



# **RETAILFOODGROUP LIMITED**

## **ANNUALFINANCIALREPORT**

### **FINANCIAL YEAR ENDED – 30 JUNE 2012**

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# SUMMARY

|                                 | REPORTED |          |           |          |          | CORE OPERATIONS <sup>(1)</sup> |          |
|---------------------------------|----------|----------|-----------|----------|----------|--------------------------------|----------|
|                                 | FY08     | FY09     | FY10      | FY11     | FY12     | FY11                           | FY12     |
| <b>Financial</b>                |          |          |           |          |          |                                |          |
| Adjusted Revenue <sup>(2)</sup> |          |          | \$66.6m   | \$77.8m  | \$100.6m |                                |          |
| Total Revenue <sup>(3)</sup>    | \$114.1m | \$130.5m | \$118.6m  | \$110.0m | \$101.9m |                                |          |
| EBITDA                          | \$35.7m  | \$41.6m  | \$44.9m   | \$45.9m  | \$48.4m  | \$46.8m                        | \$50.9m  |
| EBIT                            | \$34.4m  | \$40.3m  | \$43.8m   | \$45.1m  | \$47.5m  | \$46.0m                        | \$50.1m  |
| NPAT                            | \$17.6m  | \$23.5m  | \$26.0m   | \$27.2m  | \$28.5m  | \$27.9m                        | \$30.3m  |
| Basic EPS                       | 19.9 cps | 23.7 cps | 25.3 cps  | 25.4 cps | 26.4 cps | 26.0 cps                       | 28.0 cps |
| Dividend                        | 8.5 cps  | 9.25 cps | 11.75 cps | 14.5 cps | 17.5 cps |                                |          |
| <b>Operating Performance</b>    |          |          |           |          |          |                                |          |
| Adjusted Revenue Growth         |          |          |           | 16.8%    | 29.3%    |                                |          |
| Revenue Growth                  | 383.5%   | 14.4%    | (9.1%)    | (7.3%)   | (7.4%)   |                                |          |
| EBITDA Growth                   | 187.9%   | 16.5%    | 7.9%      | 2.2%     | 5.4%     | 3.1%                           | 8.9%     |
| EBIT Growth                     | 182.0%   | 17.2%    | 8.7%      | 3.0%     | 5.3%     | 3.8%                           | 8.8%     |
| NPAT Growth                     | 134.7%   | 33.4%    | 10.6%     | 4.6%     | 4.9%     | 5.7%                           | 8.9%     |
| Basic EPS Growth                | 89.5%    | 19.1%    | 6.8%      | 0.4%     | 3.9%     | 1.6%                           | 7.7%     |
| Outlets                         | 1,052    | 1,063    | 1,122     | 1,148    | 1,251    |                                |          |

(1) EBIT results from 'Core Operations' excluding the pre-tax impact of the following amounts recognised in the Consolidated Statement of Comprehensive Income:

## EBIT - REPORTED

Supply chain initiatives (administration of failed supplier operations)

Corporate restructuring and redundancy costs

Loss on cash flow hedges (interest rate swaps)

Gain on foreign exchange forward contract

## EBIT - CORE OPERATIONS

NPAT results from 'Core Operations'

## NPAT - REPORTED

Post-tax impact of non-core EBIT adjustments

## NPAT - CORE OPERATIONS

| FY11     | FY12    |
|----------|---------|
| \$45.1m  | \$47.5m |
| -        | \$1.7m  |
| -        | \$0.7m  |
| \$1.0m   | \$0.2m  |
| (\$0.1m) | -       |
| \$46.0m  | \$50.1m |
| \$27.2m  | \$28.5m |
| \$0.7m   | \$1.8m  |
| \$27.9m  | \$30.3m |

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

(2) Adjusted Revenue excludes:

- sales revenue derived from the wholesale bakery supply to Michel's Patisserie outlets which is transitioning from a wholesale supply and distribution model to a traditional royalty based model (FY12: \$1.3m; FY11: \$32.2m); and
- Marketing revenue (see note (3))

(3) Excludes revenue derived from marketing activities (FY12:\$14.5m; FY11: \$15.7m; FY10: \$15.4m; FY09: \$12.6m; FY08: \$10.3m).

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

## 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 2<sup>nd</sup> edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles) amended by the ASX Corporate Governance Council in January 2011.

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

# CORPORATE GOVERNANCE STATEMENT

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

# CORPORATE GOVERNANCE STATEMENT

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

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

- Code of Conduct;
- Board Charter;
- 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.

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

The Board generally meets on a monthly basis. On an annual basis, the Board sets financial and non-financial performance targets for the Chief Executive Officer and senior management and performance is assessed against these performance targets. A performance assessment for the Chief Executive Officer and senior management last took place in August 2012.

## 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 one executive Director and four non-executive Directors (including the Chairman). The four 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.

### 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 thirteen Board meetings during FY12.

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 2012, 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, Remuneration and Audit and Risk Management Committees are all entirely comprised of non-executive Directors.

Each Committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All 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.

## 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 Bruce Hancox (Committee Chairman);
- Mr Colin Archer; and
- Ms Jessica Buchanan.



## Nominations Committee (cont.)

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

Functions performed by the Committee include the following:

- developing of suitable criteria (as regards experience, expertise, skills, qualifications, diversity, contacts or other qualities) for Board candidates;
- identifying individuals who, by virtue of their experience, expertise, skills, qualifications, contacts or other qualities, are suitable candidates for appointment to the Board or to any relevant management position;
- recommending individuals accordingly for consideration by the Board;
- establishing procedures, for recommendation to the Chairman, for the proper oversight of the Board and senior 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;

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

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

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

**Diversity policy**

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

The following table shows the proportional representation of women at various levels within the Company as at 30 June 2012:

| Gender representation                   | Women % |
|-----------------------------------------|---------|
|                                         | Actual  |
| Board representation                    | 20%     |
| Key management personnel representation | 17%     |
| Group representation                    | 44%     |

**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 Bruce Hancox; and
- Mr Anthony Williams.

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;
- 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 2012.

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

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

## Principle 5: Make Timely And Balanced Disclosures

The Group has an established policy and procedure for timely disclosure of material information concerning the Group. This 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 on 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 Bruce Hancox (Committee Chairman);
- Mr Colin Archer; and
- Ms Jessica Buchanan.

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

The Committee has responsibility for the following:

- reviewing and evaluating market practices and trends in relation to remuneration relevant to the Group;
- reviewing and making recommendations to the Board in relation to the Group's remuneration policies;
- reviewing and making recommendations to the Board in relation to the Group's remuneration practices;
- overseeing the performance of the Chief Executive Officer and Chief Financial Officer and other members of senior 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.

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.

## Remuneration Committee (cont.)

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

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

## Structure Of Remuneration

Details of the nature and amount of each element of remuneration for Directors and senior 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.

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 2012. 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 Bruce Hancox          | Independent non-executive Chairman, 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 appointed as Chairman to the Board on 20 September 2011.                                                                                                                                               |
| Mr Anthony (Tony) Alford | Chief Executive Officer and Managing Director, Bachelor of Business (Accountancy), CPA, CTA. Mr Alford joined the Board on 28 October 2003. 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 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. |
| Ms Jessica Buchanan      | Independent non-executive Director, joined the Board 29 May 2012, Ms Buchanan has over 13 years experience in branding, marketing and advertising. Having commenced her career in the advertising industry working with multi-national agencies such as Wunderman, Young & Rubicam Mattingly and EHS Brann (UK), Ms Buchanan also managed campaigns for various blue chip companies including Ericsson, Tabcorp, Du Pont, Cadbury Schweppes, the Australian Defence Force, British Gas and BMW. Ms Buchanan is a member of the Company's Nominations and Remuneration Committees.                                         |
| Mr Anthony Williams      | Independent non-executive Director, joined the Board 29 May 2012. Mr Williams first became involved in retail food in the early 1970's when he accepted an invitation to undertake Woolworths management training specialising in cafeteria services. Thereafter, for 15 years he developed, owned and franchised numerous QSR chicken concepts in Western Australia and Queensland. Mr Williams is a founder of Retail Food Group and a former managing director of the Group from 1992 to 1999. Mr Williams is a member of the Audit and Risk Management Committee.                                                     |
| Mr John Cowley           | Independent non-executive Chairman, joined the Board on 13 October 2005. Mr Cowley was a member of the Audit and Risk Management Committee, and Chairman of the Nominations and Remuneration Committees. Mr Cowley did not seek re-election as a director at the Company's AGM of 25 November 2011 following retirement by rotation.                                                                                                                                                                                                                                                                                      |
| 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 resigned from the Board on 29 May 2012 in order to assume the position of Chief Operating Officer.                                                                                                                                                                                                                                                                                                                                   |

## Directorships Of Other Listed Companies

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

| Name            | Company                         | Period Of Directorship         |
|-----------------|---------------------------------|--------------------------------|
| Mr Colin Archer | Oaks Hotels and Resorts Limited | 24 April 2005 to 26 May 2011   |
| Mr John Cowley  | Oaks Hotels and Resorts Limited | 2 November 2005 to 26 May 2011 |



## Directors' Shareholdings

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

| Directors                | Fully Paid Ordinary Shares | Executive Share Options |
|--------------------------|----------------------------|-------------------------|
|                          | Number                     | Number                  |
| Mr Anthony (Tony) Alford | 22,445,452                 | -                       |
| Mr Colin Archer          | 362,844                    | -                       |

## 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 there were no share options granted to the Directors and senior management of the Company as part of their remuneration.

## Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member). During the financial year, 13 Board meetings, 4 Audit and Risk Management Committee meetings, 3 Remuneration Committee meetings and 3 Nominations Committee meetings were held.

| Directors                | Board of Directors |          | Audit Committee |          | Remuneration Committee |          | Nominations Committee |          |
|--------------------------|--------------------|----------|-----------------|----------|------------------------|----------|-----------------------|----------|
|                          | Held               | Attended | Held            | Attended | Held                   | Attended | Held                  | Attended |
| Mr Bruce Hancox          | 13                 | 13       | 4               | 4        | 3                      | 3        | 3                     | 3        |
| Mr Anthony (Tony) Alford | 13                 | 13       | n/a             | n/a      | n/a                    | n/a      | n/a                   | n/a      |
| Mr Colin Archer          | 13                 | 12       | 4               | 4        | 3                      | 3        | 3                     | 3        |
| Ms Jessica Buchanan      | 1                  | 1        | n/a             | n/a      | 1                      | 1        | -                     | -        |
| Mr Anthony Williams      | 1                  | 1        | 2               | 2        | n/a                    | n/a      | n/a                   | n/a      |
| Mr John Cowley           | 5                  | 4        | 2               | 2        | n/a                    | n/a      | n/a                   | n/a      |
| Mr Nigel Nixon           | 12                 | 12       | n/a             | n/a      | n/a                    | n/a      | n/a                   | n/a      |

## Company Secretary

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

## Principal Activities

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

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

- acquisition of the:
  - Business and Intellectual property assets of Evolution Coffee Roasters on 1 September 2011; and
  - Pizza Capers Gourmet Kitchen franchise system on 2 April 2012.

## Review Of Operations And Financial Condition

### Group Overview

The following table summarises the Group's results for the financial years 30 June 2012 and 2011:

|                                | FY12     | FY11     | Change       |
|--------------------------------|----------|----------|--------------|
| Adjusted Revenue               | \$100.6m | \$77.8m  | 29.3%        |
| EBIT                           | \$47.5m  | \$45.1m  | 5.3%         |
| NPAT (Core Operations)         | \$30.3m  | \$27.9m  | 8.9%         |
| NPAT                           | \$28.5m  | \$27.2m  | 4.9%         |
| EPS (Core Operations)          | 28.0 cps | 26.0 cps | 7.7%         |
| EPS (Basic)                    | 26.4 cps | 25.4 cps | 3.9%         |
| Final Dividend per Share (DPS) | 9.0 cps  | 7.5 cps  | 20.0%        |
| Franchised Outlets             | 1,251    | 1,148    | +103 outlets |
| Net Debt                       | \$98.0m  | \$70.5m  | 39.0%        |

The Group's results for the 2012 financial year reflect a continuing solid performance from the business in difficult retail trading conditions.

The Company's NPAT represents the seventh successive year that the Company has delivered shareholders a record annual profit, reflecting a cumulative average growth rate (CAGR) of 30% for NPAT and 20% for EPS since Listing in June 2006.

Growth in earnings measures was attributable to positive EBIT contributions from FY12 acquisitions and resilient earnings from the franchise systems and coffee roasting activities. The growth was achieved notwithstanding franchisee outlet closures, increased financial assistance to franchisees and the Group being required to assume interim operation of certain Michel's bakeries during the year.

Given the Group's continuing strong cash position, the Directors declared a fully franked final ordinary dividend of 9.0 cents per share, taking the full year dividend to 17.5 cents per share, an increase of 20.7% on the prior year.

### Acquisitions

#### *Evolution Coffee Roasters*

On 1 September 2011, the Group acquired the business and intellectual property assets of the New Zealand domiciled Evolution Coffee Roasters Group (Evolution) for cash consideration of \$3.196 million transferred at acquisition date. Evolution was acquired to continue expansion of the Group's coffee roasting and merchandising activities, and fortify the supply chain through vertical integration in New Zealand. At acquisition date Evolution comprised:

- 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;
- Roasted Addiqtion Coffee Dealers: merchandiser of a range of proprietary premium coffee blends and syrups to cafes, restaurants and supermarkets; and
- Evil Child Beverage Co.: manufacturer of premium drinking chocolate powders and frappe blends supplying cafes, restaurants and supermarkets.

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

### Acquisitions (cont.)

#### *Pizza Capers Franchise System*

On 2 April 2012 the Group completed the acquisition of 100% of the issued share capital of Capercorp Pty Ltd and associated entities for cash consideration of \$30 million transferred at acquisition date. Capercorp Pty Ltd is the owner and franchisor of the Pizza Capers Gourmet Kitchen franchise system. The acquisition positions the Group within the traditional Australian Quick Service Restaurant (QSR) segment and is consistent with the Company's strategy of multiple retail food franchise system ownership.

### Earnings Performance

Total revenue (excluding marketing) for FY12 was \$101.9 million, or \$8.1 million (7.4%) less than FY11 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. This transition has now been substantially completed.

After excluding the decrease in revenue as a result of the transition, FY12 adjusted revenue increased by 29.3% (\$22.8 million) to \$100.6 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, Esquires Coffee Houses and Pizza Capers – and involves the following principal activities:

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

Segment revenue for FY12 was \$78.7 million (FY11: \$69.0 million), representing growth of \$9.7 million (or 14.1%), driven by:

- new outlet openings;
- increased franchisee renewals and resales;
- licence fee renewals;
- increased training academy throughput; and
- the additional business attributable to acquisitions completed by the Group during FY11 (Esquires Coffee Houses) and FY12 (Pizza Capers).

Segment revenue includes revenues derived from marketing activities of \$14.5 million (FY11: \$15.7 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 (NVCS) division. These divisions are managed and reported separate to the Franchising Operations segment, and involve the following principal activities:

- the procurement 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 company owned or managed stores across each of the franchise systems; and
- the return of NVCS to franchisee stewardship.

Segment revenue for FY12 was \$37.5 million (FY11: \$56.4 million), representing a decline of \$18.9 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 \$1.3 million (FY11: \$32.2 million) derived from the wholesale bakery supply to Michel's Patisserie outlets.

Coffee revenues increased 31% or \$4.2 million from the prior year to \$18 million, attributable to the Evolution Coffee Roasters acquisition and underlying organic growth in coffee sales.

## 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 Profit |                |
|---------------------------------|------------------|----------------|----------------|----------------|
|                                 | FY12<br>\$'000   | FY11<br>\$'000 | FY12<br>\$'000 | FY11<br>\$'000 |
| Franchising Operations          | 78,651           | 68,950         | 44,657         | 36,221         |
| Wholesale / Retail Operations   | 37,492           | 56,360         | 3,895          | 9,653          |
|                                 | 116,143          | 125,310        | 48,552         | 45,874         |
| Other gains and losses          |                  |                | (297)          | (96)           |
| Interest revenue                | 249              | 345            | 249            | 345            |
| Finance costs                   |                  |                | (7,031)        | (6,939)        |
| Unallocated                     | -                | -              | (1,015)        | (748)          |
| Profit before tax               |                  |                | 40,458         | 38,436         |
| Income tax expense              |                  |                | (11,912)       | (11,212)       |
| Revenue and profit for the year | 116,392          | 125,655        | 28,546         | 27,224         |

### Consolidated Result

Net Profit After Tax (NPAT) of \$28.5 million was up 4.9% (or \$1.3 million) on the prior year.

Ignoring the impact of interim operation of certain Michel's bakeries (FY12: \$1.7 million; FY11: \$nil); corporate restructuring costs (FY12: \$0.7 million; FY11: \$nil); derivative financial instruments (interest rate swaps) (FY12: \$0.2 million loss; FY11: \$1.0 million loss) and non-recurring gains (FY12: \$nil, FY11: \$0.1 million gain), NPAT from Core Operations of \$30.3 million represents an 8.9% increase on underlying NPAT achieved in FY11.

Other highlights included:

- gross margin expansion to 80.2% (based on combined performance of wholesale/retail and franchising operations segments) reflected benefits of Michel's Patisserie system conversion and related distribution leverage;
- strong earnings performance supporting cash flows and allowing an increased dividend payout ratio to 66.3% with a record dividend to shareholders.

### Financial Position and Cash Flows

Total net assets of \$169.7 million have increased by \$12.8 million (8.2%) from FY11 reflecting the Group's FY12 acquisitions and debt management.

An overall decrease in cash holdings by \$2.4 million (15.8%) from FY11 reflects funding of the Evolution Coffee Roasters acquisition through cash reserves, voluntary debt reduction and the increased dividend payout ratio.

Cash inflows from operating activities for FY12 were \$24.3 million, representing a decrease of 9.3% on FY11 (\$26.8 million) and a conversion to EBITDA of 89.3% (FY11: 97.3%). The decrease in cash from operating activities reflects the additional expenditure incurred in funding increased franchisee support initiatives, non-core supply chain initiatives and Marketing & Innovation programs totaling \$4.3m.

Surplus free cash from operations was used to fund:

- the increase in dividend payout ratio to 66.3% (FY11: 57.4%);
- the acquisition of Evolution Coffee Roasters Group (\$3.2 million);
- further voluntary debt reduction (\$10.0 million); and
- the investment in plant & equipment including corporate "Cloud" IT platform upgrade (\$1.0 million).

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

### Debt Structure

As at 30 June 2012, the Group's total debt was \$110.8 million. This amount is presented as a non-current liability in the Statement of Financial Position, reflecting its maturity date of 30 September 2014.

The Group revised its senior debt facility with the National Australia Bank (NAB) during the year, key points of which are as follows:

- senior debt revolving facility increased from \$95m to \$135m;
- maturity date extended to 30 September 2014;
- the loan structure allows for voluntary debt retirement and redraw;
- increased leverage covenant ceiling to 2.5x (from 2.0x);
- remaining covenants unchanged (interest cover and gearing); and
- margin over BBSY 1.8% - 2.35%.

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 2012, there was one swap remaining, expiring in December 2012, with a notional principal of \$60.0 million and an average interest rate of 7.47%.

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 swap at 30 June 2012 was \$1.2 million payable (FY11: \$2.1 million payable).

The Group's leverage ratio of 2.12 times (FY11: 1.51) and gearing ratio of 36.6% (FY11: 30.1%) reflect the execution of an active capital management strategy throughout FY12.

### Performance Indicators

New outlets for FY12 totalled 149 (FY11: 87) and were derived from:

- 110 by franchise system acquisition – during FY12, the Group acquired the Pizza Capers franchise system; and,
- 39 by organic growth.

The FY12 organic new outlet growth was reflective of depressed shopping centre development, reduced premium site opportunities, tighter lending requirements among financiers and a constricted franchisee candidate market.

| Franchise System  | Details                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Donut King        | <p>10 new outlet commissionings (FY11: 23) and 11 outlet closures (FY11: 16) resulting in organic net system reduction during FY12 of 1 (FY11: net growth of 7).</p> <p>As at 30 June 2012 there were 345 Donut King outlets operating in Australia and 19 Donut Kings outlets located internationally as follows:</p> <ul style="list-style-type: none"> <li>• 15 in China</li> <li>• 2 in New Zealand</li> <li>• 1 in Papua New Guinea</li> <li>• 1 in Saudi Arabia</li> </ul> |
| Brumby's Bakeries | <p>10 new outlet commissionings (FY11: 8) and 23 outlet closures (FY11: 11) resulting in Brumby's Bakeries net system reduction during FY12 of 13 (FY11: 3), primarily attributable to Big Dad's Pies outlet closures.</p> <p>As at 30 June 2012 there were 320 Brumby's Bakeries outlets operating in Australia, 15 Brumby's Bakeries outlets operating in New Zealand and 1 Brumby's Bakeries outlet operating in Papua New Guinea.</p>                                        |

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

### Performance Indicators (cont.)

| Franchise System                              | Details                                                                                                                                                                                                                                                                                                                                                                                      |
|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Michel's Patisserie                           | <p>9 new outlet commissionings (FY11: 7) and 9 outlet closures (FY11: 12) resulting in Michel's Patisserie net system growth during FY12 of nil (FY11: net reduction of 5).</p> <p>As at 30 June 2012 there were 329 Michel's Patisserie outlets operating in Australia, 2 Michel's Patisserie outlets operating in New Zealand and 1 Michel's Patisserie outlet operating in Indonesia.</p> |
| Esquire's Coffee Houses (including bb's café) | <p>2 new outlet commissionings (FY11: nil) and 3 outlet closures (FY11: 5) resulting in Esquire Coffee Houses net system reduction during FY12 of 1 (FY11: 5).</p> <p>As at 30 June 2012 there were 37 Esquire Coffee Houses outlets operating in Australia and 64 Esquire Coffee Houses outlets located in New Zealand.</p>                                                                 |
| Pizza Capers                                  | <p>The Pizza Capers franchise system was acquired on 2 April 2012 with 110 stores.</p> <p>As at 30 June 12 there were 117 Pizza Capers outlets in Australia and 1 Pizza Capers outlet located in Singapore.</p>                                                                                                                                                                              |

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

| Franchise System<br>(Australia Only)         | Average Weekly Sales (AWS) growth |           |                       | Average Transaction Value (ATV) growth |           |           |
|----------------------------------------------|-----------------------------------|-----------|-----------------------|----------------------------------------|-----------|-----------|
|                                              | 2010<br>%                         | 2011<br>% | 2012<br>%             | 2010<br>%                              | 2011<br>% | 2012<br>% |
| Donut King                                   | 1.1%                              | 1.2%      | 1.7%                  | 3.7%                                   | 2.4%      | 3.8%      |
| Esquires Coffee Houses (including bb's café) | 0.8%                              | 1.5%      | 0.3%                  | 3.4%                                   | 2.1%      | 3.4%      |
| Brumby's Bakeries                            | 0.6%                              | 0.3%      | 0.2%                  | 2.8%                                   | 2.7%      | 3.2%      |
| Michel's Patisserie                          | 2.3%                              | 2.0%      | (1.2)% <sup>(1)</sup> | 4.4%                                   | 2.7%      | 2.1%      |

(1) Excluding Queensland operations: 1.02% growth

Donut King outlet average weekly sales growth of 1.7% was assisted by a 3.8% increase in average transaction values as a result of the continued proliferation of qualified Barista's in every store, coffee centric marketing campaigns, increased meal options and a strong emphasis on up-selling.

The Esquires Coffee Houses (including bb's café) outlet average weekly sales growth for Australian outlets was 0.3% up on FY11 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 0.2% was assisted by a 3.2% increase in average transaction values through new product development centred around higher RRP items including the "Pure Bake" and Organics ranges, and a strong emphasis on product bundling.

Michel's Patisserie outlet average weekly sales growth of 1.02% (excl Qld) was assisted by a 2.1% increase in average transaction values capitalising on the announcement of "Best Tasting Coffee" voted by Choice Magazine, higher RRP items and a strong emphasis on product bundling. AWS for QLD franchisee's was negatively impacted in FY12 due to failure of a bakery supplier occurring during the year.

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.

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

### Performance Indicators (cont.)

#### Future Developments

##### *New Outlet Growth*

Total outlets for the Group as at 30 June 2013 are forecast to reflect a positive net organic increase of circa 25 to 30 stores based on forecast organic new store growth of 70-80 outlets, and forecast closures to be consistent with FY12 (circa 46).

Organic store growth will be fortified by:

- development of non-traditional site opportunities;
- the growth profile of the Pizza Capers and Crust (acquisition to be completed in FY13) franchise systems; and
- international outlet commissioning emanating from granting of overseas territorial licences.

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

The maintenance of positive weighted average AWS growth across all systems in FY12 continues to support the proposition that the Group's franchise systems are resilient to significant changes in economic and retail conditions. In addition, an increasing ATV fortifies franchisee and outlet performance against increasing competition and decline in retail traffic flow. The growth strategies below are expected to further enhance the AWS and ATV of the Groups franchise systems.

### Operational and Financial Targets

In FY13, management's focus will continue to be on sustaining growth and enhancing franchisee profitability.

The Group commissioned formation of a dedicated Marketing and Innovation Department in March 2012 to focus on the evolution of all brands (Project Evolution), the focus of which is to broadly achieve sustainability of brands both inside and outside of traditional shopping centres, and deliver on the 'stores of the future' concept of increasing brand relevance and modernity.

Other growth strategies will continue to be directed towards:

- digital innovation: Pioneering of RFG's brands technologically, a stronger focus on driving e-commerce channels and developing digital solutions to stimulate brand engagement;
- further development and establishment of non-traditional sites: modifications to our existing franchise systems via brand evolution will allow for greater site location in strip mall and high street, with the addition of 'hole in the wall' and 'drive through' concept stores;
- the completion of further international licensing opportunities for the Donut King, Brumby's, Michel's, Esquires Coffee Houses, Pizza Capers systems;
- expansion of coffee opportunities (including third party contracts) domestically and internationally;
- fortification of franchise gross margin;
- category menu re-invigoration incorporating all parts of the day offers and combination offers;
- continual conversion of bb's café outlets into Esquires Coffee Houses; and
- maximising supply-chain efficiencies across all systems, for the benefit of all concerned stakeholders.

The Group expects to substantially complete the final phase of the Michel's Pâtisserie transition in FY13, with implementation of a national supply solution. The Group will continue to operate non-core bakeries in the interim period.

The Group also expects the strong cash flows of FY12 to continue in FY13, with a view to optimising capital management, reducing its net debt position, and maintaining the current dividend payout ratio.

The Group continues to investigate and evaluate potential retail food franchise system and other complementary asset 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 23 August 2012, the Board of Directors declared a final dividend in respect of profits of the financial year ending 30 June 2012. The final dividend of 9.00 cents per share (based on 108,910,114 shares on issue at 23 August 2012), franked to 100% at 30% corporate income tax rate will be paid on 11 October 2012. The final dividend was approved by the Directors following the conclusion of FY12 and therefore was not provided for in the year end financial report. The final FY12 dividend will not constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan.

### Acquisition of Crust Gourmet Pizza Bars

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

The price for the business will be the equivalent of 7x Crust FY13 adjusted EBIT and will be paid in two tranches:

- On settlement: \$21m cash and RFG ordinary shares to the value of \$3m; and
- Approximately 12 months from settlement: an amount representing the difference between 7x Crust FY13 adjusted EBIT less the \$24m forming part of the purchase price paid in the initial tranche noted above. The second tranche of the purchase price will be paid in cash or cash and scrip at RFG's election.

Settlement is scheduled to be completed by early October 2012, 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                                                         | FY12            |               | FY11            |               |
|-----------------------------------------------------------------|-----------------|---------------|-----------------|---------------|
|                                                                 | Cents Per Share | Total \$'000  | Cents Per Share | Total \$'000  |
| <b>Recognised amounts</b>                                       |                 |               |                 |               |
| <u>Fully paid ordinary shares</u>                               |                 |               |                 |               |
| Final dividend – fully franked at 30% tax rate <sup>(1)</sup>   | 7.500           | 8,116         | 6.500           | 6,934         |
| Interim dividend – fully franked at 30% tax rate <sup>(2)</sup> | 8.500           | 9,216         | 7.000           | 7,515         |
|                                                                 | <b>16.000</b>   | <b>17,332</b> | <b>13.500</b>   | <b>14,449</b> |
| <b>Unrecognised amounts</b>                                     |                 |               |                 |               |
| <u>Fully paid ordinary shares</u>                               |                 |               |                 |               |
| Final dividend – fully franked at 30% tax rate <sup>(3)</sup>   | 9.000           | 9,802         | 7.500           | 8,116         |

(1) In respect of the financial year ended 30 June 2011, as detailed in the Directors' report for that financial year, a final dividend of 7.50 cents per share (based on 108,219,282 shares on issue at 13 September 2011), franked to 100% at 30% corporate income tax rate was paid on 6 October 2011. The final dividend was approved by the Directors following the conclusion of the 30 June 2011 financial year and therefore was not provided for in the Company's financial report. It was resolved that the final dividend would not constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

(2) In respect of profits of the financial year ended 30 June 2012, an interim dividend of 8.50 cents per share (based on 108,422,615 shares on issue at 21 March 2012), franked to 100% at 30% corporate income tax rate was paid on 2 April 2012. The interim dividend was approved by the Directors on 28 February 2012 and it was resolved that the interim dividend would not constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

(3) In respect of profits of the financial year ended 30 June 2012, a final dividend of 9.00 cents per share (based on 108,910,114 shares on issue at 11 September 2012), franked to 100% at 30% corporate income tax rate will be paid on 11 October 2012. The final dividend was approved by the Directors on 23 August 2012 and therefore was not provided for in the Company's financial report. The final FY12 dividend will not constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

## Shares Under Option Or Issued On Exercise Of Options

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

| Issuing Entity            | No. Of Shares Under Option | Class Of Shares | Exercise Price Of Options | Expiry Date Of Options |
|---------------------------|----------------------------|-----------------|---------------------------|------------------------|
| Retail Food Group Limited | 66,670                     | Ordinary        | \$1.15                    | 31/07/13               |
| Retail Food Group Limited | 50,000                     | Ordinary        | \$1.32                    | 31/07/13               |
| Retail Food Group Limited | 50,000                     | Ordinary        | \$1.32                    | 31/07/14               |
| Retail Food Group Limited | 170,000                    | Ordinary        | \$2.78                    | 19/10/13               |

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

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

| Issuing Entity            | No. Of Shares Under Option | Class Of Shares | Amount Paid For Shares | Amount Unpaid On Shares |
|---------------------------|----------------------------|-----------------|------------------------|-------------------------|
| Retail Food Group Limited | 1,121,196                  | Ordinary        | \$1,343,751            | \$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 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## Remuneration Report

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and its senior management for the financial year ended 30 June 2012.

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.

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

- Mr Bruce Hancox (Chairman & Independent Director) (appointed as Chairman 20 September 2011)
- Mr Anthony (Tony) Alford (Managing Director and Chief Executive Officer)
- Mr Colin Archer (Independent Director)
- Ms Jessica Buchanan (Independent Director) (appointed 29 May 2012)
- Mr Anthony Williams (Independent Director) (appointed 29 May 2012)
- Mr John Cowley (Chairman & Independent Director) (resigned as Chairman 20 September 2011; resigned as Director 25 November 2011)
- Mr Nigel Nixon (Executive Director & Corporate Counsel) (resigned as Director 29 May 2012)

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 Peter McGettigan (Chief Financial Officer) (appointed 29 February 2012)
- Mr Nigel Nixon (Chief Operating Officer) (appointed 26 March 2012)
- Mr Anthony Mark Connors (Deputy Chief Operating Officer and Company Secretary)
- Ms Tracey Catterall (Marketing and Innovation Director)
- Mr Gary Alford (Head of Manufacturing and Wholesale)
- Mr Gavin Nixon (Head of Emerging Markets)
- Mr Gary Best (Chief Operating Officer) (ceased 26 March 2012)
- Mr Damien Peters (Chief Financial Officer) (resigned 29 February 2012)

### 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.

## Remuneration Report (cont.)

### 2. Remuneration Policy (cont.)

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.

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.

## Remuneration Report (cont.)

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

#### Fixed Compensation

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

Compensation levels are reviewed annually by the Remuneration Committee and the Chief Executive Officer, through a process that considers the individual, 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.

#### 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 may include but not be limited to "Net Profit", "Revenue", "Franchise Revenue", "Corporate Expenditure" and "Minimum Earnings Per Share" compared to budget and forecast amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic objectives, compliance with governance and regulatory requirements, new store 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.

## Remuneration Report (cont.)

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

The table below sets out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2012:

| Metrics                                | FY08     | FY09     | FY10     | FY11     | FY12     |
|----------------------------------------|----------|----------|----------|----------|----------|
| EBIT                                   | \$34.4m  | \$40.3m  | \$43.8m  | \$45.1m  | \$47.5m  |
| NPAT                                   | \$17.6m  | \$23.5m  | \$26.0m  | \$27.2m  | \$28.5m  |
| Share price at start of financial year | \$1.49   | \$1.27   | \$1.60   | \$2.65   | \$2.41   |
| Share price at end of financial year   | \$1.27   | \$1.60   | \$2.65   | \$2.41   | \$2.65   |
| Interim dividend                       | 4.00 cps | 4.50 cps | 5.25 cps | 7.00 cps | 8.50 cps |
| Final dividend                         | 4.50 cps | 4.75 cps | 6.50 cps | 7.50 cps | 9.00 cps |
| Basic EPS                              | 19.9 cps | 23.7 cps | 25.3 cps | 25.4 cps | 26.4 cps |
| Diluted EPS                            | 19.8 cps | 23.6 cps | 25.0 cps | 25.2 cps | 26.3 cps |

### 4. Remuneration Of Directors And Senior Management

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

(1) Resigned as Director 29 May 2012

(2) Ceased as KMP on 26 March 2012

## Remuneration Report (cont.)

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

| FY11                                    | Short-term Employment Benefits |       |       | Post Employment Benefits | Share-based Payments | Total     | Consisting of Options |
|-----------------------------------------|--------------------------------|-------|-------|--------------------------|----------------------|-----------|-----------------------|
|                                         | Salary & Fees                  | Bonus | Other | Super-annuation          | Options              |           |                       |
|                                         | \$                             | \$    | \$    | \$                       | \$                   | \$        | %                     |
| <b>Non-Executive Directors</b>          |                                |       |       |                          |                      |           |                       |
| Mr 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    | -                     |
| <b>Executive Directors</b>              |                                |       |       |                          |                      |           |                       |
| Mr Anthony (Tony) Alford <sup>(1)</sup> | 524,789                        | -     | -     | 16,200                   | 1,448                | 542,437   | 0.3                   |
| Mr Nigel Nixon <sup>(1)</sup>           | 360,368                        | -     | -     | -                        | 109,241              | 469,609   | 23.3                  |
| <b>Senior Management</b>                |                                |       |       |                          |                      |           |                       |
| Mr Anthony Mark Connors                 | 190,565                        | -     | -     | 17,151                   | 9,240                | 216,956   | 4.3                   |
| Ms Tracey Catterall                     | 130,616                        | -     | 1,800 | 11,755                   | 6,233                | 150,404   | 4.1                   |
| Mr Gary Alford                          | 204,031                        | -     | -     | 18,363                   | 7,682                | 230,076   | 3.3                   |
| Mr Gavin Nixon                          | 207,020                        | -     | 4,200 | -                        | 7,682                | 218,902   | 3.5                   |
| Mr Damien Peters                        | 168,948                        | -     | -     | 15,205                   | 13,684               | 197,837   | 6.9                   |
| Mr Gary Best                            | 238,356                        | -     | -     | 20,642                   | 17,032               | 276,030   | 6.2                   |
|                                         | 2,212,382                      | -     | 6,000 | 110,628                  | 173,704              | 2,502,714 | 6.9                   |

(1) 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.

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.



## Remuneration Report (cont.)

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

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 |       |
|--------------------------------|--------|--------|----------------------|------|---------------------|-------|
|                                | FY12   | FY11   | FY12                 | FY11 | FY12                | FY11  |
| <b>Non-Executive Directors</b> |        |        |                      |      |                     |       |
| Mr Bruce Hancox                | 100.0% | 100.0% | -                    | -    | -                   | -     |
| Mr Colin Archer                | 99.9%  | 98.8%  | -                    | -    | 0.1%                | 1.2%  |
| Ms Jessica Buchanan            | 100.0% | -      | -                    | -    | -                   | -     |
| Mr Anthony Williams            | 100.0% | -      | -                    | -    | -                   | -     |
| <b>Executive Directors</b>     |        |        |                      |      |                     |       |
| Mr Anthony (Tony) Alford       | 100.0% | 99.7%  | -                    | -    | -                   | 0.3%  |
| <b>Senior Management</b>       |        |        |                      |      |                     |       |
| Mr Peter McGettigan            | 97.0%  | -      | 3.0%                 | -    | -                   | -     |
| Mr Nigel Nixon                 | 100.0% | 76.7%  | -                    | -    | -                   | 23.3% |
| Mr Anthony Mark Connors        | 98.3%  | 95.7%  | -                    | -    | 1.7%                | 4.3%  |
| Ms Tracey Catterall            | 98.1%  | 95.9%  | -                    | -    | 1.9%                | 4.1%  |
| Mr Gary Alford                 | 98.6%  | 96.7%  | -                    | -    | 1.4%                | 3.3%  |
| Mr Gavin Nixon                 | 98.5%  | 96.5%  | -                    | -    | 1.5%                | 3.5%  |
| <b>Former</b>                  |        |        |                      |      |                     |       |
| Mr John Cowley                 | 99.9%  | 99.0%  | -                    | -    | 0.1%                | 1.0%  |
| Mr Damien Peters               | 96.6%  | 93.1%  | -                    | -    | 3.4%                | 6.9%  |
| Mr Gary Best                   | 97.1%  | 93.8%  | -                    | -    | 2.9%                | 6.2%  |

#### Bonuses

Mr Peter McGettigan was granted a cash bonus of \$5,000 on 12 April 2012 for his performance during the year ended 30 June 2012. The bonus was determined and approved by the Chairman & Chief Executive Officer.

No other bonuses were granted during 2012.

#### 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.

## Remuneration Report (cont.)

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

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

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

| Option Series | Grant Date | Expiry Date | Grant Date Fair Value | Exercise Price | Vesting Date |
|---------------|------------|-------------|-----------------------|----------------|--------------|
| Tier 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 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     |

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 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 Anthony (Tony) Alford | Tier 3C       | -                         | 10,000     | 100%              | -                    |
| Mr Colin Archer          | Tier 3C       | -                         | 5,000      | 100%              | -                    |
| Mr Nigel Nixon           | Tier 3C       | -                         | 10,000     | 100%              | -                    |
| Mr Anthony Mark Connors  | Tier 3C       | -                         | 10,000     | 100%              | -                    |
|                          | Tier 9        | -                         | 25,000     | 100%              | -                    |
| Ms Tracey Catterall      | Tier 9        | -                         | 20,000     | 100%              | -                    |
| Mr Gary Alford           | Tier 3C       | -                         | 10,000     | 100%              | -                    |
|                          | Tier 9        | -                         | 20,000     | 100%              | -                    |
| Mr Gavin Nixon           | Tier 3C       | -                         | 10,000     | 100%              | -                    |
|                          | Tier 9        | -                         | 20,000     | 100%              | -                    |
| Mr John Cowley           | Tier 3C       | -                         | 5,000      | 100%              | -                    |
| Mr Damien Peters         | Tier 3C       | -                         | 10,000     | 100%              | -                    |
|                          | Tier 9        | -                         | 40,000     | 100%              | 100%                 |
| Mr Gary Best             | Tier 3C       | -                         | 10,000     | 100%              | -                    |
|                          | Tier 9        | -                         | 50,000     | 100%              | -                    |

## Remuneration Report (cont.)

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

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

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 Colin Archer          | 36,100                   | 36,100                        | \$44,065    | \$nil         |
| Mr Anthony (Tony) Alford | 10,000                   | 10,000                        | \$13,200    | \$nil         |
| Mr Anthony Mark Connors  | 72,666                   | 72,666                        | \$84,666    | \$nil         |
| Ms Tracey Catterall      | 5,000                    | 5,000                         | \$7,500     | \$nil         |
| Mr Gary Alford           | 91,666                   | 91,666                        | \$101,166   | \$nil         |
| Mr Gavin Nixon           | 15,000                   | 15,000                        | \$22,500    | \$nil         |
| Mr John Cowley           | 129,433                  | 129,433                       | \$137,398   | \$nil         |
| Mr Damien Peters         | 10,000                   | 10,000                        | \$13,200    | \$nil         |
| Mr Gary Best             | 50,000                   | 50,000                        | \$75,000    | \$nil         |

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 <sup>(1)</sup> | 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 |
|--------------------------------|-----------------------------------------------------------|-------------------------------------------------|----------------------------------------------|--------------------------------------------------------|
|                                | \$                                                        | \$                                              | \$                                           | \$                                                     |
| <b>Non-Executive Directors</b> |                                                           |                                                 |                                              |                                                        |
| Mr Colin Archer                | -                                                         | 42,736                                          | -                                            | -                                                      |
| <b>Executive Directors</b>     |                                                           |                                                 |                                              |                                                        |
| Mr Anthony (Tony) Alford       | -                                                         | 9,600                                           | -                                            | -                                                      |
| <b>Senior Management</b>       |                                                           |                                                 |                                              |                                                        |
| Mr Anthony Mark Connors        | -                                                         | 95,186                                          | -                                            | -                                                      |
| Ms Tracey Catterall            | -                                                         | 5,600                                           | -                                            | -                                                      |
| Mr Gary Alford                 | -                                                         | 122,899                                         | -                                            | -                                                      |
| Mr Gavin Nixon                 | -                                                         | 16,800                                          | -                                            | -                                                      |
| <b>Former</b>                  |                                                           |                                                 |                                              |                                                        |
| Mr John Cowley                 | -                                                         | 174,186                                         | -                                            | -                                                      |
| Mr Damien Peters               | -                                                         | 15,300                                          | -                                            | -                                                      |
| Mr Gary Best                   | -                                                         | 56,000                                          | -                                            | -                                                      |

(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 Bruce Hancox     | 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. |
| Ms Jessica Buchanan | No written employment contract has been entered into with the Company.                                                                                                                                                                                              |
| Mr Anthony Williams | No written employment contract has been entered into with the Company.                                                                                                                                                                                              |

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

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

The employment 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 six (6) months notice to the employer. RFGA Management Pty Ltd could terminate the employee by giving at least twelve (12) months notice or payment of the equivalent salary of the required notice in lieu. |
| Mr Peter McGettigan      | The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of 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 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.                                                                                                                                                                                                                                                               |
| 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 or its subsidiaries.                                                                                                                                                                                                                                                               |

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 handwritten signature in black ink, appearing to read 'A J. ALFORD'.

**A J (TONY) ALFORD**

Managing Director and CEO  
Southport, 27th September 2012



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

27 September 2012

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 2012, 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 handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to be "T Mkwanzani".

T Mkwanzani  
Partner  
Chartered Accountants

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A member of Deloitte Touche Tohmatsu Limited



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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 2012, 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 95.

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

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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



*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 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 25 to 34 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



T Mkwanzani  
Partner  
Chartered Accountants  
Brisbane, 27 September 2012

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, 27th September 2012

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

|                                                       | Note | FY12<br>\$'000 | FY11<br>\$'000 |
|-------------------------------------------------------|------|----------------|----------------|
| <b>Continuing operations</b>                          |      |                |                |
| Revenue from sale of goods                            | 6    | 37,492         | 56,360         |
| Cost of sales                                         | 10   | (20,109)       | (36,471)       |
| Gross profit                                          |      | 17,383         | 19,889         |
| Other revenue                                         | 6    | 78,900         | 69,295         |
| Other gains and losses                                | 7    | (298)          | (96)           |
| Selling expenses                                      |      | (8,994)        | (6,032)        |
| Marketing expenses                                    |      | (14,632)       | (15,739)       |
| Occupancy expenses                                    |      | (3,024)        | (1,899)        |
| Administration expenses                               |      | (4,724)        | (4,784)        |
| Operating expenses                                    |      | (14,410)       | (13,030)       |
| Finance costs                                         | 8    | (7,031)        | (6,939)        |
| Other expenses                                        |      | (2,712)        | (2,229)        |
| Profit before tax                                     |      | 40,458         | 38,436         |
| Income tax expense                                    | 9    | (11,912)       | (11,212)       |
| <b>Profit for the year from continuing operations</b> | 10   | 28,546         | 27,224         |
| <b>Other comprehensive income</b>                     |      |                |                |
| Net gain on cash flow hedges                          |      | 784            | 1,616          |
| Net gain on net investment hedge                      |      | 86             | 72             |
| Other comprehensive income for the year, net of tax   |      | 870            | 1,688          |
| <b>Total comprehensive income for the year</b>        |      | 29,416         | 28,912         |
| Profit attributable to:                               |      |                |                |
| Equity holders of the parent                          |      | 28,546         | 27,224         |
| Total comprehensive income attributable to:           |      |                |                |
| Equity holders of the parent                          |      | 29,416         | 28,912         |
| <b>Earnings per share</b>                             |      |                |                |
| From continuing operations:                           |      |                |                |
| Basic (cents per share)                               | 11   | 26.4           | 25.4           |
| Diluted (cents per share)                             | 11   | 26.3           | 25.2           |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

|                                      | Note | FY12<br>\$'000 | FY11<br>\$'000 |
|--------------------------------------|------|----------------|----------------|
| <b>Current assets</b>                |      |                |                |
| Cash and cash equivalents            | 32   | 12,785         | 15,173         |
| Trade and other receivables          | 12   | 16,545         | 12,066         |
| Other financial assets               | 13   | 4,704          | 3,103          |
| Inventories                          | 14   | 3,654          | 2,359          |
| Other                                | 15   | 343            | 179            |
| <b>Total current assets</b>          |      | <b>38,031</b>  | <b>32,880</b>  |
| <b>Non-current assets</b>            |      |                |                |
| Trade and other receivables          | 12   | 77             | 138            |
| Other financial assets               | 13   | 380            | -              |
| Property, plant and equipment        | 16   | 8,277          | 7,853          |
| Deferred tax assets                  | 9    | 1,008          | 1,242          |
| Intangible assets                    | 17   | 248,449        | 215,658        |
| <b>Total non-current assets</b>      |      | <b>258,191</b> | <b>224,891</b> |
| <b>Total assets</b>                  |      | <b>296,222</b> | <b>257,771</b> |
| <b>Current liabilities</b>           |      |                |                |
| Trade and other payables             | 19   | 6,372          | 6,210          |
| Current tax liabilities              | 9    | 4,904          | 4,556          |
| Provisions                           | 21   | 1,506          | 1,645          |
| Other                                | 22   | 2,581          | 745            |
| <b>Total current liabilities</b>     |      | <b>15,363</b>  | <b>13,156</b>  |
| <b>Non-current liabilities</b>       |      |                |                |
| Borrowings                           | 20   | 110,814        | 85,638         |
| Provisions                           | 21   | 363            | 356            |
| Other                                | 22   | -              | 1,772          |
| <b>Total non-current liabilities</b> |      | <b>111,177</b> | <b>87,766</b>  |
| <b>Total liabilities</b>             |      | <b>126,540</b> | <b>100,922</b> |
| <b>Net assets</b>                    |      | <b>169,682</b> | <b>156,849</b> |
| <b>Equity</b>                        |      |                |                |
| Issued capital                       | 23   | 99,876         | 98,772         |
| Reserves                             | 24   | (314)          | (829)          |
| Retained earnings                    | 25   | 70,120         | 58,906         |
| <b>Total equity</b>                  |      | <b>169,682</b> | <b>156,849</b> |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

|                                                        |      | Fully Paid<br>Ordinary<br>Shares | Equity<br>Settled<br>Employee<br>Benefits<br>Reserve | Hedging<br>Reserve | Retained<br>Earnings | Total          |
|--------------------------------------------------------|------|----------------------------------|------------------------------------------------------|--------------------|----------------------|----------------|
|                                                        | Note | \$'000                           | \$'000                                               | \$'000             | \$'000               | \$'000         |
| 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)       |
| <b>Balance as at 30 June 2011</b>                      |      | <b>98,772</b>                    | <b>734</b>                                           | <b>(1,563)</b>     | <b>58,906</b>        | <b>156,849</b> |
| Balance as at 1 July 2011                              |      | 98,772                           | 734                                                  | (1,563)            | 58,906               | 156,849        |
| Profit for the year                                    |      | -                                | -                                                    | -                  | 28,546               | 28,546         |
| Other comprehensive income                             |      | -                                | -                                                    | 870                | -                    | 870            |
| Total comprehensive income                             |      | -                                | -                                                    | 870                | 28,546               | 29,416         |
| Share issue costs                                      |      | (14)                             | -                                                    | -                  | -                    | (14)           |
| Related income tax                                     |      | 4                                | -                                                    | -                  | -                    | 4              |
| Issue of shares under executive share option plan      |      | 759                              | -                                                    | -                  | -                    | 759            |
| Transfer from equity-settled employee benefits reserve |      | 355                              | (355)                                                | -                  | -                    | -              |
| Payment of dividends                                   |      | -                                | -                                                    | -                  | (17,332)             | (17,332)       |
| <b>Balance as at 30 June 2012</b>                      |      | <b>99,876</b>                    | <b>379</b>                                           | <b>(693)</b>       | <b>70,120</b>        | <b>169,682</b> |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

|                                                            | Note | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------------------------------------------|------|----------------|----------------|
| <b>Cash flows from operating activities</b>                |      |                |                |
| Receipts from customers                                    |      | 120,612        | 136,830        |
| Payments to suppliers and employees                        |      | (77,426)       | (92,013)       |
| Interest and other costs of finance paid                   |      | (7,213)        | (6,555)        |
| Income taxes paid                                          |      | (11,691)       | (11,422)       |
| <b>Net cash provided by operating activities</b>           | 32   | 24,282         | 26,840         |
| <b>Cash flows from investing activities</b>                |      |                |                |
| Payments to acquire financial assets                       |      | -              | (2,200)        |
| Proceeds from sale of financial assets                     |      | -              | 3,021          |
| Interest received                                          |      | 249            | 345            |
| Amounts advanced to other entities                         |      | (1,226)        | (42)           |
| Payments for property, plant and equipment                 |      | (1,004)        | (5,800)        |
| Proceeds from sale of property, plant and equipment        |      | 5              | 64             |
| Payment for intangible assets                              |      | (32)           | (1,517)        |
| Payment for business                                       | 31   | (33,196)       | (6,920)        |
| <b>Net cash used in investing activities</b>               |      | (35,204)       | (13,049)       |
| <b>Cash flows from financing activities</b>                |      |                |                |
| Proceeds from issues of equity securities                  |      | 759            | 869            |
| Payment for share issue costs                              |      | (14)           | (25)           |
| Proceeds from borrowings                                   |      | 35,362         | 8,638          |
| Payment for debt costs                                     |      | (241)          | (291)          |
| Repayment of borrowings                                    |      | (10,000)       | (9,000)        |
| Dividends paid                                             |      | (17,332)       | (11,914)       |
| <b>Net cash provided by/(used in) financing activities</b> |      | 8,534          | (11,723)       |
| Net (decrease) / increase in cash and cash equivalents     |      | (2,388)        | 2,068          |
| Cash and cash equivalents at the beginning of year         |      | 15,173         | 13,105         |
| <b>Cash and cash equivalents at the end of year</b>        | 32   | 12,785         | 15,173         |

The consolidated 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<br>1 Olympic Circuit<br>Southport QLD 4215 | RFG House<br>1 Olympic Circuit<br>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, Esquires Coffee Houses and Pizza Capers franchise systems;
- development and management of the Donut King, bb's café, Brumby's Bakeries, Michel's Patisserie, Esquires Coffee Houses and Pizza Capers franchise systems throughout Australia and New Zealand, and international licensor throughout the rest of world; and
- development and management of the Coffee Roasting Facilities in Australia and New Zealand 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. For the purpose of preparing the consolidated financial statements, the Group is a for-profit entity.

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

The financial statements were authorised for issue by the Directors on 27 September 2012.

### 2.2 Basis Of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

#### Early Adoption Of Accounting Standards

The Directors have elected not to early adopt Accounting Standards that are not applicable to the reporting period ended 30 June 2012.

#### 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 authorisation 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 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' | 1 January 2013                                               | 30 June 2014                                                  |
| 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 127 'Separate Financial Statements' (2011)                                                                                                                                                                      | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 128 'Investments in Associates and Joint Ventures' (2011)                                                                                                                                                       | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'                                                                                                | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'                                                                                    | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'                                                                                                            | 1 January 2012                                               | 30 June 2013                                                  |
| AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'                                                                                    | 1 July 2013                                                  | 30 June 2014                                                  |
| AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'                                                                                          | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'                                                                                                    | 1 July 2012                                                  | 30 June 2013                                                  |
| AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009 – 2011 Cycle                                                                                                         | 1 January 2013                                               | 30 June 2014                                                  |
| Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)                                                                                                                                         | 1 January 2014                                               | 30 June 2015                                                  |
| Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)                                                                                                                           | 1 January 2013                                               | 30 June 2014                                                  |
| Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)                                                                                                                      | 1 January 2015                                               | 30 June 2016                                                  |

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

### 4.1 Deferred Tax Assets

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

### 4.2 Taxation

The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those 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. Critical Accounting Judgments And Key Sources of Estimation Uncertainty (cont.)

### 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        | <p>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, Esquires Coffee Houses and Pizza Capers – and involves the following principal activities:</p> <ul style="list-style-type: none"> <li>the establishment and grant of new franchises;</li> <li>the administration of royalties collection, supplier licensing, franchise compliance, franchise training and administration; and</li> <li>the performance of marketing and promotional activities, brand development and awareness, and product research and development.</li> </ul>                                                                                                                                                          |
| Wholesale / Retail Operations | <p>Wholesale / Retail Operations incorporates the development and management of the Group's Procurement &amp; Distribution division, Wholesale &amp; Manufacturing division and Non-Voluntary Company Store (NVCS) division. These divisions are managed and reported separate to the Franchising Operations segment, and involve the following principal activities:</p> <ul style="list-style-type: none"> <li>the procurement 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 return of NVCS to franchisee stewardship.</li> </ul> |

## 5. Segment Information (cont.)

### 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 |                |
|---------------------------------|------------------|----------------|----------------|----------------|
|                                 | FY12<br>\$'000   | FY11<br>\$'000 | FY12<br>\$'000 | FY11<br>\$'000 |
| Franchising Operations          | 78,651           | 68,950         | 44,657         | 36,221         |
| Wholesale / Retail Operations   | 37,492           | 56,360         | 3,895          | 9,653          |
|                                 | 116,143          | 125,310        | 48,552         | 45,874         |
| Other gains and losses          |                  |                | (297)          | (96)           |
| Interest revenue                | 249              | 345            | 249            | 345            |
| Finance costs                   |                  |                | (7,031)        | (6,939)        |
| Unallocated                     | -                | -              | (1,015)        | (748)          |
| Profit before tax               |                  |                | 40,458         | 38,436         |
| Income tax expense              |                  |                | (11,912)       | (11,212)       |
| Revenue and profit for the year | 116,392          | 125,655        | 28,546         | 27,224         |

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.

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                                  | FY12<br>\$'000 | FY11<br>\$'000 |
|-----------------------------------------------|----------------|----------------|
| Revenue from the sale of goods <sup>(1)</sup> | 37,492         | 56,360         |
| Revenue from the rendering of services        | 78,651         | 68,950         |
|                                               | 116,143        | 125,310        |
| Interest revenue:                             |                |                |
| Bank deposits                                 | 238            | 306            |
| Other loans and receivables                   | 11             | 39             |
|                                               | 249            | 345            |
|                                               | 116,392        | 125,655        |

(1) Excluding sales derived from wholesale bakery sales (relating to Michel's Patisserie outlets), adjusted revenue from the sale of goods for FY12 was \$36.2 million (FY11: \$24.2 million).

## 7. Other Gains And Losses

| Consolidated                                                              | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------------------------------------------|----------------|----------------|
| Gain on disposal of financial assets                                      | -              | 821            |
| Gain on foreign exchange forward contract                                 | -              | 70             |
| Gain / (loss) on disposal of property, plant and equipment <sup>(1)</sup> | (103)          | 2              |
| Loss on cash flow hedges                                                  | (195)          | (989)          |
|                                                                           | (298)          | (96)           |

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

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

## 8. Finance Costs

| Consolidated                          | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------|----------------|----------------|
| Interest on bank overdrafts and loans | 7,018          | 6,673          |
| Total interest expense                | 7,018          | 6,673          |
| Other finance costs                   | 13             | 266            |
|                                       | 7,031          | 6,939          |

## 9. Income Taxes

### 9.1 Income Tax Recognised In Profit Or Loss

| Consolidated                                                                           | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------------------------------------------------------------------------------|----------------|----------------|
| Tax expense comprises:                                                                 |                |                |
| Current tax expense in respect of the current year                                     | 12,152         | 11,436         |
| Tax concessions received in relation to research & development                         | (169)          | (371)          |
| Deferred tax expense relating to the origination and reversal of temporary differences | (71)           | 147            |
|                                                                                        | 11,912         | 11,212         |

## 9. Income Taxes (cont.)

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

| Consolidated                                                                                  | FY12<br>\$'000 | FY11<br>\$'000 |
|-----------------------------------------------------------------------------------------------|----------------|----------------|
| Profit from continuing operations                                                             | 40,458         | 38,436         |
| Income tax expense calculated at 30%                                                          | 12,137         | 11,531         |
| Effect of:                                                                                    |                |                |
| Revenue that is exempt from taxation                                                          | (12)           | (6)            |
| Expenses that are not deductible in determining taxable profit                                | 2              | 58             |
| Effect of concessions (research and development and other allowances)                         | (169)          | (371)          |
| Effect of unused tax losses and tax offsets not previously recognised as deferred tax assets  | (33)           | -              |
| Effect of different tax rates of subsidiaries operating in other jurisdictions <sup>(1)</sup> | (13)           | -              |
| Income tax expense recognised in profit or loss                                               | 11,912         | 11,212         |

The tax rate used for the FY12 and FY11 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.

(1) A corporate tax rate of 28% is payable by New Zealand corporate entities (FY11: 30%)

### 9.2 Income Tax Recognised Directly In Equity

| Consolidated                                   | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------------------------------|----------------|----------------|
| Share issue costs                              | 4              | 8              |
| Translation of foreign operations              | 31             | (31)           |
| Total income tax recognised directly in equity | 35             | (23)           |

### 9.3 Income Tax Recognised In Other Comprehensive Income

| Consolidated                                              | FY12<br>\$'000 | FY11<br>\$'000 |
|-----------------------------------------------------------|----------------|----------------|
| Deferred tax:                                             |                |                |
| Interest rate swap                                        | (336)          | (692)          |
| Total income tax recognised in other comprehensive income | (336)          | (692)          |

### 9.4 Current Tax Liabilities

| Consolidated       | FY12<br>\$'000 | FY11<br>\$'000 |
|--------------------|----------------|----------------|
| Income tax payable | 4,904          | 4,556          |
|                    | 4,904          | 4,556          |

## 9. Income Taxes (cont.)

### 9.5 Deferred Tax Balances

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

| Consolidated – FY11                  | Opening Balance | Charged To Income | Credited To Equity | Recognised In Other Comprehensive Income | Closing Balance |
|--------------------------------------|-----------------|-------------------|--------------------|------------------------------------------|-----------------|
|                                      | \$'000          | \$'000            | \$'000             | \$'000                                   | \$'000          |
| <b>Temporary differences</b>         |                 |                   |                    |                                          |                 |
| Intangible assets                    | (376)           | -                 | -                  | -                                        | (376)           |
| Employee benefits                    | 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           |
| <b>Unused tax losses and credits</b> |                 |                   |                    |                                          |                 |
| Other – 'black hole' expenses        | 208             | (208)             | -                  | -                                        | -               |
|                                      | 208             | (208)             | -                  | -                                        | -               |
|                                      | 2,104           | (147)             | (23)               | (692)                                    | 1,242           |

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

| Consolidated        | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------|----------------|----------------|
| Deferred tax assets | 1,008          | 1,242          |
|                     | 1,008          | 1,242          |



## 9. Income Taxes (cont.)

### 9.6 Tax Consolidation

#### Relevance Of Tax Consolidation To The Group

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

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

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

Entities within the tax-consolidation group have entered into a tax funding agreement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Retail Food Group Limited and each of the entities in the tax-consolidated group 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                                               | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------------------------------------------|----------------|----------------|
| Cost of sales                                              | 20,109         | 36,471         |
| Inventory write-down of inventory to net realisable value  | -              | 360            |
| Impairment of trade receivables                            | 1,823          | 1,104          |
| Depreciation of property, plant and equipment              | 861            | 748            |
| Employee benefits expenses:                                |                |                |
| Post employment benefits (defined contribution plans)      | 1,631          | 1,343          |
| Share-based payments (equity-settled share-based payments) | -              | 194            |
| Termination benefits                                       | 288            | 6              |
| Other employee benefits (wages and salaries)               | 25,105         | 20,623         |
|                                                            | <b>27,024</b>  | <b>22,166</b>  |

## 11. Earnings Per Share

| Consolidated                      | FY12<br>Cents Per Share | FY11<br>Cents Per Share |
|-----------------------------------|-------------------------|-------------------------|
| <b>Basic earnings per share</b>   |                         |                         |
| From continuing operations        | 26.4                    | 25.4                    |
|                                   | 26.4                    | 25.4                    |
| <b>Diluted earnings per share</b> |                         |                         |
| From continuing operations        | 26.3                    | 25.2                    |
|                                   | 26.3                    | 25.2                    |

### 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                                                             | FY12<br>\$'000 | FY11<br>\$'000 |
|--------------------------------------------------------------------------|----------------|----------------|
| Profit for the year                                                      | 28,546         | 27,224         |
| Earnings used in the calculation of basic EPS from continuing operations | 28,546         | 27,224         |

Weighted average number of ordinary shares for the purpose of basic EPS

| FY12<br>No. '000 | FY11<br>No. '000 |
|------------------|------------------|
| 108,268          | 107,160          |

### 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                                                               | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------------------------------------------------------------------|----------------|----------------|
| Profit for the year                                                        | 28,546         | 27,224         |
| Earnings used in the calculation of diluted EPS from continuing operations | 28,546         | 27,224         |

Weighted average number of ordinary shares for the purpose of basic EPS

Shares deemed to be issued for no consideration in respect of executive options

Weighted average number of ordinary shares for the purpose of diluted EPS

| FY12<br>No. '000 | FY11<br>No. '000 |
|------------------|------------------|
| 108,268          | 107,160          |
| 338              | 685              |
| 108,606          | 107,845          |

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:

Executive share options

| FY12<br>No. '000 | FY11<br>No. '000 |
|------------------|------------------|
| 190              | 260              |

## 12. Trade And Other Receivables

| Consolidated                 | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------------|----------------|----------------|
| <b>Current</b>               |                |                |
| Trade receivables            | 13,028         | 10,579         |
| Allowance for doubtful debts | (1,210)        | (900)          |
|                              | 11,818         | 9,679          |
| Accrued income               | 4,634          | 2,172          |
| Sundry debtors               | 93             | 215            |
|                              | 16,545         | 12,066         |
| <b>Non Current</b>           |                |                |
| Trade receivables            | 69             | 138            |
| Sundry debtors               | 8              | -              |
|                              | 77             | 138            |
|                              | 16,622         | 12,204         |

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 | FY12<br>\$'000 | FY11<br>\$'000 |
|--------------|----------------|----------------|
| 31 – 60 days | 1,286          | 775            |
| 61 – 90 days | 823            | 646            |
| 91 + days    | 4,768          | 4,328          |
|              | 6,877          | 5,748          |

### 12.2 Movement In The Allowance For Doubtful Debts

| Consolidated                                | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------------|----------------|----------------|
| Balance at the beginning of the year        | 900            | 880            |
| Impairment losses recognised on receivables | 1,823          | 1,104          |
| Impairment losses reversed                  | (370)          | -              |
| Amounts written off as uncollectable        | (1,143)        | (1,084)        |
| Balance at the end of the year              | 1,210          | 900            |

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 \$1,210 thousand (FY11: \$900 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 | FY12<br>\$'000 | FY11<br>\$'000 |
|--------------|----------------|----------------|
| 61 – 90 days | 3              | 54             |
| 91 + days    | 1,207          | 846            |
|              | <b>1,210</b>   | <b>900</b>     |

## 13. Other Financial Assets

| Consolidated                                                | FY12<br>\$'000 | FY11<br>\$'000 |
|-------------------------------------------------------------|----------------|----------------|
| <b>Current</b>                                              |                |                |
| <b>Loans and receivables carried at amortised cost</b>      |                |                |
| Vendor finance <sup>(1)</sup>                               | 1,984          | 1,132          |
| Loans to associated national marketing funds <sup>(2)</sup> | 2,692          | 1,938          |
| Other                                                       | 28             | 33             |
|                                                             | <b>4,704</b>   | <b>3,103</b>   |
| <b>Non Current</b>                                          |                |                |
| <b>Loans and receivables carried at amortised cost</b>      |                |                |
| Vendor finance <sup>(1)</sup>                               | 380            | -              |
|                                                             | <b>380</b>     | <b>-</b>       |
|                                                             | <b>5,084</b>   | <b>3,103</b>   |

(1) Vendor finance represents 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 six franchise systems. Typically, amounts outstanding are repaid within 30 days by the relevant marketing fund.

## 14. Inventories

| Consolidated                    | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------|----------------|----------------|
| Stock held for wholesale supply | 1,173          | 459            |
| Equipment held for resale       | 12             | 592            |
| Stores held for resale          | 2,469          | 1,308          |
|                                 | <b>3,654</b>   | <b>2,359</b>   |

The cost of inventories recognised as an expense during the period in respect of continuing operations was \$20,109 thousand (FY11: \$36,471 thousand). Additionally, an amount of \$286 thousand has been reversed in the year (FY11: \$360 thousand expense) in respect of write-downs of stores held for resale to their assessed net realisable value.

# NOTES TO THE FINANCIAL STATEMENTS

## 15. Other Assets

| Consolidated   | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------|----------------|----------------|
| <b>Current</b> |                |                |
| Prepayments    | 311            | 70             |
| Other          | 32             | 109            |
|                | <b>343</b>     | <b>179</b>     |

## 16. Property, Plant And Equipment

| Consolidated                              | Land & Buildings<br>At Cost | Leasehold Improvements<br>At Cost | Plant & Equipment<br>At Cost | Motor Vehicles<br>At Cost | Total          |
|-------------------------------------------|-----------------------------|-----------------------------------|------------------------------|---------------------------|----------------|
|                                           | \$'000                      | \$'000                            | \$'000                       | \$'000                    | \$'000         |
| <b>Gross carrying amount</b>              |                             |                                   |                              |                           |                |
| 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)          |
| <b>Balance as at 1 July 2011</b>          | <b>4,149</b>                | <b>410</b>                        | <b>7,422</b>                 | <b>227</b>                | <b>12,208</b>  |
| Additions                                 | 112                         | 3                                 | 889                          | -                         | 1,004          |
| Acquisition through business combinations | -                           | 33                                | 258                          | 106                       | 397            |
| Disposals                                 | -                           | (194)                             | (798)                        | (41)                      | (1,033)        |
| Effect of movements in exchange rates     | -                           | (1)                               | (4)                          | (1)                       | (6)            |
| <b>Balance as at 30 June 2012</b>         | <b>4,261</b>                | <b>251</b>                        | <b>7,767</b>                 | <b>291</b>                | <b>12,570</b>  |
| <b>Accumulated depreciation</b>           |                             |                                   |                              |                           |                |
| Balance as at 1 July 2010                 | -                           | (192)                             | (3,286)                      | (175)                     | (3,653)        |
| Disposals                                 | -                           | -                                 | 4                            | 42                        | 46             |
| Depreciation expense                      | -                           | (36)                              | (698)                        | (14)                      | (748)          |
| <b>Balance as at 1 July 2011</b>          | <b>-</b>                    | <b>(228)</b>                      | <b>(3,980)</b>               | <b>(147)</b>              | <b>(4,355)</b> |
| Disposals                                 | -                           | 111                               | 775                          | 39                        | 925            |
| Depreciation expense                      | (76)                        | (20)                              | (735)                        | (32)                      | (863)          |
| <b>Balance as at 30 June 2012</b>         | <b>(76)</b>                 | <b>(137)</b>                      | <b>(3,940)</b>               | <b>(140)</b>              | <b>(4,293)</b> |
| <b>Net book value</b>                     |                             |                                   |                              |                           |                |
| As at 30 June 2011                        | 4,149                       | 182                               | 3,442                        | 80                        | 7,853          |
| As at 30 June 2012                        | 4,185                       | 114                               | 3,827                        | 151                       | 8,277          |

## 17. Intangible Assets

| Consolidated                                    | Goodwill      | Indefinite Life    |                              | Finite Life | Total          |
|-------------------------------------------------|---------------|--------------------|------------------------------|-------------|----------------|
|                                                 |               | Franchise Networks | Intellectual Property Rights | Other       |                |
|                                                 | \$'000        | \$'000             | \$'000                       | \$'000      | \$'000         |
| <b>Gross carrying amount</b>                    |               |                    |                              |             |                |
| Balance as at 1 July 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 1 July 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      | 4,300         | 28,400             | -                            | -           | 32,700         |
| Effect of foreign currency exchange differences | (53)          | 123                | -                            | -           | 70             |
| <b>Balance as at 30 June 2012</b>               | <b>27,993</b> | <b>215,013</b>     | <b>5,233</b>                 | <b>231</b>  | <b>248,470</b> |
| <b>Accumulated amortisation</b>                 |               |                    |                              |             |                |
| Balance as at 1 July 2010                       | -             | -                  | -                            | (21)        | (21)           |
| <b>Balance as at 1 July 2011</b>                | <b>-</b>      | <b>-</b>           | <b>-</b>                     | <b>(21)</b> | <b>(21)</b>    |
| <b>Balance as at 30 June 2012</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 30 June 2012                              | 27,993        | 215,013            | 5,233                        | 210         | 248,449        |

### 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                                           | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------------------------------|----------------|----------------|
| Donut King franchise system                                   | 246            | 246            |
| bb's café franchise system (including Esquires Coffee Houses) | 62             | 62             |
| Michel's Patisserie franchise system                          | 23,438         | 23,438         |
| Evolution Coffee Roasters                                     | 2,757          | -              |
| Pizza Capers franchise system                                 | 1,490          | -              |
|                                                               | <b>27,993</b>  | <b>23,746</b>  |

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

| Indefinite Life Intangibles Allocation                        | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------------------------------|----------------|----------------|
| Donut King franchise system                                   | 38,417         | 38,398         |
| bb's café franchise system (including Esquires Coffee Houses) | 14,696         | 14,571         |
| Brumby's Bakeries franchise system                            | 56,533         | 56,533         |
| Michel's Patisserie franchise system                          | 82,200         | 82,200         |
| Pizza Capers franchise system                                 | 28,400         | -              |
|                                                               | <b>220,246</b> | <b>191,702</b> |

### 17.4 Assessments Of Cash-Generating Units

The carrying values of Evolution Coffee Roasters Group (Evolution) and Pizza Capers franchise system (Pizza Capers) acquired during the year have been allocated to their own separate cash-generating units (CGU's) for the purpose of future impairment testing, representing the lowest level within the entity at which the assets are monitored for internal management purposes.

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

The recoverable amounts of the CGU's are based primarily on a value in use calculation which uses cash flow projections based on the financial budget approved by the Board for FY13 as the year one cash flow.

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

The cash flows in years two to five are based on the expected average percentage growth rate of 2.5% for the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie CGU's, and 3% for the CGU's acquired during the year (Evolution and Pizza Capers). The growth rates applied are based on management's estimate of forecast cash flow by franchise system/business after considering FY12 with the FY13 budget year. Management believes the growth rates applied are reasonable.

A pre-tax discount rate of 16% has been used in preparing the value in use calculations. An indefinite terminal cash flow calculation has been applied for cash flows beyond year five, using the year five cash flow as a base. A growth rate of 2% for the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie CGU's, and 2.5% for the CGU's acquired during the year (Evolution and Pizza Capers), 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.

## 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                         | FY12<br>\$'000 | FY11<br>\$'000 |
|--------------------------------------|----------------|----------------|
| Trade payables <sup>(1)</sup>        | 2,980          | 4,364          |
| Accruals and other creditors         | 3,028          | 1,508          |
| Goods and services tax (GST) payable | 364            | 338            |
|                                      | <b>6,372</b>   | <b>6,210</b>   |

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

## 20. Borrowings

| Consolidated                     | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------------------------|----------------|----------------|
| <b>Secured at amortised cost</b> |                |                |
| <b>Non-current</b>               |                |                |
| Bank loans                       | 110,814        | 85,638         |
|                                  | <b>110,814</b> | <b>85,638</b>  |

During FY12, the Company increased the quantum of its Senior Debt Facility with National Australia Bank (NAB) to \$135 million and extended the present maturity date to 30 September 2014.

## 21. Provisions

| Consolidated                                | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------------|----------------|----------------|
| <b>Current</b>                              |                |                |
| Employee benefits <sup>(1)</sup>            | 1,402          | 1,445          |
| Onerous leases and make-good <sup>(2)</sup> | 104            | 200            |
|                                             | <b>1,506</b>   | <b>1,645</b>   |
| <b>Non-current</b>                          |                |                |
| Employee benefits <sup>(1)</sup>            | 363            | 356            |
|                                             | <b>363</b>     | <b>356</b>     |
|                                             | <b>1,869</b>   | <b>2,001</b>   |

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

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

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



## 21. Provisions (cont.)

|                                                                    | Onerous Leases and Make-Good |
|--------------------------------------------------------------------|------------------------------|
|                                                                    | \$'000                       |
| Balance at 1 July 2011                                             | 200                          |
| Additional provisions recognised                                   | 104                          |
| Payments made                                                      | (150)                        |
| Reductions resulting from remeasurement or settlement without cost | (50)                         |
| Balance at 30 June 2012                                            | 104                          |

## 22. Other Liabilities

| Consolidated                                                                        | FY12<br>\$'000 | FY11<br>\$'000 |
|-------------------------------------------------------------------------------------|----------------|----------------|
| <b>Current</b>                                                                      |                |                |
| Retention bonds and deposits                                                        | 1,322          | 393            |
| Unearned income                                                                     | 60             | -              |
| Fair value of derivative financial instruments (interest rate swaps) <sup>(1)</sup> | 1,199          | 352            |
|                                                                                     | 2,581          | 745            |
| <b>Non-current</b>                                                                  |                |                |
| Fair value of derivative financial instruments (interest rate swaps) <sup>(1)</sup> | -              | 1,772          |
|                                                                                     | -              | 1,772          |
|                                                                                     | 2,581          | 2,517          |

(1) The Group holds interest rate swaps to manage interest rate exposure. The aggregate fair value of the Group's interest rate swaps at the end of the reporting period was \$1,199 thousand payable (FY11: \$2,124 thousand payable). The aggregate fair value payable has been disclosed as current liability consistent with the maturity dates of the individual interest rate swaps. Refer to commentary in note 33.

## 23. Issued Capital

| Consolidated                                               | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------------------------------------------|----------------|----------------|
| 108,422,615 fully paid ordinary shares (FY11: 107,788,918) | 99,876         | 98,772         |
|                                                            | 99,876         | 98,772         |

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.

## 23. Issued Capital (cont.)

|                                                                  | FY12     |        | 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                                                | -        | (14)   | -        | (25)   |
| Related income tax                                               | -        | 4      | -        | 8      |
| Issue of ordinary shares under DRP <sup>(2)</sup>                | -        | -      | 995      | 2,535  |
| Issue of shares under executive share option plan <sup>(3)</sup> | 634      | 759    | 774      | 869    |
| Transfer from equity-settled employee benefits reserve           | -        | 355    | -        | 239    |
| Balance at end of period                                         | 108,423  | 99,876 | 107,789  | 98,772 |

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

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

- a. 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.
- b. 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.

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

- a. During the year a total of 633,697 shares were issued following the exercise of options (2011: 773,671).

### 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 2012, Directors, executives and senior employees have options over 842,500 ordinary shares which are all vested, in aggregate, with 375,830 of those options expiring on 31 July 2012, 100,000 expiring on 30 November 2012, 116,670 expiring on 31 July 2013, 190,000 expiring on 19 October 2013 and the remainder expiring on 31 July 2014. As at 30 June 2011, Directors, executives and senior employees had 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.

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                             | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------------------------|----------------|----------------|
| Equity-settled employee benefits reserve | 379            | 734            |
| Hedging reserve                          | (693)          | (1,563)        |
|                                          | (314)          | (829)          |

## 24. Reserves (cont.)

| Equity-settled employee benefits reserve | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------------------------|----------------|----------------|
| Balance at beginning of year             | 734            | 779            |
| Share-based payments                     | -              | 194            |
| Transfer to share capital                | (355)          | (239)          |
| Balance at end of year                   | 379            | 734            |

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                                                 | FY12<br>\$'000 | FY11<br>\$'000 |
|-----------------------------------------------------------------|----------------|----------------|
| Balance at beginning of year                                    | (1,563)        | (3,251)        |
| Gain / (loss) recognised on:                                    |                |                |
| Changes in fair value of cash flow hedges (interest rate swaps) | 1,120          | 2,308          |
| Net investment hedge                                            | 55             | 103            |
| Income tax related to amounts recognised in equity              | (305)          | (723)          |
| Balance at end of year                                          | (693)          | (1,563)        |

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                                            | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------------------------|----------------|----------------|
| Balance at beginning of year                            | 58,906         | 46,131         |
| Net profit attributable to members of the parent entity | 28,546         | 27,224         |
| Dividends provided for or paid                          | (17,332)       | (14,449)       |
| Balance at end of year                                  | 70,120         | 58,906         |

# NOTES TO THE FINANCIAL STATEMENTS

## 26. Dividends

| Company                                                         | FY12            |              | FY11            |              |
|-----------------------------------------------------------------|-----------------|--------------|-----------------|--------------|
|                                                                 | Cents Per Share | Total \$'000 | Cents Per Share | Total \$'000 |
| <b>Recognised amounts</b>                                       |                 |              |                 |              |
| <u>Fully paid ordinary shares</u>                               |                 |              |                 |              |
| Final dividend – fully franked at 30% tax rate <sup>(1)</sup>   | 7.500           | 8,116        | 6.500           | 6,934        |
| Interim dividend – fully franked at 30% tax rate <sup>(2)</sup> | 8.500           | 9,216        | 7.000           | 7,515        |
|                                                                 | 16.000          | 17,332       | 13.500          | 14,449       |
| <b>Unrecognised amounts</b>                                     |                 |              |                 |              |
| <u>Fully paid ordinary shares</u>                               |                 |              |                 |              |
| Final dividend – fully franked at 30% tax rate <sup>(3)</sup>   | 9.000           | 9,802        | 7.500           | 8,116        |

- (1) In respect of the financial year ended 30 June 2011, as detailed in the Directors' report for that financial year, a final dividend of 7.50 cents per share (based on 108,219,282 shares on issue at 13 September 2011), franked to 100% at 30% corporate income tax rate was paid on 6 October 2011. The final dividend was approved by the Directors following the conclusion of the 30 June 2011 financial year and therefore was not provided for in the Company's financial report. It was resolved that the final dividend would not constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.
- (2) In respect of profits of the financial year ended 30 June 2012, an interim dividend of 8.50 cents per share (based on 108,422,615 shares on issue at 21 March 2012), franked to 100% at 30% corporate income tax rate was paid on 4 April 2012. The interim dividend was approved by the Directors on 28 February 2012 and it was resolved that the interim dividend would not constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.
- (3) In respect of profits of the financial year ended 30 June 2012, a final dividend of 9.00 cents per share (based on 108,910,114 shares on issue at 11 September 2012), franked to 100% at 30% corporate income tax rate will be paid on 11 October 2012. The final dividend was approved by the Directors on 23 August 2012 and therefore was not provided for in the Company's financial report. The Board resolved to suspend the Company's DRP therefore the final FY12 dividend will not constitute an eligible dividend for the purpose of the DRP.

| Company                           | FY12 \$'000 | FY11 \$'000 |
|-----------------------------------|-------------|-------------|
| Adjusted franking account balance | 32,788      | 28,311      |

## 27. Contingent Liabilities

| Consolidated                        | FY12 \$'000 | FY11 \$'000 |
|-------------------------------------|-------------|-------------|
| <b>Contingent liabilities</b>       |             |             |
| Financial guarantees <sup>(1)</sup> | 814         | 814         |
| Rental guarantees <sup>(2)</sup>    | 737         | 528         |
|                                     | 1,551       | 1,342       |

- (1) During FY08, RFGA Management Pty Ltd, a subsidiary of Retail Food Group Limited, guaranteed the repayment of borrowings in the amount of \$814 thousand made by the Australia and New Zealand Banking Group (the ANZ Bank) to certain franchisees. The guarantees had been given as security in respect of loans made by the ANZ Bank to enable certain franchisees to commission their outlets. Each guarantee is expected to be extinguished without cost to the Group in future financial periods.
- (2) The Group, 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. Contingent Liabilities (cont.)

### 27.1 Other - Franchisee Disputation

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

### 27.2 Other - Supplier Disputation

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

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

Subsequent to commencement of proceedings, the principal plaintiff entities were placed into liquidation. Whilst the liquidators continue to prosecute the litigation at this juncture, significant amendment has been made to the plaintiffs' claim which substantially narrowed both the extent of the dispute and the relief sought. The plaintiffs' quantifiable claim is approximately \$1.1m (reduced from approximately \$2.36m) plus miscellaneous claims for damage, costs and interest.

The defendants consider the plaintiffs' claims to be variously misconceived and lacking in substance. Additionally, the defendants have filed a cross-claim against the plaintiffs and its guarantors.

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           | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------|----------------|----------------|
| Minimum lease payments | 4,416          | 3,575          |
|                        | 4,416          | 3,575          |

### 28.3 Non-cancellable Operating Lease Commitments

| Consolidated                                   | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------------------------------|----------------|----------------|
| Not longer than 1 year                         | 3,470          | 3,209          |
| Longer than 1 year and not longer than 5 years | 7,379          | 6,405          |
| Longer than 5 years                            | 821            | 102            |
|                                                | 11,670         | 9,716          |

## 28. Leases (cont.)

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

| Consolidated                           | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------------------------------|----------------|----------------|
| Onerous leases and make-good (note 21) | 104            | 200            |
|                                        | 104            | 200            |

## 29. Commitments For Expenditure

| Consolidated        | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------|----------------|----------------|
| Plant and equipment | 1,419          | -              |
|                     | 1,419          | -              |

## 30. Subsidiaries

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

| Name Of Entity                                                     | Country Of Incorporation | Ownership Interest |          |
|--------------------------------------------------------------------|--------------------------|--------------------|----------|
|                                                                    |                          | FY12 (%)           | FY11 (%) |
| <b>Parent entity</b>                                               |                          |                    |          |
| Retail Food Group Limited <sup>(1)</sup>                           | Australia                |                    |          |
| <b>Subsidiaries</b>                                                |                          |                    |          |
| bb's café System Pty Ltd <sup>(2)</sup>                            | Australia                | 100                | 100      |
| BDP Franchise Pty Ltd <sup>(2)</sup>                               | Australia                | 100                | 100      |
| BDP System Pty Ltd <sup>(2)</sup>                                  | Australia                | 100                | 100      |
| Booming Pty Ltd <sup>(2)</sup>                                     | Australia                | 100                | 100      |
| Brumby's Bakeries Corporate Retail Division Pty Ltd <sup>(2)</sup> | Australia                | 100                | -        |
| Brumby's Bakeries Holdings Pty Ltd <sup>(2)</sup>                  | Australia                | 100                | 100      |
| Brumby's Bakeries Pty Ltd <sup>(2)</sup>                           | Australia                | 100                | 100      |
| Brumby's Bakeries System Pty Ltd <sup>(2)</sup>                    | Australia                | 100                | 100      |
| Caffe Coffee Pty Ltd <sup>(2)</sup>                                | Australia                | 100                | 100      |
| Capercorp Pty Ltd <sup>(2)</sup>                                   | Australia                | 100                | -        |
| Caper Construction Pty Ltd <sup>(2)</sup>                          | Australia                | 100                | -        |
| Capers Gourment Kitchen Pty Ltd <sup>(2)</sup>                     | Australia                | 100                | -        |
| Coffee Houses CRD Pty Ltd <sup>(2)</sup>                           | Australia                | 100                | -        |
| Coleville Enterprises Pty Ltd <sup>(2)</sup>                       | Australia                | 100                | 100      |
| DCM System Pty Ltd <sup>(2)</sup>                                  | Australia                | 100                | 100      |
| DK China Pty Ltd <sup>(2)</sup>                                    | Australia                | 100                | 100      |
| Donquay Pty Ltd <sup>(2)</sup>                                     | Australia                | 100                | 100      |
| Donut King Franchise Pty Ltd <sup>(2)</sup>                        | Australia                | 100                | 100      |
| Donut King System Pty Ltd <sup>(2)</sup>                           | Australia                | 100                | 100      |
| Esquires Coffee Houses System Pty Ltd <sup>(2)</sup>               | Australia                | 100                | 100      |
| Hot Dog Construction Zone (Aust) Pty Ltd <sup>(2)</sup>            | Australia                | 100                | 100      |

### 30. Subsidiaries (cont.)

| Name Of Entity                                                   | Country Of Incorporation | Ownership Interest |          |
|------------------------------------------------------------------|--------------------------|--------------------|----------|
|                                                                  |                          | FY12 (%)           | FY11 (%) |
| International Franchisor Pty Ltd <sup>(2)</sup>                  | Australia                | 100                | 100      |
| Jonamill Pty Ltd <sup>(2)</sup>                                  | Australia                | 100                | 100      |
| Michel's Patisserie (SA) Pty Ltd <sup>(2)</sup>                  | Australia                | 100                | 100      |
| Michel's Patisserie (VO) Pty Ltd <sup>(2)</sup>                  | Australia                | 100                | 100      |
| Michel's Patisserie (VOL) Pty Ltd <sup>(2)</sup>                 | Australia                | 100                | 100      |
| Michel's Patisserie (WA) Pty Ltd <sup>(2)</sup>                  | Australia                | 100                | 100      |
| Michel's Patisserie Management Pty Ltd <sup>(2)</sup>            | Australia                | 100                | 100      |
| Michel's Patisserie Operations Pty Ltd <sup>(2)</sup>            | Australia                | 100                | 100      |
| Michel's Patisserie System Pty Ltd <sup>(2)</sup>                | Australia                | 100                | 100      |
| Patisserie Delights Pty Ltd <sup>(2)</sup>                       | Australia                | 100                | 100      |
| PCGK Holdings Pty Ltd <sup>(2)</sup>                             | Australia                | 100                | -        |
| Regional Franchising Systems Pty Ltd <sup>(2)</sup>              | Australia                | 100                | 100      |
| RFG Finance Pty Ltd <sup>(2)</sup>                               | Australia                | 100                | 100      |
| RFGA Equitech Pty Ltd (formerly RFGA CMF Pty Ltd) <sup>(2)</sup> | Australia                | 100                | 100      |
| RFGA Holdings (Aust) Pty Ltd <sup>(2)</sup>                      | Australia                | 100                | 100      |
| RFGA Holdings Pty Ltd <sup>(2)</sup>                             | Australia                | 100                | 100      |
| RFGA Management Pty Ltd <sup>(2)</sup>                           | Australia                | 100                | 100      |
| Systems Franchisor Pty Ltd <sup>(2)</sup>                        | Australia                | 100                | 100      |
| The Michel's Group Australia Pty Ltd <sup>(2)</sup>              | Australia                | 100                | 100      |
| bb's New Zealand Ltd                                             | New Zealand              | 100                | 100      |
| Brumby's Bakeries System (NZ) Limited                            | New Zealand              | 100                | 100      |
| Caffe Coffee (NZ) Limited                                        | New Zealand              | 100                | 100      |
| Donut King (NZ) Limited                                          | New Zealand              | 100                | -        |
| ECH System (NZ) Limited                                          | New Zealand              | 100                | 100      |
| HDCZ (NZ) Limited                                                | New Zealand              | 100                | -        |
| Michel's Patisserie Systems (NZ) Limited                         | New Zealand              | 100                | 100      |
| RFG (NZ) Holdings Limited                                        | New Zealand              | 100                | 100      |
| RFG (NZ) Limited                                                 | New Zealand              | 100                | 100      |

(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 FY12 Acquisitions

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

#### *Acquisition Of Businesses:*

|                                                          |                                                                           |                  |        |        |   |
|----------------------------------------------------------|---------------------------------------------------------------------------|------------------|--------|--------|---|
| Evolution Coffee Roasters                                | Coffee Roasting & merchandising                                           | 1 September 2011 | 3,196  | 3,196  | - |
| Capercorp Pty Ltd and associated entities (Pizza Capers) | Owner and franchisor of the Pizza Capers Gourmet Kitchen Franchise System | 2 April 2012     | 30,000 | 30,000 | - |
| Total Consideration:                                     |                                                                           |                  | 33,196 | 33,196 | - |

#### *Evolution Coffee Roasters*

On 1 September 2011, the Group acquired the business and intellectual property assets of the New Zealand domiciled Evolution Coffee Roasters Group (Evolution) for cash consideration of \$3.196 million transferred at acquisition date. Evolution was acquired to continue expansion of the Group's coffee roasting and merchandising activities, and fortify the supply chain through vertical integration in New Zealand. At acquisition date Evolution comprised:

- 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

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 |            |                       | 2,810                     |
|                                     |            |                       | 3,196                     |

Goodwill arose in the acquisition of Evolution Coffee Roasters because the acquisition included the customer lists and customer relationships of Evolution Coffee Roasters as part of the acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce for Evolution Coffee Roasters. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.



## 31. Acquisitions (cont.)

### 31.1 FY12 Acquisitions (cont.)

|                                                  |              |
|--------------------------------------------------|--------------|
| Net Cash Flow On Acquisition                     | \$'000       |
| Consideration paid in cash                       | 3,196        |
| Less: cash and cash equivalent balances acquired | -            |
|                                                  | <u>3,196</u> |

#### Pizza Capers

On 28 February 2012, the Group publicly announced that it had entered into a conditional Share Sale and Purchase Agreement, subject to usual contractual and customary terms to acquire Pizza Capers.

On 2 April 2012 the Group completed the acquisition of 100% of the issued share capital of Capercorp Pty Ltd (and associated entities) for cash consideration of \$30 million transferred at acquisition date. Capercorp Pty Ltd is the owner and franchisor of the Pizza Capers Gourmet Kitchen Franchise System. The acquisition positions the Group within the traditional Australian Quick Service Restaurant (QSR) segment and is consistent with the Company's strategy of multiple retail food franchise system ownership.

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>                |            |                       |                           |
| Trade and other receivables          | 892        | (339)                 | 553                       |
| <b>Non-current assets</b>            |            |                       |                           |
| Property, plant & equipment          | 84         | -                     | 84                        |
| Intangible assets (franchise system) | -          | 28,400                | 28,400                    |
| <b>Current liabilities</b>           |            |                       |                           |
| Trade and other payables             | (271)      | -                     | (271)                     |
| Current tax liabilities              | (256)      | -                     | (256)                     |
|                                      | <u>449</u> | <u>28,061</u>         | <u>28,510</u>             |
| Goodwill on acquisition of business  |            |                       | <u>1,490</u>              |
|                                      |            |                       | <u>30,000</u>             |

The Directors engaged an independent professional services firm to value the Pizza Capers Franchise System intangible asset at acquisition date. The fair value was determined in accordance with generally accepted valuation techniques based on discounted cash flow analysis.

Goodwill arose in the acquisition of Pizza Capers because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce for Pizza Capers. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

|                                                  |               |
|--------------------------------------------------|---------------|
| Net Cash Flow On Acquisition                     | \$'000        |
| Consideration paid in cash                       | 30,000        |
| Less: cash and cash equivalent balances acquired | -             |
|                                                  | <u>30,000</u> |

## 31. Acquisitions (cont.)

### 31.2 FY11 Acquisitions

| Name Of Businesses /<br>Intangible Assets<br>Acquired | Principal Activity                                                                                   | Date Of<br>Acquisition | Total Cost Of<br>Acquisition | Cash Cost Of<br>Acquisition | Scrip Cost Of<br>Acquisition |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------|------------------------|------------------------------|-----------------------------|------------------------------|
|                                                       |                                                                                                      |                        | \$'000                       | \$'000                      | \$'000                       |
| Acquisition of businesses                             |                                                                                                      |                        |                              |                             |                              |
| Esquires Coffee Houses                                | Sub-Franchisor of the<br>Esquires Coffee Houses<br>franchise system for New<br>Zealand (MF Contract) | 7 February 2011        | 6,920                        | 6,920                       | -                            |
| Acquisition of intangible assets                      |                                                                                                      |                        |                              |                             |                              |
| Esquires Coffee Houses                                | Intellectual property rights<br>(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.

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).

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 \$NZD0.6 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. The performance conditions were subsequently not achieved and no further consideration was payable.

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<br>Adjustment | Fair Value On<br>Acquisition |
|---------------------------------------|------------|--------------------------|------------------------------|
|                                       | \$'000     | \$'000                   | \$'000                       |
| <b>Non-current assets</b>             |            |                          |                              |
| Intangible assets (franchise network) | -          | 6,920                    | 6,920                        |
|                                       | -          | 6,920                    | 6,920                        |
| Goodwill on acquisition of business   |            |                          | -                            |
|                                       |            |                          | 6,920                        |

## 31. Acquisitions (cont.)

### 31.2 FY11 Acquisitions (cont.)

| Net Cash Flow On Acquisition                     | FY11<br>\$'000 |
|--------------------------------------------------|----------------|
| Consideration paid in cash                       | 6,920          |
| Less: cash and cash equivalent balances acquired | -              |
|                                                  | <u>6,920</u>   |

## 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           | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------|----------------|----------------|
| Cash and bank balances | 12,785         | 15,173         |
|                        | <u>12,785</u>  | <u>15,173</u>  |

### 32.2 Financing Facilities

| Consolidated                                       | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------------------------------------------|----------------|----------------|
| Secured bank loan facility:                        |                |                |
| amount used (before deducting debt issue costs)    | 111,000        | 85,638         |
| amount unused                                      | 24,000         | 9,362          |
|                                                    | <u>135,000</u> | <u>95,000</u>  |
| Secured ancillary bank facilities (guarantees):    |                |                |
| amount used                                        | 737            | 528            |
| amount unused                                      | 763            | 980            |
|                                                    | <u>1,500</u>   | <u>1,508</u>   |
| Secured ancillary bank facilities (asset finance): |                |                |
| amount used                                        | 243            | -              |
| amount unused                                      | 757            | 1,000          |
|                                                    | <u>1,000</u>   | <u>1,000</u>   |

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                                                         | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------------------------------------------------------------|----------------|----------------|
| Profit for the year                                                  | 28,546         | 27,224         |
| Loss / (gain) on disposal of property, plant and equipment           | 103            | (2)            |
| Loss / (gain) on disposal of financial assets                        | -              | (821)          |
| Depreciation of non-current assets                                   | 861            | 748            |
| Equity-settled share-based payment                                   | -              | 194            |
| Interest income received and receivable                              | (249)          | (345)          |
| Amortisation of borrowing costs                                      | 14             | 266            |
| Hedge ineffectiveness on cash flow hedges                            | 195            | 989            |
| Effect of concessions received in relation to research & development | (169)          | (371)          |
| Increase / (decrease) in current tax liability                       | 348            | (407)          |
| Increase / (decrease) in deferred tax balances                       | (71)           | 147            |
| Movements in working capital:                                        |                |                |
| Trade and other receivables                                          | (4,418)        | 890            |
| Inventories                                                          | (1,295)        | (60)           |
| Other assets                                                         | (604)          | (110)          |
| Trade and other payables                                             | 162            | (1,150)        |
| Provisions                                                           | (132)          | (147)          |
| Other liabilities                                                    | 991            | (205)          |
| Net cash generated by operating activities                           | 24,282         | 26,840         |

## 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 FY11.

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 consider the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40 - 60% as the proportion of net debt to equity. Based on recommendations of management 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           | FY12<br>\$'000 | FY11<br>\$'000 |
|------------------------|----------------|----------------|
| Debt <sup>(1)</sup>    | 110,814        | 85,638         |
| Cash and bank balances | (12,785)       | (15,173)       |
| Net debt               | 98,029         | 70,465         |
| Equity <sup>(2)</sup>  | 169,682        | 156,849        |
| Gearing ratio          | 36.6%          | 30.1%          |

(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                                                        | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------------------------------------|----------------|----------------|
| <b>Financial assets</b>                                             |                |                |
| Loans and receivables                                               |                |                |
| Trade and other receivables                                         | 16,622         | 12,204         |
| Loans and receivables                                               | 5,084          | 3,103          |
| Cash and cash equivalents                                           | 12,785         | 15,173         |
| <b>Financial liabilities</b>                                        |                |                |
| Trade payables                                                      | 2,980          | 4,364          |
| Other payables                                                      | 3,392          | 1,846          |
| Retention bonds and deposits                                        | 1,322          | 393            |
| Derivative instruments in designated hedge accounting relationships | 1,199          | 2,124          |
| Bank loan (at amortised cost)                                       | 110,814        | 85,638         |

### 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 and fixed rate bank bills to manage interest rate exposure. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest rate expense through different interest rate cycles.

#### Interest Rate Sensitivity Analysis

The 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 \$158 thousand (FY11: \$133 thousand) and increase by \$158 thousand (FY11: \$133 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.
- hedge reserve would increase (unfavourable) by \$297 thousand (FY11: \$443 thousand decrease) and decrease (favourable) by \$342 thousand (FY11: \$408 thousand increase).

The Group's sensitivity to interest rates has decreased during the current period mainly due to the increase in fixed rate 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, as well as increasing the portion of fixed rate 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) |             |
|------------------------------------------|----------------------------------------|--------|---------------------------|-------------|--------------------------------|-------------|
|                                          | FY12 %                                 | FY11 % | FY12 \$'000               | FY11 \$'000 | FY12 \$'000                    | FY11 \$'000 |
| Less than 1 year                         | 7.47                                   | 7.27   | 60,000                    | 16,887      | (1,199)                        | (352)       |
| 1 to 2 years                             | -                                      | 7.47   | -                         | 50,913      | -                              | (1,772)     |
|                                          |                                        |        | 60,000                    | 67,800      | (1,199)                        | (2,124)     |

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.)

### 33.8 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 | FY12<br>\$'000 | FY11<br>\$'000 |
|---------------------------------------------|----------------|----------------|
| <b>Contingent liabilities</b>               |                |                |
| Financial guarantees                        | 814            | 814            |
| Rental guarantees                           | 737            | 528            |
|                                             | <b>1,551</b>   | <b>1,342</b>   |

### 33.9 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and undrawn borrowing facilities, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Note 32.2 sets out details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

#### Liquidity And Interest Rate Risk Tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The information has been presented based on the undiscounted cash flows of financial liabilities 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<br>Average<br>Effective<br>Interest Rate | Less Than<br>1 Year | 1 – 5<br>Years | Total   |
|-------------------------------|---------------------------------------------------|---------------------|----------------|---------|
|                               | %                                                 | \$'000              | \$'000         | \$'000  |
| <b>FY12</b>                   |                                                   |                     |                |         |
| Trade payables                | -                                                 | 2,980               | -              | 2,980   |
| Other payables                | -                                                 | 3,392               | -              | 3,392   |
| Retention bonds and deposits  | -                                                 | 1,322               | -              | 1,322   |
| Bank loan                     | 6.1                                               | 6,420               | 119,230        | 125,650 |
| Financial guarantee contracts | -                                                 | 814                 | -              | 814     |
|                               |                                                   | 14,928              | 119,230        | 134,158 |
| <b>FY11</b>                   |                                                   |                     |                |         |
| 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 |

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 (FY11: \$814 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<br>Average<br>Effective<br>Interest Rate | Less Than<br>1 Year | 1 – 5<br>Years | Total  |
|---------------------------|---------------------------------------------------|---------------------|----------------|--------|
|                           | %                                                 | \$'000              | \$'000         | \$'000 |
| <b>FY12</b>               |                                                   |                     |                |        |
| Cash and cash equivalents | -                                                 | 12,785              | -              | 12,785 |
| Loans and receivables     | -                                                 | 21,249              | 457            | 21,706 |
|                           |                                                   | 34,034              | 457            | 34,491 |
| <b>FY11</b>               |                                                   |                     |                |        |
| Cash and cash equivalents | -                                                 | 15,173              | -              | 15,173 |
| Loans and receivables     | -                                                 | 15,169              | 138            | 15,307 |
|                           |                                                   | 30,342              | 138            | 30,480 |

The Group has access to financing facilities as described in note 32.2, of which \$25,520 thousand were unused at the end of the reporting period (FY11: \$11,342 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.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been identified as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

As at 30 June 2012, 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 2011, the Group had outstanding interest rate swaps which were classified as level 2 financial instruments. Refer notes 22 or 33.7 for the fair value of the interest rate swaps.

## 34. Share-based Payments

### 34.1 Executive Share Option Plan

The Group has an ownership-based compensation scheme for Directors, executives and senior employees. In accordance with the provisions of RFG's Executive Share Option Plan (ESOP), Directors, executives and senior employees may be granted options to purchase parcels of ordinary shares on terms resolved upon by the Board. Certain 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

No share options were granted during the financial year. The weighted average fair value of the share options granted during the prior financial year was \$0.5627. 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:

|                                            | FY12              |                                 | FY11              |                                 |
|--------------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                            | Number Of Options | Weighted Average Exercise Price | Number Of Options | Weighted Average Exercise Price |
| Balance at beginning of the financial year | 1,561,197         | \$1.47                          | 2,004,869         | \$1.16                          |
| Granted during the financial year          | -                 | -                               | 710,000           | \$2.60                          |
| Forfeited during the financial year        | (85,000)          | \$2.53                          | (30,000)          | \$1.26                          |
| Exercised during the financial year        | (633,697)         | \$1.20                          | (773,672)         | \$1.12                          |
| Cancelled during the financial year        | -                 | -                               | (350,000)         | \$2.78                          |
| Balance at end of the financial year       | 842,500           | \$1.57                          | 1,561,197         | \$1.47                          |
| Exercisable at end of the financial year   | 842,500           | \$1.57                          | 1,191,200         | \$1.20                          |

## 34. Share-based Payments (cont.)

### 34.4 Share Options Exercised During The Financial Year

The following share options were exercised during the financial year:

| FY12 – Option Series              | Number Exercised | Exercise Date | Share Price At Exercise Date |
|-----------------------------------|------------------|---------------|------------------------------|
| Tier 1B – Issued 1 August 2006    | 63,333           | 06/07/2011    | \$2.41                       |
|                                   | 46,667           | 07/07/2011    | \$2.41                       |
|                                   | 39,333           | 26/07/2011    | \$2.42                       |
| Tier 1C – Issued 1 August 2006    | 46,666           | 07/07/2011    | \$2.41                       |
|                                   | 44,666           | 08/09/2011    | \$2.30                       |
| Tier 2A – Issued 1 August 2007    | 13,333           | 06/07/2011    | \$2.41                       |
|                                   | 14,066           | 07/07/2011    | \$2.41                       |
|                                   | 38,333           | 26/07/2011    | \$2.42                       |
|                                   | 15,000           | 27/07/2011    | \$2.43                       |
|                                   | 17,500           | 29/07/2011    | \$2.37                       |
| Tier 2B – Issued 1 August 2007    | 14,066           | 07/07/2011    | \$2.41                       |
|                                   | 13,333           | 08/09/2011    | \$2.30                       |
| Tier 2C – Issued 1 August 2007    | 14,068           | 07/07/2011    | \$2.41                       |
|                                   | 13,333           | 08/03/2012    | \$2.83                       |
| Tier 3A – Issued 1 August 2008    | 10,000           | 06/07/2011    | \$2.41                       |
|                                   | 10,000           | 07/07/2011    | \$2.41                       |
|                                   | 10,000           | 08/03/2012    | \$2.83                       |
| Tier 3B – Issued 1 August 2008    | 10,000           | 07/07/2011    | \$2.41                       |
|                                   | 20,000           | 20/10/2011    | \$2.40                       |
| Tier 3C – Issued 1 August 2008    | 5,000            | 01/08/2011    | \$2.37                       |
|                                   | 5,000            | 17/08/2011    | \$2.34                       |
|                                   | 10,000           | 12/09/2011    | \$2.28                       |
|                                   | 10,000           | 20/10/2011    | \$2.40                       |
|                                   | 10,000           | 02/03/2012    | \$2.85                       |
| Tier 6A – Issued 17 February 2010 | 140,000          | 16/02/2012    | \$2.62                       |
|                                   | <b>633,697</b>   |               |                              |

## 34. Share-based Payments (cont.)

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

| 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                       |
|                                   | <b>773,672</b>   |               |                              |

## 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:

|         | FY12               |                          | FY11               |                          |
|---------|--------------------|--------------------------|--------------------|--------------------------|
|         | Number Outstanding | Remaining Life (in days) | Number Outstanding | Remaining Life (in days) |
| Tier 1B | -                  | -                        | 149,333            | 31                       |
| Tier 1C | 201,665            | 31                       | 294,666            | 397                      |
| Tier 2A | -                  | -                        | 96,562             | 31                       |
| Tier 2B | 66,665             | 31                       | 94,064             | 397                      |
| Tier 2C | 66,670             | 397                      | 94,072             | 762                      |
| Tier 3A | 107,500            | 31                       | 137,500            | 397                      |
| Tier 3B | 50,000             | 397                      | 80,000             | 762                      |
| Tier 3C | 60,000             | 762                      | 110,000            | 1,127                    |
| Tier 6A | -                  | -                        | 145,000            | 231                      |
| Tier 8  | 100,000            | 153                      | 100,000            | 519                      |
| Tier 9  | 190,000            | 476                      | 260,000            | 842                      |
|         | <b>842,500</b>     |                          | <b>1,561,197</b>   |                          |

## 35. Key Management Personnel Compensation

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

| Consolidated                 | FY12<br>\$       | FY11<br>\$       |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 2,434,803        | 2,218,382        |
| Post-employment benefits     | 120,663          | 110,628          |
| Share-based payment          | 27,695           | 173,704          |
|                              | <b>2,583,161</b> | <b>2,502,714</b> |

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 (FY11: \$nil) to key management personnel or their related parties.

#### Key Management Personnel Equity Holdings

Fully paid ordinary shares of Retail Food Group Limited:

| FY12                            | Balance<br>1 July 2011 | Granted As<br>Compensation | Received On<br>Exercise Of<br>Options | Net Other<br>Change | Balance<br>30 June 2012 | Balance Held<br>Nominally |
|---------------------------------|------------------------|----------------------------|---------------------------------------|---------------------|-------------------------|---------------------------|
|                                 | Number                 | Number                     | Number                                | Number              | Number                  | Number                    |
| <b>Directors</b>                |                        |                            |                                       |                     |                         |                           |
| Mr Anthony (Tony) Alford        | 22,394,944             | -                          | 10,000                                | 153,841             | 22,558,785              | 814,173                   |
| Mr Colin Archer                 | 326,744                | -                          | 36,100                                | -                   | 362,844                 | -                         |
| <b>Executives</b>               |                        |                            |                                       |                     |                         |                           |
| Mr Nigel Nixon <sup>(4)</sup>   | 5,650,387              | -                          | -                                     | -                   | 5,650,387               | 2,698,201                 |
| Mr Anthony Mark Connors         | 1,900                  | -                          | 72,666                                | -                   | 74,566                  | -                         |
| Mr Gary Alford                  | 1,232,437              | -                          | 91,666                                | (251,094)           | 1,073,009               | -                         |
| Mr Gavin Nixon                  | 5,636,633              | -                          | 15,000                                | (33,712)            | 5,617,921               | 2,812,666                 |
| Ms Tracey Catterall             | -                      | -                          | 5,000                                 | (5,000)             | -                       | -                         |
| <b>Former</b>                   |                        |                            |                                       |                     |                         |                           |
| Mr John Cowley <sup>(1)</sup>   | 127,762                | -                          | 129,433                               | n/a                 | n/a                     | n/a                       |
| Mr Damien Peters <sup>(2)</sup> | 90,004                 | -                          | 10,000                                | n/a                 | n/a                     | n/a                       |
| Mr Gary Best <sup>(3)</sup>     | 1,148,765              | -                          | 50,000                                | n/a                 | n/a                     | n/a                       |
|                                 | 36,609,576             | -                          | 419,865                               | (135,965)           | 35,337,512              | 6,325,040                 |

(1) Resigned 25 November 2011 – details of personal equity holdings have not been provided after this date

(2) Resigned 29 February 2012 – details of personal equity holdings have not been provided after this date

(3) Ceased to be KMP 26 March 2012 – details of personal equity holdings have not been provided after this date

(4) Resigned as Director 29 May 2012

## 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:

| FY11                     | Balance<br>1 July 2010 | Granted As<br>Compensation | Received On<br>Exercise Of<br>Options | Net Other<br>Change | Balance<br>30 June 2011 | Balance Held<br>Nominally |
|--------------------------|------------------------|----------------------------|---------------------------------------|---------------------|-------------------------|---------------------------|
|                          | Number                 | Number                     | Number                                | Number              | Number                  | Number                    |
| <b>Directors</b>         |                        |                            |                                       |                     |                         |                           |
| 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                 | -                         |
| <b>Executives</b>        |                        |                            |                                       |                     |                         |                           |
| 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                  | -                         |
| 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                 |

Executive share options of Retail Food Group Limited:

| FY12                            | Balance<br>1 July 2011 | Granted As<br>Compensation | Exercised | Net Other<br>Change | Balance<br>30 June 2012 | Balance Vested<br>30 June 2012 | Vested And<br>Exercisable | Options Vested<br>During The Year |
|---------------------------------|------------------------|----------------------------|-----------|---------------------|-------------------------|--------------------------------|---------------------------|-----------------------------------|
|                                 | Number                 | Number                     | Number    | Number              | Number                  | Number                         | Number                    | Number                            |
| <b>Directors</b>                |                        |                            |           |                     |                         |                                |                           |                                   |
| Mr Anthony (Tony) Alford        | 10,000                 | -                          | (10,000)  | -                   | -                       | -                              | -                         | 10,000                            |
| Mr Colin Archer                 | 36,100                 | -                          | (36,100)  | -                   | -                       | -                              | -                         | 5,000                             |
| <b>Executives</b>               |                        |                            |           |                     |                         |                                |                           |                                   |
| Mr Nigel Nixon <sup>(4)</sup>   | 210,332                | -                          | -         | -                   | 210,332                 | 210,332                        | 210,332                   | 10,000                            |
| Mr Anthony Mark Connors         | 193,667                | -                          | (72,666)  | -                   | 121,001                 | 121,001                        | 121,001                   | 35,000                            |
| Mr Gary Alford                  | 231,667                | -                          | (91,666)  | -                   | 140,001                 | 140,001                        | 140,001                   | 30,000                            |
| Mr Gavin Nixon                  | 138,666                | -                          | (15,000)  | -                   | 123,666                 | 123,666                        | 123,666                   | 30,000                            |
| Ms Tracey Catterall             | 25,000                 | -                          | (5,000)   | -                   | 20,000                  | 20,000                         | 20,000                    | 20,000                            |
| <b>Former</b>                   |                        |                            |           |                     |                         |                                |                           |                                   |
| Mr John Cowley <sup>(1)</sup>   | 129,433                | -                          | (129,433) | n/a                 | n/a                     | n/a                            | n/a                       | 5,000                             |
| Mr Damien Peters <sup>(2)</sup> | 50,000                 | -                          | (10,000)  | (40,000)            | n/a                     | n/a                            | n/a                       | 50,000                            |
| Mr Gary Best <sup>(3)</sup>     | 156,667                | -                          | (50,000)  | n/a                 | n/a                     | n/a                            | n/a                       | 60,000                            |
|                                 | 1,181,532              | -                          | (419,865) | (40,000)            | 615,000                 | 615,000                        | 615,000                   | 255,000                           |

(1) Resigned 25 November 2011 – details of personal equity holdings have not been provided after this date

(2) Resigned 29 February 2012 – details of personal equity holdings have not been provided after this date

(3) Ceased to be KMP 26 March 2012 – details of personal equity holdings have not been provided after this date

(4) Resigned as Director 29 May 2012

## 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:

| FY11                     | Balance<br>1 July 2010 | Granted As<br>Compensation | Exercised | Net Other<br>Change | Balance<br>30 June 2011 | Balance Vested<br>30 June 2011 | Vested And<br>Exercisable | Options Vested<br>During The Year |
|--------------------------|------------------------|----------------------------|-----------|---------------------|-------------------------|--------------------------------|---------------------------|-----------------------------------|
|                          | Number                 | Number                     | Number    | Number              | Number                  | Number                         | Number                    | Number                            |
| <b>Directors</b>         |                        |                            |           |                     |                         |                                |                           |                                   |
| 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                            |
| <b>Executives</b>        |                        |                            |           |                     |                         |                                |                           |                                   |
| 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                           |

During the financial year, 419,865 options (FY11: 323,338) were exercised by key management personnel at an exercise price of \$1.00 per option for 195,999 ordinary shares (FY11: 210,000), \$1.15 per option for 68,866 (FY11: 13,334), \$1.32 per option for 50,000 ordinary shares (FY11: 35,004), \$1.50 per option for 105,000 ordinary shares (FY11: 25,000), \$1.67 per option for nil ordinary shares (FY11: 25,000) and \$1.92 per option for nil 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 FY12 and FY11 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                                                                                                                                                             | FY12<br>\$ | FY11<br>\$ |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:                      |            |            |
| Franchise revenue                                                                                                                                                        | 34,783     | 111,926    |
|                                                                                                                                                                          | 34,783     | 111,926    |
| Consolidated profit includes the following expenses arising from transactions with key management personnel of the Group or their related parties:                       |            |            |
| Rental expense                                                                                                                                                           | 26,495     | 24,086     |
| Other administration expenses                                                                                                                                            | 44,071     | 26,026     |
|                                                                                                                                                                          | 70,566     | 50,112     |
| 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      |
|                                                                                                                                                                          | -          | 1,134      |

### 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 and is not registered for Goods and Services Tax (GST) . A total of \$26,495.04 was paid or payable during the year. (FY11: \$24,086.40).

CGFH Holdings Pty Ltd is a related party of Mr Anthony (Tony) Alford and Mr Gary Alford. It was reimbursed \$44,070.69 (excluding GST) for business related expenditure during the financial year (FY11: \$26,026.41 ex GST).

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 prior financial year. During the current financial year, Donuts Holdings Pty Ltd did not own the outlet. Accordingly there was nil revenue earned by the Group from Donut Holdings Pty Ltd during the financial year (FY11: \$71,534.85 excluding GST).

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 \$34,782.55 (excluding GST) earned by the Group in respect of royalties and product sales to this store. (FY11: \$40,391.35). As at 30 June 2012 there were no trading debts outstanding (FY11: \$1,133.97).

## 37. Remuneration Of Auditors

| Consolidated                                     | FY12<br>\$     | FY11<br>\$     |
|--------------------------------------------------|----------------|----------------|
| <b>Audit Services</b>                            |                |                |
| <i>Auditors of the parent entity</i>             |                |                |
| Audit of the financial report                    | 219,000        | 222,500        |
| Review of the half-year financial report         | 44,250         | 45,230         |
|                                                  | <b>263,250</b> | <b>267,730</b> |
| <i>Other Auditors</i>                            |                |                |
| Audit of the financial statements                | 15,593         | 11,304         |
|                                                  | <b>278,843</b> | <b>279,034</b> |
| <b>Other Services</b>                            |                |                |
| <i>Auditors of the parent entity</i>             |                |                |
| Taxation services                                | -              | 35,000         |
| <i>Network firm of the parent entity auditor</i> |                |                |
| Other assurance services                         | 90,616         | -              |
|                                                  | <b>90,616</b>  | <b>35,000</b>  |

The auditor of Retail Food Group Limited is Deloitte Touche Tohmatsu.

## 38. Events After The Reporting Period

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

### Final Dividend

On 23 August 2012, the Board of Directors declared a final dividend for the financial year ended 30 June 2012, as set out in the "Dividends" section of this financial report.

### Acquisition of Crust Pizza Gourmet Pizza Bars

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

The price for the business will be equivalent of 7x Crust FY13 adjusted EBIT and will be paid in two tranches:

- On settlement: \$21m cash and RFG ordinary shares to the value of \$3m; and
- Approximately 12 months from settlement: an amount representing the difference between 7x Crust FY13 adjusted EBIT less the \$24m forming part of the purchase price paid in the initial tranche noted above. The second tranche of the purchase price will be paid in cash or cash and scrip at RFG's election.

Settlement is scheduled to be completed by early October 2012, with control of the business and intellectual property transferring to the Group at that time.

## 39. Parent Entity Disclosures

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

### 39.1 Financial Position

| Parent Entity                    | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------------------------|----------------|----------------|
| <b>Assets</b>                    |                |                |
| Current assets                   | 31,624         | 25,007         |
| Non-current assets               | 204,940        | 205,378        |
| Total assets                     | 236,564        | 230,385        |
| <b>Liabilities</b>               |                |                |
| Current liabilities              | 1,487          | 7,239          |
| Non-current liabilities          | 110,814        | 85,638         |
| Total liabilities                | 112,301        | 92,877         |
| <b>Equity</b>                    |                |                |
| Issued capital                   | 99,876         | 98,772         |
| Retained earnings                | 24,860         | 39,637         |
| Reserves                         |                |                |
| Equity-settled employee benefits | 378            | 734            |
| Hedging reserve                  | (850)          | (1,635)        |
| Total equity                     | 124,263        | 137,508        |

### 39.2 Financial Performance

| Parent Entity              | FY12<br>\$'000 | FY11<br>\$'000 |
|----------------------------|----------------|----------------|
| Profit for the year        | 1,771          | 42,056         |
| Other comprehensive income | 784            | 1,616          |
| Total comprehensive income | 2,555          | 43,672         |

### 39.3 Other Commitments

The parent entity has no contingent liabilities or expenditure commitments as at 30 June 2012 (FY11: nil).

# ADDITIONAL STOCK EXCHANGE INFORMATION

## AS AT 14 SEPTEMBER 2012

### Number Of Holders Of Equity Securities as at 14 September 2012

#### Ordinary Share Capital

- 108,910,114 fully paid ordinary shares are held by 1,917 individual shareholders.

All issued ordinary shares carry one vote per share.

#### Options

- 66,670 options granted on 1 August 2007 are held by 5 individual option holders
- 100,000 options granted on 1 August 2008 are held by 5 individual option holders
- 170,000 options granted on 16 November 2010 are held by 7 individual option holders

Options do not carry a right to vote.

### Distribution Of Holders Of Equity Securities

|                  | Total Holders Fully Paid Ordinary Shares | Fully Paid Ordinary Shares | % Issued Capital | Total Holders Options | Options |
|------------------|------------------------------------------|----------------------------|------------------|-----------------------|---------|
| 1 – 1,000        | 559                                      | 253,103                    | 0.23             | -                     | -       |
| 1,001 – 5,000    | 782                                      | 2,178,891                  | 2.00             | -                     | -       |
| 5,001 – 10,000   | 262                                      | 2,013,017                  | 1.85             | -                     | -       |
| 10,001 – 100,000 | 253                                      | 6,426,647                  | 5.90             | 8                     | 336,670 |
| 100,001 and over | 61                                       | 98,038,456                 | 90.02            | -                     | -       |
|                  | 1,917                                    | 108,910,114                | 100.00           | 8                     | 336,670 |

### Substantial Shareholders

| Ordinary Shareholders                      | Fully Paid |            | Partly Paid |            |
|--------------------------------------------|------------|------------|-------------|------------|
|                                            | Number     | Percentage | Number      | Percentage |
| Mr Anthony (Tony) Alford                   | 22,645,452 | 20.8%      | -           | -          |
| Mawer Investment Management Limited        | 14,917,777 | 13.7%      | -           | -          |
| Thorney Holdings Pty Ltd / Thorney Pty Ltd | 7,880,162  | 7.2%       | -           | -          |
| Gotham City Limited                        | 7,000,000  | 6.4%       | -           | -          |
| Brecot Pty Ltd                             | 5,323,462  | 4.9%       | -           | -          |

# ADDITIONAL STOCK EXCHANGE INFORMATION

## AS AT 14 SEPTEMBER 2012

### Twenty Largest Holders Of Quoted Equity Instruments

| Ordinary Shareholders |                                        | Fully Paid |            | Partly Paid |            |
|-----------------------|----------------------------------------|------------|------------|-------------|------------|
|                       |                                        | Number     | Percentage | Number      | Percentage |
| 1.                    | HSBC Custody Nominees                  | 18,073,860 | 16.6%      | -           | -          |
| 2.                    | CGFH C2 Pty Ltd                        | 9,001,959  | 8.3%       | -           | -          |
| 3.                    | JP Morgan Nominees Australia           | 8,498,497  | 7.8%       | -           | -          |
| 4.                    | Thorney Holdings Pty Ltd               | 7,880,162  | 7.2%       | -           | -          |
| 5.                    | Gotham City Limited                    | 7,000,000  | 6.4%       | -           | -          |
| 6.                    | Alfords Holdings (Old) Pty Ltd         | 6,628,359  | 6.1%       | -           | -          |
| 7.                    | Brecot Pty Ltd                         | 5,323,462  | 4.9%       | -           | -          |
| 8.                    | Aust Executor Trustees SA Limited      | 5,103,501  | 4.7%       | -           | -          |
| 9.                    | National Nominees Limited              | 4,489,938  | 4.1%       | -           | -          |
| 10.                   | Citicorp Nominees Pty Ltd              | 4,186,120  | 3.8%       | -           | -          |
| 11.                   | Antra Pty Ltd                          | 3,700,698  | 3.4%       | -           | -          |
| 12.                   | BNP Paribas Noms Pty Ltd               | 2,547,779  | 2.3%       | -           | -          |
| 13.                   | Absolute Investments Australia Pty Ltd | 1,287,509  | 1.2%       | -           | -          |
| 14.                   | AMA Holdings (Old) Pty Ltd             | 1,212,725  | 1.1%       | -           | -          |
| 15.                   | Alicia Jayne Atkinson                  | 1,113,802  | 1.0%       | -           | -          |
| 16.                   | UBS Nominees Pty Ltd                   | 1,098,483  | 1.0%       | -           | -          |
| 17.                   | CSF Investments (QLD) Pty Ltd          | 1,042,870  | 1.0%       | -           | -          |
| 18.                   | FTT Holdings Pty Ltd                   | 941,603    | 0.9%       | -           | -          |
| 19.                   | Risby Investments Pty Ltd              | 882,008    | 0.8%       | -           | -          |
| 20.                   | WSS Holdings (Aust) Pty Ltd            | 868,950    | 0.8%       | -           | -          |
| Total                 |                                        | 90,882,285 | 83.4%      | -           | -          |

| 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 |

