000 | 1H12<br>\$'000 | 1H11<br>\$'000 |
| Franchising Operations            | 38,291           | 33,595         | 21,602         | 17,201         |
| Wholesale / Retail Operations     | 18,039           | 33,723         | 2,943          | 6,220          |
|                                   | 56,330           | 67,318         | 24,545         | 23,421         |
| Other gains and losses            |                  |                | (233)          | (742)          |
| Interest revenue                  | 111              | 146            | 111            | 146            |
| Finance costs                     |                  |                | (3,415)        | (3,441)        |
| Unallocated                       | -                | -              | (411)          | (411)          |
| Profit before tax                 |                  |                | 20,597         | 18,973         |
| Income tax expense                |                  |                | (6,075)        | (5,356)        |
| Revenue and profit for the period | 56,441           | 67,464         | 14,522         | 13,617         |

Revenue reported above represents revenue generated from external customers.

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

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

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

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 4. Revenue

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

| Consolidated                                  | 1H12<br>\$'000 | 1H11<br>\$'000 |
|---|----------------|----------------|
| Revenue from the sale of goods <sup>(1)</sup> | 18,039         | 33,723         |
| Revenue from the rendering of services        | 38,291         | 33,595         |
|   | 56,330         | 67,318         |
| Interest revenue – bank deposits              | 111            | 146            |
|   | 56,441         | 67,464         |

(1) Revenue from the sale of goods is impacted by the continuing transition of the Michel's Patisserie franchise system from a wholesale bakery supply and distribution model to a traditional royalty based model typically operated by the Group. Excluding sales revenue derived from the wholesale bakery sales (relating to Michel's Patisserie outlets), adjusted revenue from the sale of goods for 1H12 was \$16.2 million (1H11: \$12.0 million).

## 5. Other Gains And Losses

| Consolidated                                      | 1H12<br>\$'000 | 1H11<br>\$'000 |
|---|----------------|----------------|
| Loss on disposal of property, plant and equipment | (104)          | (9)            |
| Loss on cash flow hedges                          | (129)          | (852)          |
| Gain on foreign exchange forward contract         | -              | 119            |
|   | (233)          | (742)          |

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

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

| Consolidated   | 1H12<br>\$'000 | 1H11<br>\$'000 |
|--|----------------|----------------|
| Cost of sales  | 9,062          | 22,651         |
| Inventory write-down/(write-back) of inventory to net realisable value | (72)           | 100            |
| Impairment of trade receivables  | 803            | 691            |
| Depreciation of property, plant and equipment                          | 411            | 411            |
| Employee benefits expenses:  |                |                |
| Post employment benefits (defined contribution plans)                  | 771            | 672            |
| Share-based payments (equity-settled share-based payments)             | 24             | 140            |
| Termination benefits   | 184            | 6              |
| Other employee benefits (wages and salaries)                           | 11,922         | 10,237         |
|  | 12,901         | 11,055         |

## 7. Intangible Assets

| Consolidated                                    | Goodwill      | Indefinite Life    |                              | Finite Life | Total          |
|---|---------------|--------------------|------------------------------|-------------|----------------|
|   |               | Franchise Networks | Intellectual Property Rights | Other       |                |
|   | \$'000        | \$'000             | \$'000                       | \$'000      | \$'000         |
| <b>Gross carrying amount</b>                    |               |                    |                              |             |                |
| Balance as at 1 July 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            |
| <b>Balance as at 30 June 2011</b>               | <b>23,746</b> | <b>186,490</b>     | <b>5,212</b>                 | <b>231</b>  | <b>215,679</b> |
| Additions                                       | -             | -                  | 21                           | -           | 21             |
| Acquisitions through business combinations      | 2,810         | -                  | -                            | -           | 2,810          |
| Effect of foreign currency exchange differences | (133)         | (98)               | -                            | -           | (231)          |
| <b>Balance as at 31 December 2011</b>           | <b>26,423</b> | <b>186,392</b>     | <b>5,233</b>                 | <b>231</b>  | <b>218,279</b> |
| <b>Accumulated amortisation</b>                 |               |                    |                              |             |                |
| Balance as at 1 July 2010                       | -             | -                  | -                            | (21)        | (21)           |
| <b>Balance as at 30 June 2011</b>               | <b>-</b>      | <b>-</b>           | <b>-</b>                     | <b>(21)</b> | <b>(21)</b>    |
| <b>Balance as at 31 December 2011</b>           | <b>-</b>      | <b>-</b>           | <b>-</b>                     | <b>(21)</b> | <b>(21)</b>    |
| <b>Net book value</b>                           |               |                    |                              |             |                |
| As at 30 June 2011                              | 23,746        | 186,490            | 5,212                        | 210         | 215,658        |
| As at 31 December 2011                          | 26,423        | 186,392            | 5,233                        | 210         | 218,258        |

### Reassessment of Cash-Generating Units

Previously, the Group has determined the existence of 4 cash-generating units (CGU) based on the operation of the Group's 5 identifiable franchise systems. At the date of acquisition of the Evolution Coffee Roasters Group (Evolution) during the period, the Group has determined this business represents a separate CGU for the purpose of future impairment testing, being the lowest level within the entity at which the goodwill is monitored for internal management purposes.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 8. Issued Capital

| Consolidated   | 1H12<br>\$'000 | FY11<br>\$'000 |
|--|----------------|----------------|
| 108,229,282 fully paid ordinary shares (FY11: 107,788,918) | 99,387         | 98,772         |
|  | 99,387         | 98,772         |

|  | 1H12     |        | FY11     |        |
|--|----------|--------|----------|--------|
|  | No. '000 | \$'000 | No. '000 | \$'000 |
| <b>Fully paid ordinary shares <sup>(1)</sup></b>                 |          |        |          |        |
| Balance at beginning of period                                   | 107,789  | 98,772 | 106,020  | 95,146 |
| Share issue costs  | -        | (9)    | -        | (25)   |
| Related income tax   | -        | 2      | -        | 8      |
| Issue of ordinary shares under DRP                               | -        | -      | 995      | 2,535  |
| Issue of shares under executive share option plan <sup>(2)</sup> | 440      | 481    | 774      | 869    |
| Transfer from equity-settled employee benefits reserve           | -        | 141    | -        | 239    |
| Balance at end of period   | 108,229  | 99,387 | 107,789  | 98,772 |

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

(2) During the period a total of 440,364 shares were issued following the exercise of options.

## 9. Reserves

| Consolidated                             | 1H12<br>\$'000 | FY11<br>\$'000 |
|--|----------------|----------------|
| Equity-settled employee benefits reserve | 617            | 734            |
| Hedging reserve                          | (1,523)        | (1,563)        |
|  | (906)          | (829)          |

| Equity-settled employee benefits reserve | 1H12<br>\$'000 | FY11<br>\$'000 |
|--|----------------|----------------|
| Balance at beginning of period           | 734            | 779            |
| Share-based payments                     | 24             | 194            |
| Transfer to share capital                | (141)          | (239)          |
| Balance at end of period                 | 617            | 734            |

| Hedging reserve   | 1H12<br>\$'000 | FY11<br>\$'000 |
|---|----------------|----------------|
| Balance at beginning of period                            | (1,563)        | (3,251)        |
| Gain recognised on cash flow hedges (interest rate swaps) | 296            | 2,308          |
| Net investment hedge                                      | (238)          | 103            |
| Income tax related to amounts recognised in equity        | (18)           | (723)          |
| Balance at end of period                                  | (1,523)        | (1,563)        |

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 10. Retained Earnings

| Consolidated  | 1H12<br>\$'000 | FY11<br>\$'000 |
|---|----------------|----------------|
| Balance at beginning of period                          | 58,906         | 46,131         |
| Net profit attributable to members of the parent entity | 14,522         | 27,224         |
| Dividends provided for or paid                          | (8,116)        | (14,449)       |
| Balance at end of period                                | 65,312         | 58,906         |

## 11. Dividends

| Company   | 1H12            |              | 1H11            |              |
|---|-----------------|--------------|-----------------|--------------|
|   | Cents Per Share | Total \$'000 | Cents Per Share | Total \$'000 |
| <b>Recognised amounts</b>                                       |                 |              |                 |              |
| <u>Fully paid ordinary shares</u>                               |                 |              |                 |              |
| Final dividend – fully franked at 30% tax rate                  | 7.500           | 8,116        | 6.500           | 6,934        |
| <b>Unrecognised amounts</b>                                     |                 |              |                 |              |
| <u>Fully paid ordinary shares</u>                               |                 |              |                 |              |
| Interim dividend – fully franked at 30% tax rate <sup>(1)</sup> | 8.500           | 9,211        | 7.00            | 7,511        |

(1) In respect of profits of the financial year ending 30 June 2012, an interim dividend of 8.5 cents per share (based on 108,369,282 shares on issue as at 28 February 2012), franked to 100% at 30% corporate income tax rate will be paid on 4 April 2012. The interim dividend was approved by the Directors following the conclusion of 1H12 and therefore was not provided for in the half-year financial report. The Board resolved to suspend the Company's Dividend Reinvestment Plan ('DRP'), therefore the 1H12 dividend will not constitute an eligible dividend for the purpose of the DRP.

## 12. 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 |
|---|---------------------------------|---------------------|----------------------------------|---------------------------------|----------------------------------|
| <b>Acquisition Of Businesses:</b>                   |                                 |                     |                                  |                                 |                                  |
| Evolution Coffee Roasters                           | Coffee Roasting & merchandising | 1 September 2011    | 3,196                            | 3,196                           | -                                |
| Total Consideration:                                |                                 |                     | 3,196                            | 3,196                           | -                                |

On 1 September 2011, the Group acquired the business and intellectual property assets of the New Zealand domiciled Evolution Coffee Roasters Group. The Evolution Coffee 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, Asia and the Middle East;
- Roasted Addition Coffee Dealers: merchandiser of a range of proprietary premium coffee blends and syrups 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 supplying cafes, restaurants and supermarkets throughout New Zealand.



## 12. Acquisitions(cont.)

| Consideration Transferred | 1H12<br>\$'000 |
|---------------------------|----------------|
| Cash                      | 3,196          |
| Contingent consideration  | -              |
| Total                     | 3,196          |

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

| Net Assets Acquired                          | Book Value | Fair Value Adjustment | Fair Value On Acquisition |
|--|------------|-----------------------|---------------------------|
|  | \$'000     | \$'000                | \$'000                    |
| <b>Current assets</b>                        |            |                       |                           |
| Inventories                                  | 72         | -                     | 72                        |
| <b>Non-current assets</b>                    |            |                       |                           |
| Property, plant & equipment                  | 314        | -                     | 314                       |
|  | 386        | -                     | 386                       |
| Goodwill on acquisition of business (note 7) |            |                       | 2,810                     |
| Acquisition price                            |            |                       | 3,196                     |

The initial accounting for the acquisition of Evolution Coffee Roasters Group has been provisionally determined at the end of the interim reporting period. Customer lists and customer relationships were acquired as part of the Evolution Coffee Roasters acquisition. At the end of the interim period, the process of assessing the value has not been concluded. Accordingly, at the end of the interim period, the purchase consideration not attributable to the identified net assets acquired has been provisionally accounted for as Goodwill arising on acquisition.

| Net Cash Flow On Acquisition                               | 1H12<br>\$'000 |
|--|----------------|
| Total purchase consideration                               | 3,196          |
| Less: non-cash consideration for Evolution Coffee Roasters | -              |
| Consideration paid in cash                                 | 3,196          |
| Less: cash and cash equivalent balances acquired           | -              |
|  | 3,196          |

## 13. Events After The Reporting Period

### Interim Dividend

On 28 February 2012, the Board of Directors determined to pay an interim dividend in respect of profits of the financial year ending 30 June 2012. The interim dividend of 8.5 cents per share (based on 108,369,282 shares on issue as at 28 February 2012), franked to 100% at 30% corporate income tax rate will be paid on 4 April 2012. The interim dividend was approved by the Directors following the conclusion of 1H12 and therefore was not provided for in the half-year financial report. The Board resolved to suspend the Company's Dividend Reinvestment Plan ('DRP'), therefore the 1H12 dividend will not constitute an eligible dividend for the purpose of the DRP.

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

### Acquisition of Pizza Capers Gourmet Kitchen franchise system

On 28 February 2012, the Group announced that it had reached an agreement, subject to normal contractual terms and finalisation of due diligence enquiry, by which the Pizza Capers Gourmet Kitchen franchise system (Pizza Capers) would be acquired. The Pizza Capers system is represented by 110 outlets predominantly based in Queensland.

Whilst the due diligence process is not yet completed, Pizza Capers is expected to contribute \$4.3 million in earnings before interest & tax (EBIT) to the Group in FY13. Consideration for the transaction is based on a multiple of 7 times FY13 EBIT.

The consideration payable for the acquisition will be settled from existing cash reserves and available debt facilities. Settlement is anticipated on or about April 2012.



| Company Secretary   | Registered Office                                    | Principal Administration Office                      | Share Registry  |
|---|--|--|---|
| Mr Anthony Mark Connors<br>RFG House<br>1 Olympic Circuit<br>Southport QLD 4215 | RFG House<br>1 Olympic Circuit<br>Southport QLD 4215 | RFG House<br>1 Olympic Circuit<br>Southport QLD 4215 | Computershare Investor Services<br>117 Victoria Street<br>West End QLD 4000 |