

# RETAILFOODGROUP



---

## A NEW ERA

---

CELEBRATING 10 YEARS OF TRANSFORMATIVE GROWTH, CREATING AUSTRALIA'S PREMIER FOOD & BEVERAGE COMPANY

# ANNUAL REPORT 2016

# Michel's PATISSERIE

MICHEL'S PATISSERIE WAS CREATED BY FRENCH VISIONARY MICHEL CATTOEN, WHO WANTED TO SHARE WITH THE WORLD HIS PASSION FOR EXQUISITE SWEET DELICACIES.

USING EVERY MOUTH-WATERING FLAVOUR HE LEARNED IN THE VERY BEST EUROPEAN KITCHENS, HIS DREAM SOON CAME TO LIFE IN AUSTRALIA.

THE IRRESISTIBLE CAKES, PASTRIES AND SAVOURIES YOU ENJOY TODAY STILL REFLECT FRENCH EXCELLENCE AND HELP TO MAKE EACH MOMENT IN LIFE, NO MATTER HOW BIG OR SMALL EXTRA SPECIAL.

*Bon appétit!*



ELECTRICAL CUPBOARD

# FY16 PERFORMANCE HIGHLIGHTS

**Record FY16 performance demonstrates RFG's aptitude for exploiting its unique business model to deliver remarkable outcomes for shareholders. Undertaking new acquisitive growth in 1Q17 via the acquisition of Hudson Pacific Corporation, the Group has embarked upon a new era as a full service food and beverage company possessed of a truly diverse global platform for lasting success.**

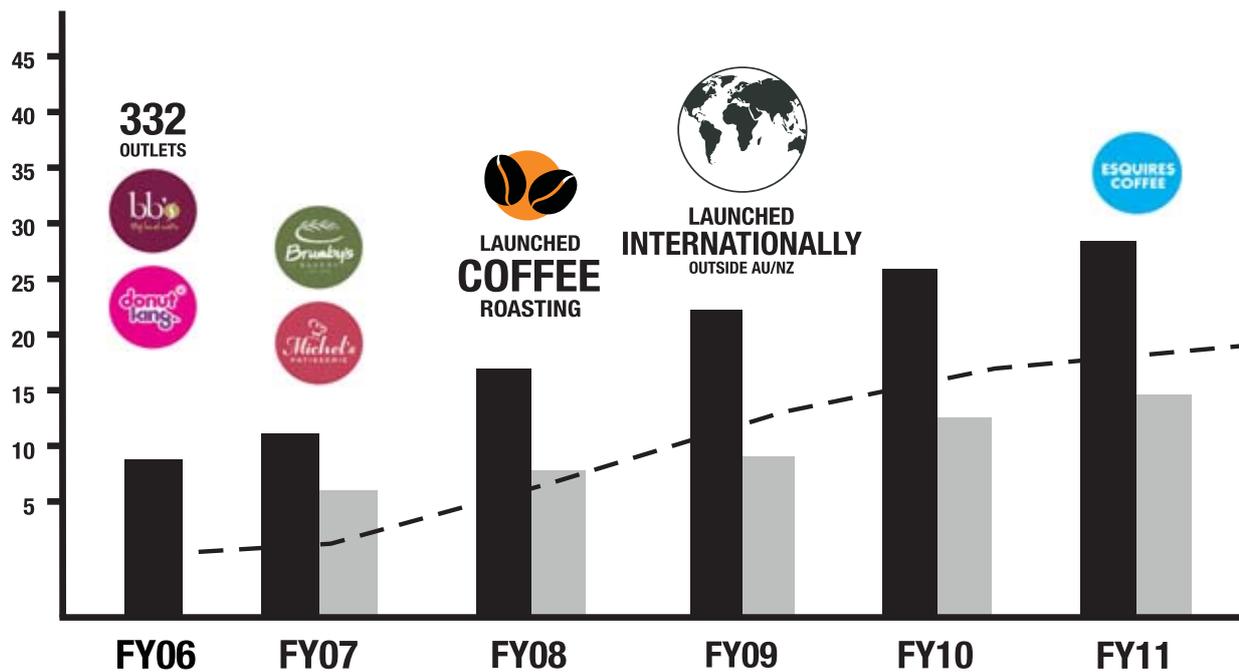
<b>Metric<sup>(1)</sup></b>	<b>FY16</b>	<b>PCP Change</b>		
<b>Revenue<sup>(2)</sup></b>	<b>\$274.6m</b>	<b>+\$64.2m</b>	<b>30.5%</b>	<b>↑</b>
<b>EBITDA</b>	<b>\$110.2m</b>	<b>+\$21.4m</b>	<b>24.0%</b>	<b>↑</b>
<b>NPAT</b>	<b>\$66.4m</b>	<b>+\$11.3m</b>	<b>20.5%</b>	<b>↑</b>
<b>EPS</b>	<b>40.5cps</b>	<b>+4.9cps</b>	<b>13.7%</b>	<b>↑</b>
<b>Dividends</b>	<b>27.5cps</b>	<b>+4.25cps</b>	<b>18.3%</b>	<b>↑</b>
<b>Global Outlets</b>	<b>2,530</b>	<b>+84</b>	<b>3.4%</b>	<b>↑</b>

(1) Underlying Results (2) Reported revenue less revenue associated with marketing pursuits

# A DECADE OF SUCCESS HAS LAID THE PLATFORM FOR A NEW ERA OF GROWTH

  
CENTS PER SHARE

  
**ASX LISTING:  
JUNE 2006**



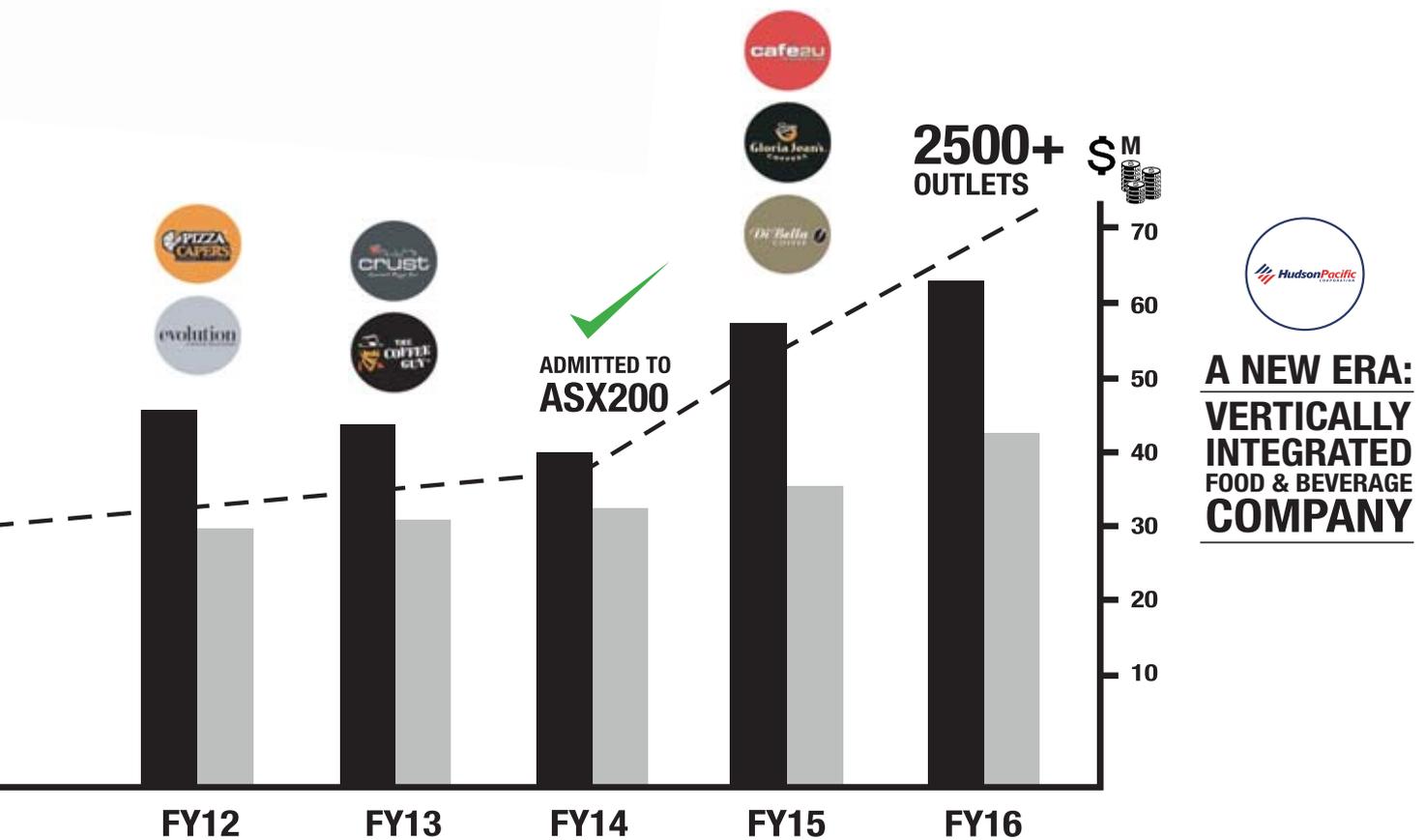
■ EPS ■ DIVIDEND - - - NPAT

EXCEPTIONAL  
**CAGR**  
**GROWTH**  
SINCE LISTING

EBITDA: **27.2%**  
NPAT: **27.4%**  
EPS: **16.2%**  
DIVIDENDS: **17.9%**  
GLOBAL OUTLETS: **22.5%**

**20** CONSECUTIVE BI-ANNUAL  
**DIVIDEND INCREASES**

LEADING VERTICALLY INTEGRATED  
**GLOBAL ORGANISATION** ↑



“Having established and enhanced a diverse and global platform for growth which delivered record FY16 outcomes, recently complemented by a multi-faceted acquisition resplendent with opportunity, RFG has embarked upon a new era as a genuine full service food and beverage company.”

– Colin Archer | Chairman, Retail Food Group Limited



RECORD NPAT

**\$66.4m**

**20.5%**

INCREASE ON FY15

RECORD DIVIDENDS

**27.5cps**

**18.3%**

INCREASE ON FY15

**CHAIRMAN**

Since its June 2006 Listing on the ASX, Retail Food Group has delivered shareholders exceptional outcomes whilst simultaneously investing in the creation of a diversified and global operating platform. FY16's record performance illustrated the Company's adeptness for exploiting this platform, and represents an outstanding bookend to a remarkable decade of growth.

During FY16, each of the Company's business units contributed to underlying record EBITDA of \$110.2m, which translated to a Net Profit After Tax (NPAT) of \$66.4m, a 20.5% increase on the prior corresponding period, and also a record for the Company.

These outcomes distilled to RFG's strongest final dividend yet, of 14.5 cents per share, the Company's 20th consecutive bi-annual dividend increase, and contributed to full year FY16 dividends of 27.5 cents per share, an 18.3% increase on FY15.

Whilst achieving the foregoing, RFG also realised several other milestones, including the acquisition of a site to house its future global headquarters, increasing its global footprint to 2,530 outlets across 69 international territories, establishing its inaugural powders manufacturing facility, and growing annualised Coffee & Allied Beverage throughput circa 5% to 6.2m kilograms.

As well, RFG outperformed in the delivery of synergistic benefits realised from those assets acquired in FY15, with the Cafe2U, Gloria Jean's Coffees and Di Bella Coffee groups having contributed \$45.8m to underlying FY16 EBITDA, some 31% in excess of guidance. Not only does this result validate the case for prudent strategic M&A activity, it evidences RFG's new business integration capability and aptitude for growing acquired assets.

This skillset will again be applied throughout FY17 and beyond, following the Company's recent acquisition of Hudson Pacific Corporation.

Incorporating a leading Victorian procurement, warehousing and distribution business, a state-of-the-art dairy value-add facility, and a central bakery manufacturing plant, Hudson Pacific Corporation offers a multitude of synergistic and vertical integration opportunity across the full breadth of RFG's existing business.

Indeed, this transaction genuinely positions the Company as a full service food and beverage company, heralding a new era of growth as RFG embarks on the next chapter of its journey as a Listed organisation.

At this juncture, it is appropriate to recognise, thank and congratulate former RFG Managing Director Tony Alford, who seamlessly transitioned executive management of the Company to Andre Nell at the conclusion of FY16.

Tony's contribution to RFG's success over the past two decades has been immense. Having led the Company's transformation from an obscure franchisor to a diversified, vertically integrated and global food and beverage company, his incredible vision and passion not only for RFG but its Brand Systems, franchise partners and customers, has driven extraordinary outcomes whilst establishing the foundation for future success.

It is also appropriate to extend thanks and appreciation to RFG's high calibre executive management, passionate team members, complement of dedicated master franchise and franchise partners, and loyal wholesale customers, each of whom represent irreplaceable cogs in a high performance engine driving remarkable outcomes for all stakeholders.

In closing, on behalf of the Board and executive management team, I would also like to take this opportunity to thank you, RFG's shareholders, for your ongoing support of the Company and its vision to create opportunities for success globally.

Yours sincerely



COLIN ARCHER

# 'S LETTER

# 815 CORPORATE EMPLOYEES ACROSS THE GLOBE

MAJOR OFFICES IN **BRISBANE, GOLD COAST, SYDNEY  
MELBOURNE, AUCKLAND & LOS ANGELES**

**OVER \$1.7m DONATED**  
TO CHARITIES SINCE LISTING IN 2006



# CREATING A DYNAMIC GLOBAL WORKFORCE SUPPORTING THE COMMUNITIES IN WHICH WE OPERATE



## A TRANSFORMATIONAL JOURNEY

During FY16, Retail Food Group celebrated its ten year anniversary as a Listed company with the delivery of record financial outcomes and the realisation of several key achievements.

As is the case with any milestone of significance, the Company's celebrations gave pause for reflection - in this case - on the transformative journey RFG embarked upon in 2006, and on the core attributes that have driven the Group's remarkable performance throughout this period.

When RFG Listed on the ASX, it was the steward of two Brand Systems and a largely domestic network that numbered circa 330 outlets.

Today, the Company's network population exceeds 2,500 outlets amongst 12 Brand Systems, spanning 69 international licensed territories.

Following establishment of putative coffee roasting operations in 2008, the Company now boasts four state-of-the-art coffee roasting facilities across Australia, New Zealand and the United States, which, together with RFG's inaugural powders facility, contribute to annualised Coffee & Allied Beverage throughput of circa 6.2m kilograms.

Further, RFG's operations are no longer confined to the franchising sector, with the Company now servicing some 3,000 wholesale and foodservice customers amongst its specialty coffee and commercial divisions, including significant dairy value-add and central bakery undertakings.

The foregoing comments evidence RFG's evolution as a business over the past decade.

They do not, however, speak to the Company's continued motivation to realise new opportunities and open new markets, to evolve and innovate, to harness scale and leverage, and to convert an innate passion for success into enhanced outcomes for each of its stakeholders.

Over the course of the past decade, RFG has created a diversified, vertically integrated, international platform for growth, underpinned by a commitment to excellence aligned to the Company's vision to create compelling opportunities for success globally.

It is a platform and commitment which has not only delivered outstanding outcomes in the past, but which also sets a strong foundation for future success.

## RECORD FINANCIAL PERFORMANCE

Consistent with guidance and for the tenth consecutive year since Listing, RFG delivered shareholders record underlying FY16 Net Profit After Tax (NPAT) of \$66.4m, an increase of 20.5% over the previous corresponding period (PCP).

The Company's strong profit result was underpinned by a 24% increase in underlying FY16 Group EBITDA to \$110.2m, which reflected a realisation of strategic initiatives implemented across the Company's increasingly diverse and global business.

Of particular note, FY16 Divisional EBITDA performance best illustrates the transformation

in RFG's business model, with international and coffee operations having contributed in excess of 50% to the Group's consolidated EBITDA result. Not only does this outcome demonstrate the growing diversification of RFG's revenue streams across an increasingly global business, it emphasises the myriad platforms upon which RFG can sustain and enhance future performance.

As well, the FY16 growth in Group revenues has distilled to a circa 89% increase in net operating cash flow, to \$65.5m, while maintaining a strong EBITDA cash conversion ratio exceeding 90%.

# MANAGING DIRECTOR'

## SHAREHOLDER REWARDS

These impressive outcomes translated into underlying Earnings per Share (EPS) growth of 13.7%, to 40.5 cents per share, together with an exceptional final dividend of 14.5 cents per share, which reflected a 23.4% increase on PCP.

Representing RFG's 20th consecutive bi-annual dividend increase for shareholders, the final dividend contributed to FY16 full year dividends

of 27.5 cents per share, an 18.3% increase on FY15 and also a record for the Company.

Balancing shareholder rewards with investment in organic and acquisitive growth, the Company's FY16 dividends reflected a prudent payout ratio of 67.9%.



“Following a decade of transformational growth, RFG embarks on the next chapter of its journey with a vision to create compelling opportunities for success globally, leveraging its status as a genuine international food and beverage company possessed of a diverse and vertically integrated business model unique amongst its peers.”

– **Andre Nell | Managing Director, Retail Food Group Limited**

# S REPORT

## NETWORK GROWTH

During FY16 RFG surpassed its 2,500th outlet milestone, concluding the financial year with an incredible 2,530 commissioned outlets across a network now spanning five continents.

This is a tremendous achievement, driven by organic and acquisitive growth which has resulted in network population over the past two financial years increasing by 76%, or 1,093 new outlets.

Pleasingly, the establishment of RFG's dedicated International Division has facilitated enhanced traction vis-a-vis growing the Company's global reach, including via the FY16 grant of new Master Licences across Europe, the Middle East, Asia and the Pacific, and as well, has provided increased collaborative support to an engaged international network which contributed circa 57% to RFG's new outlet commissionings for FY16.

These outcomes bear testimony to the continuing relevance of RFG's iconic Brand Systems, impressive new store concepts, compelling franchise offer and strong new candidate pipeline.

<b>TOP 5 MARKETS</b> (NEW OUTLETS)	AUSTRALIA	112
	TURKEY	20
	CHINA	18
	UK	14
	MALAYSIA	14

---

FRANCHISE NETWORK SPANNING  
**5 CONTINENTS**

---

HEALTHY COMMUNITY  
**452** RESALES &  
RENEWALS

CIRCA **26%** OF **DOMESTIC NETWORK**  
**RENEWED OR TRANSFERRED** THEIR  
FRANCHISE TO AN **APPROVED PARTNER**

## OPERATIONAL PERFORMANCE

Positive FY16 EBITDA growth amongst each of the Company's Franchise Divisions evidenced strong performance, highlighted by a 17.2% increase in FY16 EBITDA Contribution Per Outlet (CPO) to \$44.5K. These outcomes were particularly satisfying as they:

- Demonstrate the enhanced efficiencies, divisional scale and cross-pollination of resources and expertise arising from FY16 consolidation of RFG's Brand Systems amongst the Bakery/Café, Coffee Retail and QSR Divisions;
- Evidence the improved quality of Group earnings; and
- Validate the Company's resolve to embark upon network consolidation activity during FY15.

At an outlet level, robust new product development and innovative marketing activity driven by enhanced business intelligence and digital capabilities drove positive weighted Average Transaction Value (ATV) and Same Store Sales (SSS) growth across RFG's Brand Systems of 3.2% and 1.7% respectively.

These outcomes have been achieved in the absence of RRP discounting, maintaining franchisee margins, and within the confines of a highly competitive market, further evidencing the strength of RFG's Brand Systems, their high quality retail offer and continuing appeal to consumers.

As well, the FY16 grant of Network Management Rights in connection with the domestic Gloria Jean's Coffees drive thru network illustrates the Company's resolve to explore new revenue opportunities and licensing structures to more ably support its franchisee population whilst nurturing growth.

# MANAGING DIRECTOR'

## COFFEE & ALLIED BEVERAGE

The Company's Coffee & Allied Beverage Division celebrated a number of milestones throughout FY16, having commissioned the Group's inaugural powders manufacturing plant, launched the Di Bella Coffee label in North America, consolidated its green bean sourcing activities, and introduced the Caffitaly Professional capsule machine program.

These successes contributed to 5.1% growth in annualised throughput to circa 6.2m kilograms, an

outcome which was also assisted by a 14% increase in volume supplied to the Company's expanding international network during FY16.

RFG remains steadfastly focused on enhancing its coffee credentials, product offering and roasting capability across multiple distribution channels including franchise, wholesale, speciality, contract and 'in home'.

## ASSET INTEGRATION & ACQUISITION OPPORTUNITY

pleasingly, integration and synergy extraction in connection with each of the Cafe2U, Gloria Jean's Coffees and Di Bella Coffee groups was successfully completed during FY16. Of note, these assets represented a combined \$45.8m contribution to underlying FY16 Group EBITDA, surpassing guidance by circa 31% and driving a return on invested capital of 19%.

Not only do these outcomes demonstrate RFG's strong acquired asset integration capability and skillset, they validate the Company's business model and organisational structure whilst also positioning the Group for further M&A activity.

That opportunity was realised in 1Q17 following the Company's acquisition of Hudson Pacific Corporation (HPC), comprising the Hudson Pacific Food Service, Dairy Country and Bakery Fresh businesses.

The acquisition satisfies each of the Group's core investment criteria and completes RFG's evolution into a genuine full service food and beverage company. As well, it enables the immediate establishment of a dedicated Commercial Division committed to realising the plethora of near and longer term opportunities offered via alignment of HPC's business with RFG's existing growth platforms, franchisee community and wholesale customer base.

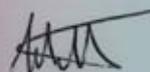
HPC is not an end in itself. To the contrary, it represents a significant entry into the foodservice sector to be complemented by additional organic and acquisitive activity, such that RFG establishes a strong presence within this sphere of operation, initially throughout Australia, and in due course, internationally.

## FOOD & BEVERAGE LEADER

RFG maintains a robust platform for future success which, whilst a decade in the making, has been significantly enhanced over the course of the past 24 months. Indeed, the Group has not previously exhibited such profound growth opportunity, nor had at its disposal the skills, experience and expertise now encapsulated within its Board of Directors, senior management team and broader ranks.

As was the case on Listing in 2006, it is with considerable optimism that RFG looks to the future, resolute in pursuit of enhanced outcomes for its franchise partners, master franchise partners, wholesale customers, team members and shareholders.

Yours sincerely



ANDRÉ NELL

# S REPORT

**2,500+**  
FRANCHISED OUTLETS

RECORD NET OUTLET  
GROWTH OF **84**

**69 LICENSED**  
INTERNATIONAL TERRITORIES

**RECORD 258**  
NEW OUTLET COMMISSIONINGS



## BAKERY/CAFÉ

**T**he Donut King, Michel's Patisserie and Brumby's Bakery Brand Systems are icons within the Australian retail food sector, having supplied customers with quality treats, beverages and baked goods for over two decades.

Evidencing the benefits of the Company's FY15 consolidation program, each Brand System enjoyed growth on the basis of Contribution Per Outlet (CPO) to Group EBITDA in FY16.

Taking advantage of increased efficiencies, divisional scale, cross-pollination of resources and expertise arising out of their consolidation within the Bakery/Café Division, together with strong product development and innovative customer engagement strategies, each of these Brand Systems have acquired additional attributes to sustain relevance and by extension profitability.

# FRANCHIS



## COFFEE RETAIL

Gloria Jean's Coffees' global network has thrived under RFG's stewardship with new licenses granted for the Brand System in Iran, Myanmar, Georgia, Macedonia, Bulgaria, Serbia, Slovenia, Croatia and Montenegro during FY16, along with a spate of new outlet openings across the globe.

Celebrating 20 years in Australia in 2016, the Brand System remains focused on continued beverage innovation whilst expanding its food offering to grow share of market. Resolute in

its commitment to maintain a market leading position in the café sector, a new concept store will be unveiled during FY17 to fortify the network. This platform is complemented by the FY16 grant of Network Management Rights for the domestic Gloria Jean's Coffees drive thru network, which facilitates accelerated proliferation of the drive thru model, enhanced franchisee support structures and a platform for further domestic licensing opportunities across the Group.

Rounding out the Coffee Retail Division, the Cafe2U and The Coffee Guy Brand Systems continue to enjoy market leadership across the Australian and New Zealand mobile coffee markets, leveraging strategic product innovation and differentiated marketing tactics to drive enhanced performance and the penetration of new markets.



## QSR



Crust Gourmet Pizza Bar and Pizza Capers Gourmet Kitchen continue to make strong headway within the highly competitive QSR sector, growing contribution to FY16 Group EBITDA by 13.8% to \$14.7m.

During FY16, the QSR Division enjoyed strong ATV growth of 4.7%, driven by a continued focus on each Brand System's gourmet, premium offer,

without resorting to the destructive strategy of price discounting and permanent RRP reductions.

With a range of innovative marketing campaigns, exciting new product initiatives and engaging digital programs in train for FY17, the Brand Systems are well able to maintain their premium pricing and quality characteristics.

E

# COFFEE & ALLIED BEVERAGE

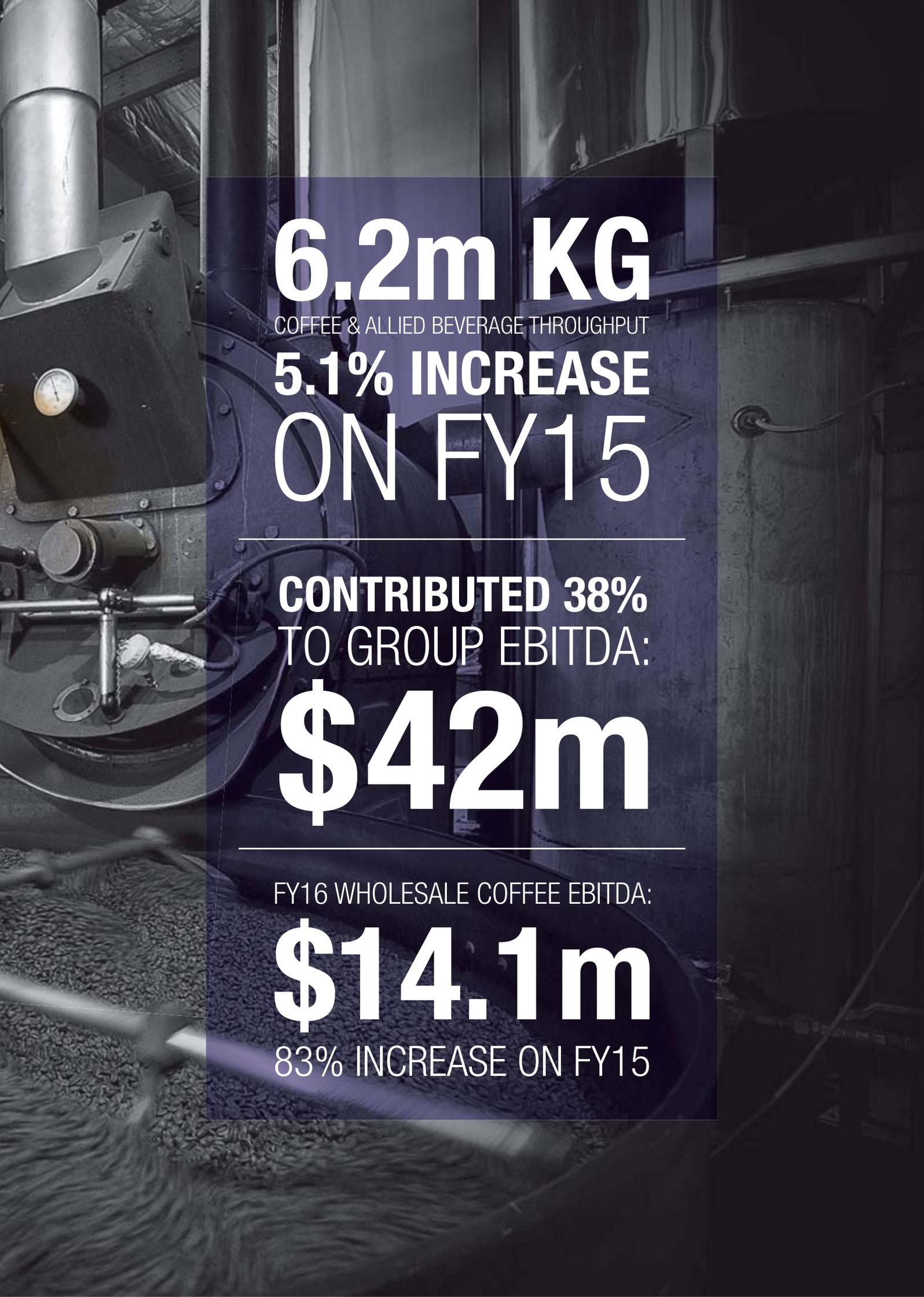
**T**he Group's vertically integrated Coffee & Allied Beverage operations continued to thrive throughout FY16.

RFG's inaugural powders manufacturing facility was commissioned in 2H16 and is now supplying Brand Systems with the Company's proprietary drinking chocolate blends, further diversifying Group revenues whilst ensuring enhanced product quality, consistency and traceability.

Consolidation of the Group's green bean sourcing activities also delivered efficiencies, insulating franchise partners and wholesale customers against

commodity price fluctuations whilst opening up new micro-roaster sales opportunities. As well, the Di Bella Coffee brand was introduced into the North American market and the Group's Caffitaly Professional Capsule program launched.

With a robust vision, clear strategy and experienced team, the Coffee & Allied Beverage Division is ideally primed for further organic growth and well positioned to leverage opportunities arising from RFG's global footprint and acquisitive activity.



**6.2m KG**

COFFEE & ALLIED BEVERAGE THROUGHPUT

**5.1% INCREASE  
ON FY15**

---

**CONTRIBUTED 38%  
TO GROUP EBITDA:**

**\$42m**

---

FY16 WHOLESALE COFFEE EBITDA:

**\$14.1m**

**83% INCREASE ON FY15**

# INTERNATIONAL



TURKEY SURPASSED  
**50 OUTLETS**

NEW LICENSE  
*GRANTED FOR*  
**DONUT KING  
IN IRAN**

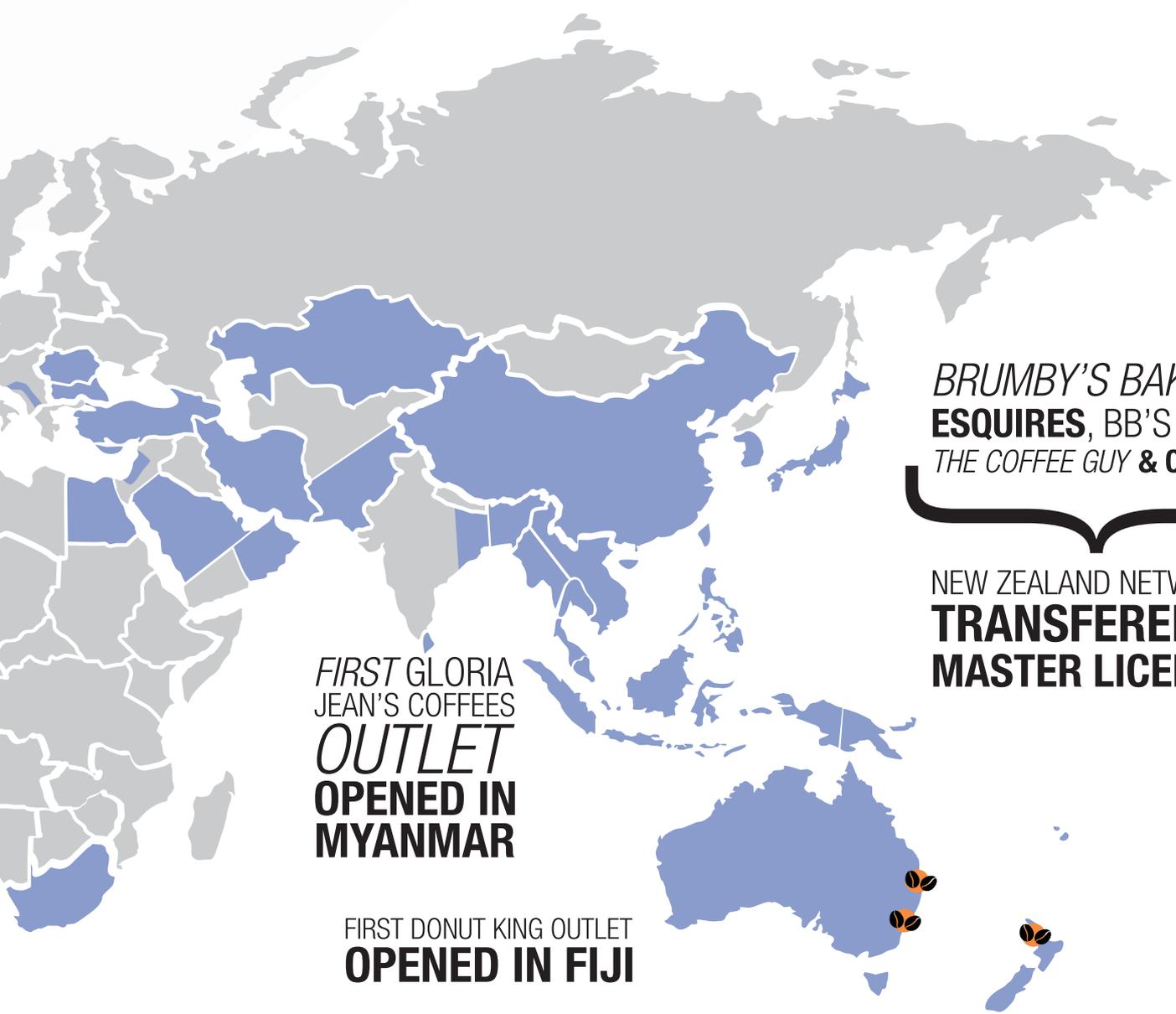
## LEGEND

 **RFG LICENSED TERRITORIES**

 **RFG ROASTING FACILITIES**

**NEW LICENSES  
GRANTED FOR**  
GLORIA JEAN'S COFFEES IN

*CROATIA* **MACEDONIA**  
**IRAN** *MYANMAR*  
**BULGARIA** *GEORGIA*  
*SERBIA* **SLOVENIA**  
**MONTENEGRO**



*FIRST* GLORIA  
JEAN'S COFFEES  
**OUTLET  
OPENED IN  
MYANMAR**

FIRST DONUT KING OUTLET  
**OPENED IN FIJI**

*BRUMBY'S BAKERY,*  
**ESQUIRES,** BB'S CAFE,  
*THE COFFEE GUY & CAFE2U*

NEW ZEALAND NETWORKS  
**TRANSFERRED TO  
MASTER LICENSEE**



**HudsonPacific**  
CORPORATION

**E**xpediting RFG's evolution into a full service food and beverage company, the acquisition of Hudson Pacific Corporation provided a catalyst for establishment of a dedicated and newly resourced Commercial Division that now forms an integral pillar of RFG's growth platform.

Offering sizeable opportunity across the entirety of RFG's operational model, including franchise and wholesale, the acquisition satisfies each of RFG's core investment criteria and delivers a significant step change in terms of procurement expertise, whilst adding meaningful warehouse, distribution and vertical integration capability.

# COMMERCIAL

# CONTENTS

<b>SUMMARY FINANCIAL INFORMATION</b>	<b>1</b>
<b>CORPORATE DIRECTORY</b>	<b>2</b>
<b>DIRECTORS' REPORT</b>	<b>3</b>
<b>DIRECTORS' DECLARATION</b>	<b>20</b>
<b>AUDITOR'S INDEPENDENCE DECLARATION</b>	<b>21</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>22</b>
<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>	<b>24</b>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>25</b>
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	<b>26</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>27</b>
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	<b>28</b>
<b>ADDITIONAL STOCK EXCHANGE INFORMATION</b>	<b>73</b>

# SUMMARY FINANCIAL INFORMATION

Item	REPORTED					UNDERLYING OPERATIONS <sup>(1)</sup>	
	FY12	FY13	FY14	FY15	FY16	FY15	FY16
<b>Financial</b>							
Underlying Revenue <sup>(2)</sup>	\$101.9m	\$117.0m	\$128.8m	\$210.4m	\$274.6m		
EBITDA	\$48.4m	\$53.8m	\$59.1m	\$59.4m	\$103.7m	\$88.8m	\$110.2m
EBIT	\$47.5m	\$52.8m	\$57.5m	\$55.7m	\$97.2m	\$85.3m	\$104.2m
NPAT	\$28.5m	\$32.0m	\$36.9m	\$34.2m	\$61.3m	\$55.1m	\$66.4m
Basic EPS	26.4 cps	26.0 cps	26.5 cps	22.1 cps	37.4 cps	35.6 cps	40.5 cps
Dividend	17.5 cps	19.75 cps	22.00 cps	23.25 cps	27.50 cps		
<b>Operating Performance</b>							
Underlying Revenue Growth	(7.4%)	14.8%	10.1%	63.4%	30.5%		
EBITDA Growth	5.4%	11.2%	9.8%	0.5%	74.7%	50.2%	24.0%
EBIT Growth	5.3%	11.3%	8.9%	(3.1%)	74.5%	48.3%	22.1%
NPAT Growth	4.9%	12.1%	15.2%	(7.2%)	79.1%	49.3%	20.5%
Basic EPS Growth	3.9%	(1.5%)	1.9%	(16.6%)	69.0%	34.3%	13.7%
Outlets	1,251	1,374	1,434	2,446	2,530		

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

**EBIT - REPORTED**

Acquisition transaction and integration costs (including restructuring costs)

**EBIT - UNDERLYING OPERATIONS**

NPAT results from 'Underlying Operations'

**NPAT - REPORTED**

Post-tax impact of non-underlying EBIT adjustments

**NPAT - UNDERLYING OPERATIONS**

Underlying EBIT & Underlying NPAT are non-IFRS profit measures used by Directors and Management to assess the underlying performance of the Group. These figures are not subject to audit.

	FY15	FY16
EBIT - REPORTED	\$55.7m	\$97.2m
Acquisition transaction and integration costs (including restructuring costs)	\$29.6m	\$7.0m
EBIT - UNDERLYING OPERATIONS	\$85.3m	\$104.2m
NPAT - REPORTED	\$34.2m	\$61.3m
Post-tax impact of non-underlying EBIT adjustments	\$20.9m	\$5.1m
NPAT - UNDERLYING OPERATIONS	\$55.1m	\$66.4m

(2) Underlying Revenue excludes revenue associated with marketing pursuits including:

- i. Revenue derived from marketing activities (FY16: \$31.0, FY15: \$30.7m; FY14: \$34.1m; FY13: \$24.0m; FY12: \$14.5m); and
- ii. Revenue derived from warehousing and distribution activities (FY16: \$4.4m; FY15: \$6.4m, FY14: \$5.5m; FY13 and Prior: \$nil)

<b>Directors</b>	<p>Mr Anthony (Tony) Alford Executive Managing Director (to 30 June 2016) Non-Executive Non-Independent Director (from 1 July 2016)</p> <p>Mr Andre Nell Executive Managing Director (from 1 July 2016)</p> <p>Mr Colin Archer Chairman and Independent Non-Executive Director</p> <p>Ms Jessica Buchanan Independent Non-Executive Director</p> <p>Mr Stephen Lonie Independent Non-Executive Director</p> <p>Ms Kerry Ryan Independent Non-Executive Director (from 27 August 2015)</p> <p>Mr Russell Shields Independent Non-Executive Director (from 18 December 2015)</p>
<b>Company Secretary</b>	<p>Mr Anthony Mark Connors (Bachelor of Laws, Solicitor of the Supreme Court of Queensland, Member of the Queensland Law Society and an affiliate member of the Governance Institute of Australia)</p>
<b>Registered office</b>	<p>RFG House 1 Olympic Circuit Southport QLD 4215</p>
<b>Principal Place Of Business</b>	<p>RFG House 1 Olympic Circuit Southport QLD 4215</p>
<b>Share register</b>	<p>Computershare Investor Services 117 Victoria Street, West End Brisbane QLD 4101</p>
<b>Solicitors</b>	<p>McCullough Robertson Lawyers Level 11, 66 Eagle Street Brisbane QLD 4000</p>
<b>Auditors</b>	<p>Deloitte Touche Tohmatsu Level 25, 123 Eagle Street Brisbane QLD 4000</p>
<b>Bankers</b>	<p>National Australia Bank Limited Level 20, 100 Creek Street Brisbane QLD 4000</p> <p>Westpac Banking Corporation Level 7, 260 Queen Street Brisbane QLD 4000</p>
<b>Stock exchange listings</b>	<p>Retail Food Group Limited (ASX: RFG) shares are listed on the Australian Securities Exchange</p>
<b>Website Address</b>	<p><a href="http://www.rfg.com.au">www.rfg.com.au</a></p>

# DIRECTORS' REPORT

## Overview

The Directors of Retail Food Group Limited (referred to hereafter as the Company) submit herewith the Annual Report of the Company for the financial year ended 30 June 2016 in accordance with the provisions of the *Corporations Act 2001*.

## Information about the Directors

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

Name	Particulars
Mr Anthony (Tony) Alford	Non-Independent Non-Executive Director, Bachelor of Business (Accountancy), CPA and CTA. Mr Alford joined the Board on 28 October 2003. Mr Alford was a Chartered Accountant and has in excess of 20 years' experience in public practice. Mr Alford commenced his involvement with Retail Food Group Limited in 1994 in an advisory role, thereafter becoming the Group Financial Controller. Mr Alford was appointed Executive Managing Director of the Group in December 1999, a position held until his transition to Non-Executive (non-independent) Director on 1 July 2016.
Mr Andre Nell	Executive Managing Director. Mr Nell joined the Board on 1 July 2016. Mr Nell commenced his involvement with Retail Food Group Limited in 2007 as part of the Michel's Patisserie acquisition and has since held a variety of key roles within the Company, including Head of Commercial, Chief Operating Officer and Chief Executive Officer – Franchise prior to his appointment to Managing Director on 1 July 2016. Mr Nell is a Chartered Accountant and has a wealth of experience in the successful operation and expansion of franchise networks internationally.
Mr Colin Archer	Independent Non-Executive Director and Chairman, Bachelor of Economics, Dip. Financial Planning, Chartered Accountant. Mr Archer joined the Board on 12 April 2006 and was appointed as Chairman of the Board on 30 April 2013. Mr Archer is a member of the Company's Audit and Risk Management Committee and Chairman of the Nominations and Remuneration Committees. Mr Archer was re-elected to the Board at the Company's AGM held on 25 November 2014, following retirement by rotations.
Ms Jessica Buchanan	Independent Non-Executive Director. Ms Buchanan joined the Board on 29 May 2012. Ms Buchanan has over 14 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. Ms Buchanan was re-elected to the Board at the Company's AGM held on 29 November 2013, following retirement by rotations.
Mr Stephen Lonie	Independent Non-Executive Director, Bachelor of Commerce, MBA, FCA, FFin, FAICD, FIMCA. Mr Lonie joined the Board on 24 June 2013. Mr Lonie is a Chartered Accountant by profession and director of listed corporations, MyState Limited and Corporate Travel Management Limited. Mr Lonie is the Chairman of the Company's Audit and Risk Management Committee and a member the Nomination and Remuneration Committee. Mr Lonie was elected to the Board at the Company's AGM held on 29 November 2013, following retirement by rotations.
Ms Kerry Ryan	Independent Non-Executive Director, Bachelor of Laws and a Bachelor of Arts (having a major in international relations). Ms Ryan joined the Board on 27 August 2015. Ms Ryan has extensive experience across international markets in the retail and franchise industries, is a Director of CPA Australia and Richmond Football Club, and serves on the Advisory Board of LEXVOCO, a legal services business. Ms Ryan is a member of the Law Institute of Victoria and the Australian Institute of Company Directors. Ms Ryan is a member of the Company's Audit and Risk Management Committee.
Mr Russell Shields	Independent Non-Executive Director, Fellow of The Australian Institute of Company Directors, Senior Fellow of Finsia, Director of Eclipx, Aquis Entertainment and consultant to Savills. Mr Shields joined the Board on 18 December 2015. Mr Shields is an experienced banker with extensive knowledge of retail, corporate, institutional and investment banking both in Australia and Asia. Mr Shields has in excess of 35 years' experience in the finance, economics and property industries.

## 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 Stephen Lonie	Corporate Travel Management Limited	23 June 2010 to present
	MyState Limited	12 December 2011 to present
	Dart Energy Limited	26 November 2013 to 15 October 2014
Mr Russell Shields	Aquis Entertainment Limited	7 August 2015 to present
	Eclix Group Limited	24 March 2015 to present

## Directors' shareholdings

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

Directors	Fully paid ordinary shares Number	Performance rights Number
Mr Andre Nell	12,102	-
Mr Anthony (Tony) Alford	19,635,758	-
Ms Jessica Buchanan	23,256	-
Mr Colin Archer	375,578	-
Mr Stephen Lonie	49,929	-
Ms Kerry Ryan	10,000	-
Mr Russell Shields	-	-

## Remuneration of Directors and Key Management Personnel

Information about the remuneration of Directors and Key Management Personnel is set out in the Remuneration Report of this Directors' Report.

### Share options granted to Directors and senior executive management

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

### Performance rights granted to Directors and senior executive management

Performance Rights were granted to senior executive management on 14 July 2016 under the Performance Rights Plan with respect to the FY16, FY17 & FY18 performance periods.

## Directors' meetings

The following table sets out the number of Directors' meetings, including meetings of Committees of Directors, held during the financial year and the number of meetings attended by each Director, while they were a Director or Committee member. During the financial year, 14 Board meetings, 4 Audit and Risk Management Committee meetings, 4 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 Anthony (Tony) Alford	14	14	-	-	-	-	-	-
Mr Colin Archer	14	14	4	4	4	4	3	3
Ms Jessica Buchanan	14	13	1	1	4	4	3	3
Mr Stephen Lonie	14	14	4	4	4	4	3	3
Ms Kerry Ryan	12	11	3	3	-	-	-	-
Mr Russell Shields	7	7	-	-	-	-	-	-

# DIRECTORS' REPORT

## Directors' meetings (continued)

### Company Secretary

The Company Secretary is Mr Anthony Mark Connors. Mr Connors was appointed as Company Secretary on 26 April 2006, having prior to that time and until 2 June 2015 acted as the Company's Legal Counsel. Mr Connors also held the role of Chief Operating Officer, from 2 June 2015 to 9 March 2016 until he was appointed to Director of Corporate Services on the 10th of March 2016.

### Corporate governance

The Company is committed to achieving and demonstrating the highest standards of corporate governance. The Company has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council. The 2016 Corporate Governance Statement is dated as at 30 June 2016 and reflects the corporate governance practices in place throughout the 2016 financial year. The FY16 Corporate Governance Statement was approved by the Board on 25 August 2016. A description of the Group's current Corporate Governance Practices is set out in the Group's Corporate Governance Statement which can be viewed at [www.rfg.com.au](http://www.rfg.com.au).

### Principal activities

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

- Intellectual Property ownership of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Cafe2U, Gloria Jean's Coffees, It's A Grind and Di Bella Coffee Brand Systems;
- Development and management of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses, Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Cafe2U, Gloria Jean's Coffees, It's A Grind and Di Bella Coffee Brand Systems throughout the world, whether directly managed and/or as licensor for all Brand Systems excluding Esquires Coffee Houses; and
- Development and management of coffee roasting facilities and the wholesale supply of coffee and allied products to existing Brand Systems and third party accounts under the Evolution Coffee Roasters Group, Caffe Coffee, Roasted Addition, Barista's Choice and Di Bella Coffee brands.

### 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 as detailed herein.

## Review of operations and financial condition

### Group overview

The following table summarises the Group's results for the financial years ending 30 June 2016 and 30 June 2015:

Item	FY16	FY15	Change
Underlying Revenue <sup>(1)(2)</sup>	\$274.6m	\$210.4m	\$64.2m
EBITDA (Underlying) <sup>(2)</sup>	\$110.2m	\$88.8m	\$21.4m
EBITDA	\$103.7m	\$59.4m	\$44.3m
NPAT (Underlying) <sup>(2)</sup>	\$66.4m	\$55.1m	\$11.3m
NPAT	\$61.3m	\$34.2m	\$27.1m
EPS (Underlying) <sup>(2)</sup>	40.50 cps	35.60 cps	4.90 cps
EPS	37.40 cps	22.10 cps	15.30 cps
Dividend per Share (DPS)	27.50 cps	23.25 cps	4.25 cps

(1) Underlying Revenue excludes revenue derived from marketing activities (FY16: \$35.4m; FY15: \$37.1m).

(2) These figures are not subject to audit.

The result for the year ended June 2016 reflects a solid performance from the Group's Cash Generating Units (CGU's), full year contributions from the Café2U, Gloria Jean's Coffees and DiBella Coffee acquisitions, which occurred during the 2015 financial year, and the benefits from organisational restructuring activities undertaken as a consequence of acquisition activity.

Underlying Revenue (excluding marketing related receipts) for FY16 was \$274.6 million, representing a 30.5% increase (or \$64.2 million) on the prior corresponding period (PCP). The increase in underlying revenue is primarily attributable to the following factors:

- A \$35.3 million (or 58%) increase in contribution from Coffee Retail Systems to \$95.5million, which includes full year contribution from the FY15 Gloria Jean's Coffees and Cafe2U acquisitions; and
- A \$31.9 million (or 77%) increase in contribution from Coffee and Allied Beverage to \$73.2 million, which includes full year contributions from the FY15 Roasting Australia Holdings and DiBella Coffee acquisitions.

The 24.0% Underlying EBITDA growth and 20.5% Underlying NPAT growth was predominantly attributable to positive contributions from FY15 acquisitions, synergistic benefits from restructuring and integration activities, organic new outlet growth, sale of Master Franchise Licences and scale benefits realised in the Group's coffee roasting activities.

Underlying EPS of 40.5 cps represented a 13.7% increase on PCP. The FY16 full year Dividend increased 18.3% to 27.5 cps.

Underlying EBITDA and Underlying NPAT for FY16 excludes \$7.0 million (pre-tax) in acquisition integration costs and corporate restructuring activities, including \$4.6m of costs more particularly detailed in the Group's Market Presentation of the 2nd June 2015. The FY16 costs excluded from Underlying EBITDA include \$2.4 million of restructuring costs associated with, establishment of the Sales and Performance department, discontinuation of redundant operations, and the closure of the New Zealand national office and discontinuation of associated franchise servicing activities.

### Financial Position and Cash Flows

Net Assets of \$434.2 million have increased by \$30.5 million (or 7.6%) from 30 June 2015. Total assets have increased by \$21.6 million primarily due to investment in Property, plant and equipment, Other Financial assets, an increase in Intangible Asset carrying values attributable to movements in foreign exchange, and an increase in receivables.

Total liabilities have reduced by \$8.9 million primarily attributable to a reduction in trade payables consistent with the reduction in corporate outlets traded, a reduction in provisions raised in FY15 with respect of corporate restructuring activities, payment of earn-out milestones in relation to Gloria Jean's and Di Bella acquisitions, and completion of the Michel's Patisseries National Bakery Solution project.

Return on Investment (EBIT/Total Assets) increased by 5.6% on PCP to 13.8% on reported earnings, primarily attributable to the EBIT contributions of FY15 acquisitions. On an underlying basis Return on Investment increased by 2.2% to 14.7%.

# DIRECTORS' REPORT

## Review of operations and financial condition (continued)

### Financial Position and Cash Flows (continued)

Cash inflows from operating activities for FY16 remained strong at \$65.5 million (FY15: \$34.7 million), with the increase in net operating cash inflow attributable to the positive impact of acquisitions net of certain restructuring and integration costs. The cash conversion to EBITDA ratio of 90.4% (FY15: 109.6%) reflects a return to the historical conversion ratio of +90% for the Group, again evidencing the positive cash generation of acquired businesses and improved cash collection within Traditional Brand Systems.

### Debt Structure

On 23 December 2015, the Group entered into a bi-lateral senior finance facility with National Australia Bank (NAB) and Westpac Bank, replacing its existing senior debt facility with NAB. The new facility increased total available facilities from \$278 million to \$304 million, with extended maturity dates on senior debt facilities of December 2018 to December 2020.

As at 30 June 2016, the Group's total gross debt was \$209.2 million including ancillary facilities, with cash reserves and facility headroom of circa \$112.2 million.

### Operating Segment Review

The Group is organised into seven major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

- Donut King Brand System;
- Michel's Patisserie Brand System;
- Brumby's Bakery Brand System;
- QSR Systems (incorporating Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Mobile Systems (incorporating Café2U and The Coffee Guy Brand Systems);
- Coffee Retail Systems (incorporating Gloria Jeans Coffees and Esquires Brand Systems); and
- Coffee and Allied Beverage (incorporates Wholesale Coffee operations and other un-allocable amounts).

### *Brand System Operations*

All Brand System segments with the exception of Coffee and Allied Beverage are referred to collectively by management as Franchise Operations. Underlying Franchise Operations EBITDA for FY16 was \$96.1 million (FY15: \$81.1 million), representing growth of 18.5% (or \$15.0 million), primarily attributable to acquisitions completed by the Group during FY15 and organic new outlet growth.

\$5.7 million of integration and corporate restructuring costs unallocated to individual Brand System segments are attributable to Franchise Operations.

New outlet commissionings for FY16 was 258, including 146 new international outlets across 69 licensed international territories. Net outlet growth for FY16 was 84, including 19 Michel's outlets not suitable for alignment with the National Bakery Solution (NBS).

Compared to FY15, and attributable to the operating activities previously discussed, the Group's Brand Systems exhibited weighted same store sales (SSS) growth of 1.7% and weighted average transaction value (ATV) growth of 3.2%. SSS by segment included: Donut King 2.8%, Michel's 1.9%, Brumby's 2.8%, Coffee Retail 1.5% and QSR 0.2% decline.

In December 2015, the Group granted Master Franchise Licences in New Zealand for the Brumby's Bakery, Esquires Coffee Houses, bb's café, The Coffee Guy and Café2U Brand System operations, devolving day-to-day network management and operational obligations in New Zealand to an experienced licensee. Costs associated with exiting the direct franchise operations in New Zealand post licencing of the territory, including employee redundancies, are included in the FY16 result.

The Group has granted a total of 12 new Master Franchise licences in FY16, increasing penetration to 69 international territories in addition to Domestic operations.

**Review of operations and financial condition (continued)****Operating Segment Review (continued)***Coffee and Allied Beverage*

Coffee and Allied Beverage results represent the Group's wholesale product sales in the contract roasting, commercial and in-home market segments. Underlying Coffee and Allied Beverage Operations EBITDA for FY16 was \$14.1 million (FY15: \$7.7 million), representing growth of \$6.4 million, primarily attributable to full year contributions from acquisitions completed by the Group during FY15, and the organic growth within the division.

*Future developments*

Following successful integration of the most recently acquired assets, the Group will continue to pursue key organic growth platforms of its Brand Systems globally, and advancing the Coffee & Allied Beverages strategy.

The Group continues to investigate and evaluate potential retail food franchise systems and other complementary asset acquisitions. These acquisition targets include both competitor and complementary systems which provide system growth opportunities, synergies, increased scale benefits, intellectual property enhancement, and ultimately result in EPS accretion. In this respect, 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 consider that it would be likely to result in unreasonable prejudice to the Group.

**Significant events after the balance date**

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

**Final Dividend**

On 25 August 2016, the Board of Directors declared a final dividend in respect of profits of the financial year ending 30 June 2016. The final dividend of 14.5 cents per share (based on 164,968,083 shares on issue at 25 August 2016), franked to 100% at 30% corporate income tax rate will be paid on 7 October 2016. The final dividend was approved by the Directors following the conclusion of FY16 and, therefore, was not provided for in the year-end financial report. It was resolved that the final FY16 dividend will constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan.

**Acquisitions**

On 25 August 2016 Retail Food Group Limited, via a wholly owned subsidiary, entered into a Share Purchase Agreement (SPA) to acquire the business and operations of Hudson Pacific Corporation Pty Ltd (Hudson Pacific or HPC) for total consideration of c. \$88m comprising c. \$55m cash and RFG scrip allocation. The cash component of consideration is to be funded by existing cash and debt facilities.

The SPA is subject to satisfactory confirmatory due diligence investigations, along with other usual and ordinary conditions, and is programmed for completion in late September 2016.

# DIRECTORS' REPORT

## Dividends

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

Company	FY16		FY15	
	Cents per share	Total \$'000	Cents per share	Total \$'000
<b>Declared and paid during the financial year</b>				
Fully paid ordinary shares				
Final dividend - fully franked at 30% tax rate <sup>(1)</sup>	11.750	19,145	11.250	16,299
Interim dividend - fully franked at 30% tax rate <sup>(2)</sup>	13.000	21,365	11.500	18,437
	<u>24.750</u>	<u>40,510</u>	<u>22.750</u>	<u>34,736</u>
<b>Declared after the end of the financial year</b>				
Fully paid ordinary shares				
Final dividend - fully franked at 30% tax rate <sup>(3)</sup>	14.500	23,920	11.750	19,145

- (1) In respect of the financial year ended 30 June 2015, as detailed in the Directors' Report for that financial year, a final dividend of 11.75 cents per share, based on 162,937,484 shares on issue at 27 August 2015, franked to 100% at 30% corporate income tax rate, was paid on 9 October 2015. The final dividend was approved by the Directors on 27 August 2015 and, therefore, was not provided for in the Company's financial report. It was resolved that the FY15 final dividend would constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan. The issue price of the shares was \$4.17.
- (2) In respect of profits of the financial year ending 30 June 2016, an interim dividend of 13.00 cents per share, based on 164,343,247 shares on issue at 25 February 2016, franked to 100% at 30% corporate income tax rate, was paid on 7 April 2016. The interim dividend was approved by the Directors on 25 February 2016 and it was resolved that the interim dividend would constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan. The issue price of the shares was \$5.11.
- (3) In respect of profits of the financial year ended 30 June 2016, a final dividend of 14.50 cents per share, based on 164,968,083 shares on issue at 25 August 2016, franked to 100% at 30% corporate income tax rate, will be paid on 7 October 2016. The final dividend was approved by the Directors on 25 August 2016 and, therefore, was not provided for in the Company's financial report. It was resolved that the FY16 final dividend will constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

## Environmental regulations

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

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

## Indemnification of Officers and Auditors

During the financial year, the Company entered into a contract insuring the Directors of the Company, the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as 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 2001*, the Deed Poll indemnifies those persons from liabilities incurred as a consequence of the acts of those persons, including the giving of personal guarantees on behalf of the Company and its former and current subsidiaries.

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

## Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 32 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 32 to the financial statements, do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

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

## Auditor's independence declaration

The auditor's independence declaration is included on page 21 of the financial report.

## Rounding off of amounts

The Company is a company of the kind referred to in *ASIC Corporations Instrument 2016-191* dated 24 March 2016 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

The Directors present the Retail Food Group Limited FY16 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and its senior executive management for the financial year ended 30 June 2016.

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

- Key Management Personnel;
- Remuneration Policy;
- Relationship between Remuneration Policy and Group Performance;
- Remuneration of Directors and Senior Executive Management;
- Key Management Personnel equity holdings;
- Key terms of employment contracts;
- Loans to Key Management Personnel; and
- Other transactions with Key Management Personnel and Directors of the Group.

## 1. Key Management Personnel

The Company does not directly remunerate any of its Directors, Key Management Personnel or specific executives. Rather, the Directors, Key Management Personnel and specific executives are remunerated through subsidiaries of the Company.

The Directors and other Key Management Personnel of the consolidated entity during or since the end of the financial year were:

Executive and Non-executive directors	Position
Mr Anthony (Tony) Alford	Executive Managing Director (to 30 June 2016) Non-Executive Non-Independent Director (from 1 July 2016)
Mr Andre Nell (from 1 July 2016)	Executive Managing Director
Mr Colin Archer	Chairman and Independent Non-Executive Director
Ms Jessica Buchanan	Independent Non-Executive Director
Mr Stephen Lonie	Independent Non-Executive Director
Ms Kerry Ryan (from 27 August 2015)	Independent Non-Executive Director
Mr Russell Shields (from 18 December 2015)	Independent Non-Executive Director

# DIRECTORS' REPORT

## Remuneration report (continued)

### 1. Key Management Personnel (continued)

Senior executive management	Position
Mr Andre Nell (to 30 June 2016)	Chief Executive Officer - Franchising
Mr Gary Alford	Chief Executive Officer - Commercial / Chief Executive Officer - Company
Mr Peter McGettigan	Chief Financial Officer
Mr Anthony Mark Connors	Chief Operating Officer, Company Secretary, Director Corporate Services

The term 'senior executive management' is used in this Remuneration Report to refer to these persons.

The above named persons were senior executive management throughout the financial year and since the end of the financial year.

- Tony Alford was Managing Director until 30 June 2016. On 1 July 2016 he transitioned to a Non-Executive Director role. Mr Alford continues to provide services to the company in a non-managerial capacity;
- Andre Nell was CEO - Franchising until 30 June 2016. On 1 July 2016 he was appointed Managing Director;
- Gary Alford was CEO - Commercial until 30 June 2016. On 1 July 2016 he was appointed CEO of the Company;
- Anthony Mark Connors was COO/Company Secretary until 9 March 2016. On 9 March 2016 he held the role of Director of Corporate Services/Company Secretary; and
- Tracey Catterall ceased her role as a member of Key Management Personnel on 1 July 2015.

### 2. Remuneration Policy

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

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

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

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

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

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

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

- The need to attract, retain and motivate appropriately qualified and experienced Directors with diverse backgrounds and experiences 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;
- Assessment of individual performance against set goals and targets; and
- Alternative benefits, including equity schemes.

### Role of the Remuneration Committee

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

## Remuneration report (continued)

### 2. Remuneration Policy (continued)

#### Role of the Remuneration Committee (continued)

The functions performed by the Committee are to:

- Review and evaluate the market practices and trends on remuneration matters;
- Make recommendations to the Board in relation to the Group's remuneration policies and practices;
- Oversight of the performance of the Managing Director, Chief Executive Officers, Chief Operating Officer, Chief Financial Officer and other members of senior executive management and non-executive Directors; and
- Make recommendations to the Board in relation to the remuneration of senior executive management and non-executive Directors.

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

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

### 3. Relationship between Remuneration Policy and Group Performance

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

- The capability and experience of the executive;
- The executive's ability to manage and deliver the Group's forecast results;
- The attainment of pre-determined KPIs developed specially for the executive's role;
- The Group's overall performance including:
  - The Group's earnings;
  - The growth in earnings per share and return on shareholder wealth; and
- The relative size 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, in accordance with its statutory obligations.

#### 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 Managing Director, through a process that considers the individual responsibilities and the achievement of pre-determined KPIs, and the overall performance of the Group.

An executive's remuneration is also reviewed on promotion.

Executives receive a superannuation guarantee contribution required by the Government, which is currently 9.5% (FY15: 9.5%) and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice a further part of their salary to increase payments towards superannuation.

#### Performance-linked Compensation

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan (ESOP) and the Company's Performance Rights Plan. 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. In respect of the performance rights granted, there is performance criteria required to be achieved in order for the performance rights to vest.

## Remuneration report (continued)

### 3. Relationship between Remuneration Policy and Group Performance (continued)

#### Short-term Incentive Bonus

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

The financial performance objectives may include but not be limited to "Net Profit", "Revenue", "Franchise Revenue", "Corporate Expenditure" and "Minimum Earnings Per Share" compared to budget and forecast amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic objectives, compliance with governance and regulatory requirements, new store commissions, 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 Managing Director recommends to the Remuneration Committee the performance bonus amounts of individuals for approval by the Board. This method of assessment was chosen as it provides the Remuneration Committee with an objective assessment of the individual's performance.

#### Long-term Incentive Bonus

Currently the Group has a long term incentive scheme under a Performance Rights Plan. The Performance Rights Plan was approved by Directors in August 2015 for commencement in the financial year ending 30 June 2016. Performance Rights were granted on 14 July 2016 under this Plan with respect to the FY16, FY17 & FY18 performance periods. The following Key Management Personnel were granted Performance Rights:

- Mr Gary Alford
- Mr Peter McGettigan
- Mr Anthony Mark Connors

The Plan is designed to focus executives on delivering long-term shareholder returns. Under the plan, participants are only granted shares if performance conditions pertaining to the earnings per share (EPS) growth and relative total shareholder return (TSR) are met and the employee is still employed at the end of the vesting period.

Participation in the Plan is at the Board's absolute discretion and no individual has a contractual right to participate in the Plan.

In previous financial years, 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. 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.

Note the summary information in relation to the Group's earnings and movements in shareholder wealth for the five years to 30 June 2016:

Metrics	FY12	FY13	FY14	FY15	FY16
EBIT	\$47.5m	\$52.8m	\$57.5m	\$55.7m	\$97.2m
NPAT	\$28.5m	\$32.0m	\$36.9m	\$34.2m	\$61.3m
Share price at start of financial year	\$2.41	\$2.65	\$3.95	\$4.54	\$5.43
Share price at end of financial year	\$2.65	\$3.95	\$4.54	\$5.43	\$5.53
Interim dividend	8.50 cps	9.50 cps	10.75 cps	11.50 cps	13.00 cps
Final dividend	9.00 cps	10.25 cps	11.25 cps	11.75 cps	14.50 cps
Basic EPS	26.4 cps	26.0 cps	26.5 cps	22.1 cps	37.4 cps
Diluted EPS	26.3 cps	25.9 cps	26.5 cps	22.1 cps	37.4 cps

## Remuneration report (continued)

### 4. Remuneration of Directors and Senior Executive Management

Name	Short-term benefits			Long Term Benefits		
	Salary & fees	Bonus	Other	Super-annuation	Performance Rights	Total
	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors</b>						
Mr Colin Archer	173,010	-	-	16,436	-	189,446
Ms Jessica Buchanan	98,445	-	-	-	-	98,445
Mr Stephen Lonie	99,389	-	-	9,442	-	108,831
Ms Kerry Ryan	72,813	-	-	6,917	-	79,730
Mr Russell Shields	44,257	-	-	4,204	-	48,461
<b>Executive Directors</b>						
Mr Anthony (Tony) Alford	699,829	345,576	-	19,308	-	1,064,713
<b>Senior Executive Management</b>						
Mr Gary Alford	327,130	58,922	-	31,077	5,655	422,784
Mr Andre Nell	338,549	57,593	1,869	19,308	-	417,319
Mr Peter McGettigan	277,526	36,288	1,869	26,365	4,452	346,500
Mr Anthony Mark Connors	278,195	31,616	1,869	19,308	4,341	335,329
	<u>2,409,143</u>	<u>529,995</u>	<u>5,607</u>	<u>152,365</u>	<u>14,448</u>	<u>3,111,558</u>

Name	Short-term benefits			Long Term Benefits		
	Salary & fees	Bonus	Other	Super-annuation	Performance Rights	Total
	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors</b>						
Mr Colin Archer	136,284	-	-	12,947	-	149,231
Ms Jessica Buchanan	86,250	-	-	-	-	86,250
Mr Stephen Lonie	82,894	-	-	7,875	-	90,769
<b>Executive Directors</b>						
Mr Anthony (Tony) Alford	697,276	-	-	18,783	-	716,059
<b>Senior Executive Management</b>						
Mr Gary Alford	226,094	132,356	-	34,053	-	392,503
Mr Andre Nell	232,021	132,179	1,800	21,935	-	387,935
Mr Peter McGettigan	247,123	103,453	1,800	24,477	-	376,853
Mr Anthony Mark Connors	239,026	101,915	1,800	18,783	-	361,524
Ms Tracey Catterall	189,090	65,096	1,652	24,148	-	279,986
	<u>2,136,058</u>	<u>534,999</u>	<u>7,052</u>	<u>163,001</u>	<u>-</u>	<u>2,841,110</u>

# DIRECTORS' REPORT

## Remuneration report (continued)

### 4. Remuneration of Directors and Senior Executive Management (continued)

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

Person	Fixed		Short-Term Incentive		Long-Term Incentive	
	FY16 %	FY15 %	FY16 %	FY15 %	FY16 %	FY15 %
<b>Non- Executive Directors</b>						
Mr Colin Archer	100.0	100.0	-	-	-	-
Ms Jessica Buchanan	100.0	100.0	-	-	-	-
Mr Stephen Lonie	100.0	100.0	-	-	-	-
Ms Kerry Ryan	100.0	-	-	-	-	-
Mr Russell Shields	100.0	-	-	-	-	-
<b>Executive Directors</b>						
Mr Anthony (Tony) Alford	67.5	100.0	32.5	-	-	-
<b>Senior Executive Management</b>						
Mr Gary Alford	84.7	66.3	14.0	33.7	1.3	-
Mr Andre Nell	86.2	65.9	13.8	34.1	-	-
Mr Peter McGettigan	88.2	72.5	10.5	27.5	1.3	-
Mr Anthony Mark Connors	89.3	71.8	9.4	28.2	1.3	-
Ms Tracey Catterall	-	76.8	-	23.2	-	-

### Bonuses

Key Management Personnel were granted a cash bonus of \$529,995 in respect of their performance during the year ended 30 June 2016. The bonuses were approved by the Board.

### Performance Rights Plan

Under the Group's Long Term Incentive Plan, the Performance Rights Plan, Rights will only vest if performance conditions pertaining to the earnings per share (EPS) growth and relative total shareholder return (TSR) are met and the employee is still employed at the end of the vesting period.

Participation in the plan is at the Board's absolute discretion and no individual has a contractual right to participate in the plan. Once vested, a participant will be deemed to have automatically exercised all vested performance rights and the Company will settle its obligation in line with the Performance Rights Plan.

There is no consideration payable by the participant upon exercising of vested performance rights. Upon vesting, the conversion of a performance right to an equity or cash based settlement, is determined using a formula referencing the relevant share prices of the Company, the number of rights exercised, and is at the Board's sole discretion.

The Performance Rights are divided into three (3) equal tranches, with each tranche respectively having a 12 months' performance period aligned to successive financial years.

Each tranche of Rights is dependent on satisfaction of two discrete performance measures:

1. Earnings per Share (EPS) representing 50% of each tranche (EPS Measure); and
2. Relative Total Shareholder Return (TSR) representing 50% of each tranche (TSR Measure).

### Executive Share Option Plan

In previous financial years, the Group's ownership-based compensation scheme for Directors, executives and senior employees was in accordance with the provisions of 'ESOP'. Options were granted to purchase parcels of ordinary shares on terms resolved by the Board. Certain Directors and senior executive management have also been granted options pursuant to the terms of formal Option Deeds which are outside the scope of, but substantially in accordance with, the terms of the ESOP.

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

## Remuneration report (continued)

### 4. Remuneration of Directors and Senior Executive Management (continued)

#### Executive Share Option Plan (continued)

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

During the financial year, there were no share-based payment arrangements in existence.

### 5. Key Management Personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY16	Balance 1 July 2015	Granted as Compensation	Received on Exercise of Options	Net Other Change	Balance 30 June 2016	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
<b>Non-Executive Directors</b>						
Mr Colin Archer	361,410	-	-	14,168	375,578	-
Ms Jessica Buchanan	23,256	-	-	-	23,256	-
Mr Stephen Lonie	47,373	-	-	2,556	49,929	-
Ms Kerry Ryan	-	-	-	10,000	10,000	-
<b>Executive Directors</b>						
Mr Anthony (Tony) Alford	21,110,875	-	-	(1,475,117)	19,635,758	827,101
<b>Senior Executive Management</b>						
Mr Gary Alford	829,567	-	-	-	829,567	-
Mr Andre Nell	11,478	-	-	624	12,102	-
Mr Peter McGettigan	28,874	-	-	1,568	30,442	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
	22,608,400	-	-	(1,446,201)	21,162,199	827,101

FY 15	Balance 1 July 2014	Granted as Compensation	Received on Exercise of Options	Net Other Change	Balance 30 June 2015	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
<b>Non-Executive Directors</b>						
Mr Colin Archer	375,842	-	-	(14,432)	361,410	-
Ms Jessica Buchanan	23,256	-	-	-	23,256	-
Mr Stephen Lonie	45,139	-	-	2,234	47,373	-
<b>Executive Directors</b>						
Mr Anthony (Tony) Alford	22,947,004	-	-	(1,836,129)	21,110,875	867,160
<b>Senior Executive Management</b>						
Mr Gary Alford	819,567	-	10,000	-	829,567	-
Mr Andre Nell	10,000	-	-	1,478	11,478	-
Mr Peter McGettigan	26,750	-	-	2,124	28,874	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Ms Tracey Catterall	7,889	-	-	323	8,212	-
	24,451,014	-	10,000	(1,844,402)	22,616,612	867,160

# DIRECTORS' REPORT

## Remuneration report (continued)

### 5. Key Management Personnel equity holdings (continued)

Executive share options of Retail Food Group Limited:

FY16	Balance 1 July 2015	Granted as Compensation	Exercised	Net Other Change	Balance 30 June 2016	Balance Vested 30 June 2016
Name	Number	Number	Number	Number	Number	Number
<b>Senior Executive Management</b>						
Mr Gary Alford	-	-	-	-	-	-
Total	-	-	-	-	-	-

FY15	Balance 1 July 2014	Granted as Compensation	Exercised	Net Other Change	Balance 30 June 2015	Balance Vested 30 June 2015
Name	Number	Number	Number	Number	Number	Number
<b>Senior Executive Management</b>						
Mr Gary Alford	10,000	-	(10,000)	-	-	-
Total	10,000	-	(10,000)	-	-	-

Nil options were exercised by Key Management Personnel during the financial year, (FY15: 10,000).

Details of the Executive Share Option Plan and of share options granted during FY16 and FY15 are contained in note 22.

### 6. Key terms of employment contracts

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

Name	Particulars
Mr Colin Archer	The letter of appointment entered into with the Company requires the Director to give notice of resignation in accordance with the Company's Constitution. The Company may also terminate the Director's appointment in accordance with the Company's Constitution.
Ms Jessica Buchanan	The letter of appointment entered into with the Company requires the Director to give notice of resignation in accordance with the Company's Constitution. The Company may also terminate the Director's appointment in accordance with the Company's Constitution.
Mr Stephen Lonie	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 Kerry Ryan	The letter of appointment entered into with the Company requires the Director to give notice of resignation in accordance with the Company's Constitution. The Company may also terminate the Director's appointment in accordance with the Company's Constitution.
Mr Russell Shields	The letter of appointment entered into with the Company requires the Director to give notice of resignation in accordance with the Company's Constitution. The Company may also terminate the Director's appointment in accordance with the Company's Constitution.
Mr Anthony (Tony) Alford	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.

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 \$950,000. Fees for non-executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are granted share options.

## Remuneration report (continued)

### 6. Key terms of employment contracts (continued)

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

Name	Particulars
Mr Andre Nell	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of twelve (12) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least twelve (12) months notice or payment of the equivalent salary of the required notice in lieu.
Mr 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 Peter McGettigan	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of four (4) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least four (4) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Anthony Mark Connors	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least three (3) months notice or payment of the equivalent salary of the required notice in lieu.

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

### 7. Loans to Key Management Personnel

There were no loans outstanding at the end of the financial year (FY15: \$nil) to Directors or senior executive management or their related parties.

### 8. Other transactions with Key Management Personnel and the Directors 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	FY16 \$	FY15 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:		
Franchise revenue	66,906	65,832
	<u>66,906</u>	<u>65,832</u>
Consolidated profit includes the following expenses arising from transactions with key management personnel of the Group or their related parties:		
Consulting services	83,678	-
	<u>83,678</u>	<u>-</u>

The following transactions are made on arm's length terms within the meaning of Section 210 of the *Corporations Act 2001*:

The Group engaged the services of Consumerology Pty Ltd, a related party of Ms Jessica Buchanan, during the year, to provide marketing consulting services to the Group. Amounts were billed to the Group based on normal market rates for such services and were due and payable under normal payment terms. A total of \$19,200, excluding GST, was paid or payable to Consumerology Pty Ltd during FY16 (FY15: nil).

# DIRECTORS' REPORT

## Remuneration report (continued)

### 8. Other transactions with Key Management Personnel and the Directors of the Group (continued)

The Group engaged the services of Brands R People 2 Pty Ltd, a related party of Ms Jessica Buchanan, during the year, to provide marketing consulting services to the Group. Amounts were billed to the Group based on normal market rates for such services and were due and payable under normal payment terms. A total of \$64,478, excluding GST, was paid or payable to Brands R People 2 Pty Ltd during FY16 (FY15: nil).

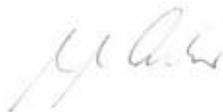
Harbour Town Investments Pty Ltd, a related party of Mr Anthony (Tony) Alford, owned and operated one Donut King outlet during the year. Included in revenue for the year is an amount of \$66,906, excluding GST, earned by the Group in respect of royalties and product sales to this store (FY15: \$65,832). As at 30 June 2016, nil trading debts were outstanding (FY15: \$766).

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

## RETAIL FOOD GROUP LIMITED



Mr Andre Nell  
Executive Managing Director



Mr Colin Archer  
Chairman and Independent Non-Executive Director

Southport  
25 August 2016

# DIRECTORS' DECLARATION

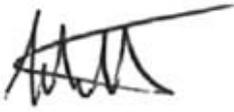
The Directors declare that:

- (a) 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;
- (b) In the Directors' opinion, the following financial statements are in compliance with International Financial Reporting Standards, as disclosed in the notes to the financial statements of the FY16 Annual Report;
- (c) In the Directors' opinion, the following 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
- (d) 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**



Mr Andre Nell  
Executive Managing Director  
Southport  
25 August 2016

# AUDITOR'S INDEPENDENCE DECLARATION



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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

DX 115  
Tel: +61 (0) 7 3308 7000  
Fax: +61 (0) 7 3308 7001  
www.deloitte.com.au  
Deloitte Touche Tohmatsu

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

25 August 2016

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 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Tendai Mkwanzani  
Partner  
Chartered Accountants

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



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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

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

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

### Report on the Financial Report

We have audited the accompanying financial report of Retail Food Group Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the statement of cash flows and the consolidated 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 page 20 and pages 24 to 72.

#### *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. On page 29, 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.

Liability limited by a scheme approved under Professional Standards Legislation.

A member of Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF RETAIL FOOD GROUP LIMITED



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.

*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 2016 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 on page 29.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 10 to 19 of the directors' report for the year ended 30 June 2016. 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.

*Opinion*

In our opinion the Remuneration Report of Retail Food Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

Tendai Mkwanzani  
Partner  
Chartered Accountants  
Brisbane, 25 August 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

Item	Notes	FY16 \$'000	FY15 \$'000
<b>Continuing operations</b>			
Revenue from sale of goods	2	169,269	120,768
Cost of sales	5	(106,280)	(75,310)
<b>Gross Profit</b>		<u>62,989</u>	<u>45,458</u>
Other revenue		141,202	126,477
Other gains and losses		640	279
Selling expenses		(15,530)	(17,552)
Marketing expenses		(28,224)	(27,269)
Occupancy expenses		(8,265)	(10,984)
Administration expenses		(20,992)	(17,882)
Operating expenses		(26,858)	(26,161)
Finance costs	3	(9,574)	(7,299)
Other expenses	5	(7,799)	(16,683)
<b>Profit before income tax</b>		<u>87,589</u>	<u>48,384</u>
Income tax expense	4	(26,287)	(14,165)
<b>Profit for the year from continuing operations</b>	5	<u>61,302</u>	<u>34,219</u>
<b>Other comprehensive income, net of tax</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange difference on translation of foreign operations		<u>649</u>	<u>922</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>649</u>	<u>922</u>
<b>Total comprehensive income for the year</b>		<u>61,951</u>	<u>35,141</u>
Profit is attributable to:			
Equity holders of the parent		<u>61,302</u>	<u>34,219</u>
Total comprehensive income is attributable to:			
Equity holders of the parent		<u>61,951</u>	<u>35,141</u>
<b>Earnings per share</b>			
From continuing operations:			
Basic (cents per share)	6	37.4	22.1
Diluted (cents per share)	6	37.4	22.1

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2016

Item	Notes	FY16 \$'000	FY15 \$'000
<b>Current assets</b>			
Cash and cash equivalents	7	17,406	17,149
Trade and other receivables	8	45,145	41,077
Other financial assets	9	8,133	7,122
Inventories	10	16,103	20,901
Current tax assets	4	-	1,595
Other	11	2,559	2,338
<b>Total current assets</b>		<u>89,346</u>	<u>90,182</u>
<b>Non-current assets</b>			
Trade and other receivables	8	3,429	2,832
Other financial assets	9	34,118	22,464
Property, plant and equipment	12	51,561	42,927
Deferred tax assets	4	8,279	8,664
Intangible assets	13	514,402	512,979
Other	11	523	-
<b>Total non-current assets</b>		<u>612,312</u>	<u>589,866</u>
<b>Total assets</b>		<u>701,658</u>	<u>680,048</u>
<b>Current liabilities</b>			
Trade and other payables	14	21,758	29,768
Borrowings	17	165	50,475
Current tax liabilities	4	5,167	-
Provisions	15	3,518	5,558
Other	16	18,911	11,224
<b>Total current liabilities</b>		<u>49,519</u>	<u>97,025</u>
<b>Non-current liabilities</b>			
Borrowings	17	206,607	156,169
Provisions	15	307	272
Other	16	10,981	22,800
<b>Total non-current liabilities</b>		<u>217,895</u>	<u>179,241</u>
<b>Total liabilities</b>		<u>267,414</u>	<u>276,266</u>
<b>Net assets</b>		<u>434,244</u>	<u>403,782</u>
<b>Equity</b>			
Issued Capital	18	324,072	315,051
Reserves	19	1,925	1,276
Retained earnings	20	108,247	87,455
<b>Total equity</b>		<u>434,244</u>	<u>403,782</u>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2016

Item	Notes	Fully Paid Ordinary Shares \$'000	Equity Settled Employee Benefits Reserve \$'000	Foreign Currency Translation Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 1 July 2014</b>		221,703	14	354	87,972	310,043
Profit for the year		-	-	-	34,219	34,219
Other comprehensive income		-	-	922	-	922
Total comprehensive income		-	-	922	34,219	35,141
Issue of ordinary shares	18	94,481	-	-	-	94,481
Share issue costs		(1,657)	-	-	-	(1,657)
Related income tax		497	-	-	-	497
Issue of shares under executive share option plan	18	13	-	-	-	13
Transfer from equity-settled employee benefits reserve		14	(14)	-	-	-
Payment of dividends		-	-	-	(34,736)	(34,736)
Balance at 30 June 2015		315,051	-	1,276	87,455	403,782
<b>Balance at 1 July 2015</b>		315,051	-	1,276	87,455	403,782
Profit for the year		-	-	-	61,302	61,302
Other comprehensive income		-	-	649	-	649
Total comprehensive income		-	-	649	61,302	61,951
Issue of ordinary shares	18	9,054	-	-	-	9,054
Share issue costs		(47)	-	-	-	(47)
Related income tax		14	-	-	-	14
Payment of dividends		-	-	-	(40,510)	(40,510)
Balance at 30 June 2016		324,072	-	1,925	108,247	434,244

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2016

Item	Notes	FY16 \$'000	FY15 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		332,754	263,555
Payments to suppliers and employees		(238,923)	(198,447)
Interest and other costs of finance paid		(9,036)	(7,242)
Income taxes paid		(19,298)	(23,166)
<b>Net cash provided by operating activities</b>	7	<u>65,497</u>	<u>34,700</u>
<b>Cash flows from investing activities</b>			
Interest received		486	265
Amounts advanced to other entities		(8,719)	(10,086)
Payments for property, plant and equipment		(14,429)	(6,551)
Proceeds from sale of property, plant and equipment		131	197
Payments for intangible assets		(575)	(465)
Payments for business		(7,653)	(194,280)
<b>Net cash used in investing activities</b>		<u>(30,759)</u>	<u>(210,920)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities	18	-	68,280
Proceeds from borrowings		148,500	205,000
Repayment of borrowings		(148,372)	(68,000)
Dividends paid		(31,456)	(24,122)
Payment for share issue costs		(47)	(1,657)
Payment for debt issue costs		(802)	(445)
<b>Net cash used in from financing activities</b>		<u>(32,177)</u>	<u>179,056</u>
<b>Net increase in cash and cash equivalents</b>		2,467	2,766
Effects of exchange rate changes on cash and cash equivalents		94	70
Cash and cash equivalents at the beginning of the financial year		14,395	11,559
<b>Cash and cash equivalents at end of year</b>	7	<u>16,956</u>	<u>14,395</u>

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

# NOTES TO THE FINANCIAL STATEMENTS

## Contents of the notes to the financial statements

---

<b>About this Report</b>	29
<b>Operations</b>	32
<b>Results for the year</b>	32
1 Segment information	33
2 Revenue	34
3 Finance costs	35
4 Income taxes	36
5 Profit for the year from continuing operations	39
6 Earnings per share	40
<b>Assets and liabilities</b>	41
7 Cash and cash equivalents	41
8 Trade and other receivables	43
9 Other financial assets	44
10 Inventories	45
11 Other assets	45
12 Property, plant and equipment	46
13 Intangible assets	48
14 Trade and other payables	51
15 Provisions	51
16 Other liabilities	53
<b>Capital</b>	54
17 Borrowings	54
18 Issued capital	55
19 Reserves	55
20 Retained earnings	55
21 Dividends	56
22 Share-based payments	56
<b>Risk</b>	58
23 Financial instruments	58
<b>Group structure</b>	64
24 Subsidiaries	64
25 Parent entity disclosures	66
26 Acquisitions	66
27 Related party transactions	69
<b>Other</b>	70
28 Events after the reporting period	70
29 Contingent liabilities	70
30 Commitments for Expenditure	70
31 Operating Leases	71
32 Remuneration of auditors	72

# NOTES TO THE FINANCIAL STATEMENTS

## About this report

---

### 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, New Zealand and the United States.

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

- Intellectual property ownership of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffee, It's A Grind and Di Bella Coffee Brand Systems;
- Development and management of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses, Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffees Coffee, It's A Grind and Di Bella Coffee Brand Systems throughout the world, whether directly managed and/or as licensor for all Brand Systems excluding Esquires Coffee Houses; and
- Development and management of coffee roasting facilities and the wholesale supply of coffee and allied products to existing Brand Systems and third party accounts under the Evolution Coffee Roasters Group, Caffe Coffee, Roasted Addiqtion, Barista's Choice, Roasting Australia Holdings Pty Ltd and Di Bella Coffee brands.

### Basis of preparation

#### (a) 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 the 25 August 2016.

#### (b) Basis of measurement

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 2016-191, dated 24 March 2016, and, in accordance with that Class Order, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

#### (c) 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 2016.

#### (d) Going concern basis

The financial report has been prepared on a going concern basis. The Directors are of the opinion that the Group will be able to continue to operate as a going concern having regard for available non-current debt facilities and the Group's internally generated cash resources.

#### (e) 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 entities 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.

## Basis of preparation (continued)

### (e) Foreign currencies (continued)

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. These are included in the cost of the assets only when they are regarded as an adjustment to interest costs on the related 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), and 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.

### (f) Use of estimates and judgements

The preparation of financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is amended and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the financial statements are included in the following notes:

Note 2 - Revenue Recognition

Note 8 - Recoverability of Debtors

Note 9 - Recoverability of Marketing Fund debt

Note 12 - Impairment of non-financial assets other than goodwill and indefinite life intangible assets

Note 13 - Impairment of goodwill and indefinite life intangible assets

Note 16 - Fair value of contingent consideration arising in a business combination

### (g) 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 within 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.

# NOTES TO THE FINANCIAL STATEMENTS

## Basis of preparation (continued)

### (h) Adoption of new and revised Accounting Standards

#### 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.

#### Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the following Standards and Interpretations were in issue but not yet effective. The Group is currently undertaking an assessment of the impact of the standards.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' and AASB 2015-8 'Amendments to Australian Accounting Standards - Effective Date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2016	30 June 2017
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

#### 1. Segment information

##### 1.1 Products and services from which reportable Segments derive their results

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

For management purposes, the Group is organised into seven major operating divisions. These divisions are the basis on which the Group reports its primary segment information. The Group's reportable segments under AASB 8 are as follows:

- Donut King Brand System;
- Michel's Patisserie Brand System;
- Brumby's Bakery Brand System;
- QSR Systems (incorporating Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Mobile Systems (incorporating Café2U and The Coffee Guy Brand Systems);
- Coffee Retail Systems (incorporating Gloria Jean's Coffees and Esquires Brand Systems); and
- Coffee and Allied Beverage (incorporating Wholesale Coffee operations and other unallocated amounts).

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Segment information (continued)

### 1.2 Segment revenues and results

Information related to the Group's operating results per segment is presented in the following table. Inter-CGU (cash-generating unit) revenue is eliminated on consolidation for statutory reporting. Group expenses are allocated on a consistent basis in determination of the respective segment's contribution to Group EBITDA.

CGU	Donut King		Michel's Patisserie		Brumby's Bakery		OSR Systems		Mobile Systems		Coffee Retail Systems		Coffee and Allied Beverage		Total	
	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000
External revenue	23,670	23,480	26,963	31,991	23,086	21,509	24,183	25,833	8,470	6,193	95,033	60,114	73,207	41,286	274,612	210,406
Inter-CGU revenue	228	192	180	451	420	355	70	178	-	-	699	246	-	-	1,597	1,422
CGU revenue <sup>(1)</sup>	23,898	23,672	27,143	32,442	23,506	21,864	24,253	26,011	8,470	6,193	95,732	60,360	73,207	41,286	276,209	211,828
CGU EBITDA	15,404	14,759	17,405	17,567	10,795	10,834	14,677	12,888	3,525	2,243	33,914	23,486	13,305	7,667	109,025	89,444
Depreciation & Amortisation															(6,584)	(3,707)
Interest revenue															486	264
Finance Costs															(9,574)	(7,299)
Acquisition transaction & Integration costs (including restructuring costs)															(5,724)	(29,639)
Other Gains / (Losses)															640	-
Unallocated															(680)	(679)
Profit before tax															87,589	48,384
Income tax expense															(26,287)	(14,165)
Profit after tax for the period															61,302	34,219

<sup>(1)</sup> CGU – revenue reconciliation	FY16 \$'000	FY15 \$'000
Revenue for the period – Statutory	310,471	247,245
Less: revenue associated with marketing pursuits	(35,373)	(37,118)
Less: Interest revenue	(486)	(264)
Add: Other	-	543
Underlying revenue for the period	274,612	201,406
Inter-CGU revenue: eliminated on consolidation	1,597	1,422
Total CGU revenue	276,209	211,828

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Segment information (continued)

### 1.3 Geographical information

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

## 2. Revenue

Consolidated	FY16 \$'000	FY15 \$'000
Revenue from the sale of goods	169,269	120,768
Revenue from the rendering of services	133,029	119,962
Initial Master Franchise Revenue	7,010	6,116
	<u>309,308</u>	<u>246,846</u>
Interest Revenue		
Bank deposits	113	145
Other loans and receivables	372	119
	<u>485</u>	<u>264</u>
Rental revenue	678	135
	<u>310,471</u>	<u>247,245</u>

### Accounting policy

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

#### *Revenue from the sale of goods*

Revenue from the sale of goods is recognised when all of 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.

#### *Revenue from the rendering of services*

Revenue from the rendering of services comprises franchisor income and royalty revenue.

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

Royalty revenue and revenue from suppliers (supplier licence fees) are recognised on an accrual basis in accordance with the terms 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.

#### *Initial network access fee revenue*

Initial network access fees are received on execution of certain contracts with approved suppliers to the Group's Brand Systems. This class of revenue is recognised over the corresponding term of the contract period.

#### *Interest revenue*

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. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. Finance costs

Consolidated	FY16 \$'000	FY15 \$'000
Interest on bank overdrafts and loans	9,195	7,076
<b>Total interest expense</b>	<b>9,195</b>	<b>7,076</b>
Other finance costs	379	223
	<b>9,574</b>	<b>7,299</b>

## 4. Income taxes

### 4.1 Income tax recognised in profit or loss

Consolidated	FY16 \$'000	FY15 \$'000
Current tax:		
In respect of current year	26,115	17,097
	<b>26,115</b>	<b>17,097</b>
Deferred tax:		
In respect of the current year	172	(2,932)
	<b>172</b>	<b>(2,932)</b>
<b>Total income tax expense recognised in the current year relating to continuing operations</b>	<b>26,287</b>	<b>14,165</b>

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

Consolidated	FY16 \$'000	FY15 \$'000
Profit from continuing operations	87,589	48,384
Income tax expense calculated at 30% (FY15: 30%)	26,277	14,515
Effect of:		
Expenses that are not deductible in determining taxable profit	3	24
Different tax rates of subsidiaries operating in other jurisdictions <sup>(1)</sup>	(17)	(12)
Benefit of tax losses in foreign jurisdictions not brought to account as a deferred tax asset	(177)	(362)
Other	201	-
<b>Income tax expense recognised in profit or loss (relating to continuing operations)</b>	<b>26,287</b>	<b>14,165</b>

The tax rate used for the FY16 and FY15 reconciliations is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

- (1) A corporate tax rate of 28% (FY15: 28%) is payable by New Zealand corporate entities, and 34% (FY15: 35%) is payable by United States of America corporate entities.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. Income taxes (continued)

### 4.2 Income tax recognised directly in equity

Consolidated	Notes	FY16 \$'000	FY15 \$'000
Share issue costs	18	14	497
Total income tax recognised directly in equity		14	497

### 4.3 Current tax assets

Consolidated	FY16 \$'000	FY15 \$'000
Current tax assets	-	1,595

### 4.4 Current tax liabilities

Consolidated	FY16 \$'000	FY15 \$'000
Current tax liabilities	5,167	-

### 4.5 Deferred tax balances

Consolidated FY16	Opening balance \$'000	Recognised in profit or loss \$'000	Recognised directly in equity \$'000	Recognised in other comprehensive income \$'000	Acquisitions/ disposals \$'000	Closing balance \$'000
<b>Temporary differences</b>						
Intangible assets	219	(5)	-	-	-	214
Unrealised exchange differences	38	28	-	-	-	66
Employee benefits	1,029	(57)	-	-	-	972
Provisions	2,873	(579)	-	-	-	2,294
Doubtful debts	1,596	588	-	-	-	2,184
Unearned income	1,013	54	-	-	-	1,067
Share issue costs	958	(326)	14	-	-	646
Other	136	190	-	(227)	-	99
	7,862	(107)	14	(227)	-	7,542
<b>Unused tax losses and credits</b>						
Tax (losses)/credits	802	(65)	-	-	-	737
	802	(65)	-	-	-	737
	8,664	(172)	14	(227)	-	8,279

# NOTES TO THE FINANCIAL STATEMENTS

## 4. Income taxes (continued)

### 4.5 Deferred tax balances (continued)

Consolidated FY15	Opening balance \$'000	Recognised in profit or loss \$'000	Recognised directly in equity \$'000	Recognised in other comprehensive income \$'000	Acquisitions/ Disposals \$'000	Closing balance \$'000
<b>Temporary differences</b>						
Intangible assets	(205)	424	-	-	-	219
Unrealised exchange differences	-	(9)	-	-	47	38
Employee benefits	559	(29)	-	-	499	1,029
Provisions	133	1,755	-	-	985	2,873
Doubtful debts	311	234	-	-	1,051	1,596
Unearned income	-	981	-	-	32	1,013
Share issue costs	786	(325)	497	-	-	958
Other	(42)	(34)	-	-	212	136
	1,542	2,997	497	-	2,826	7,862
<b>Unused tax losses and credits</b>						
Tax (losses)/credits	-	(65)	-	-	867	802
	-	(65)	-	-	867	802
	1,542	2,932	497	-	3,693	8,664

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

Consolidated	FY16 \$'000	FY15 \$'000
Deferred tax assets	8,279	8,664
	8,279	8,664

### 4.6 Tax consolidation

#### *Relevance of tax consolidation to the Group*

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. 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 'stand alone taxpayer' 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 both a tax funding agreement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Retail Food Group Limited and each of the entities in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

## 4. Income taxes (continued)

### 4.6 Tax consolidation (continued)

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 and payment of any such amounts under the tax sharing agreement is considered remote.

#### Accounting policy

Income tax expense represents the sum of current tax expense and deferred tax expense.

##### *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.

##### *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.

##### *Deferred tax balances*

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 flow in the manner 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 or 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.

#### **Critical accounting judgements and key sources of estimation uncertainty**

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4. Income taxes (continued)

### Critical accounting judgments and key sources of estimation uncertainty (continued)

#### 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.

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 amounts 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 consolidated statement of profit or loss and other comprehensive income.

## 5. Profit for the year from continuing operations

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

Consolidated	FY16 \$'000	FY15 \$'000
Cost of sales	106,280	75,310
Gain on derecognition of contingent consideration provision	(1,500)	-
Discounting of contingent consideration provision <sup>(1)</sup>	1,437	-
Write-down of inventory to net realisable value <sup>(1)</sup>	(3)	3,956
Impairment loss on trade receivables <sup>(1)</sup>	2,086	2,056
Impairment loss on intangible assets <sup>(1)</sup>	-	2,950
Impairment loss on loans carried at amortised cost <sup>(1)</sup>	(868)	4,350
Acquisition transaction and integration costs (including restructuring costs)	7,724	17,112
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment <sup>(1)</sup>	5,876	3,189
Amortisation <sup>(1)</sup>	708	518
Total depreciation and amortisation expense	6,584	3,707
Employee benefits expenses:		
Post-employment benefits (defined contribution plans)	3,733	3,316
Other employee benefits (wages and salaries)	56,697	48,497
Total employee benefits expense	60,430	51,813

(1) Amounts are included in other expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

## 6. Earnings per share

Consolidated	FY16 Cents per share	FY15 Cents per share
<b>Basic earnings per share</b>		
From continuing operations	37.4	22.1
	37.4	22.1
<b>Diluted earnings per share</b>		
From continuing operations	37.4	22.1
	37.4	22.1

# NOTES TO THE FINANCIAL STATEMENTS

## 6. Earnings per share (continued)

### 6.1 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	FY16 \$'000	FY15 \$'000
Profit for the year	61,302	34,219
Earnings used in the calculation of basic EPS from continuing operations	61,302	34,219

Consolidated	2016 No. '000	2015 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	164,099	154,876

### 6.2 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	FY16 \$'000	FY15 \$'000
Profit for the year	61,302	34,219
Earnings used in the calculation of diluted EPS from continuing operations	61,302	34,219

Consolidated	2016 No. '000	2015 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	164,099	154,876
Weighted average number of ordinary shares for the purpose of diluted EPS	164,099	154,876

# NOTES TO THE FINANCIAL STATEMENTS

## Operations

### Assets and liabilities

---

#### 7. Cash and cash equivalents

##### 7.1 Reconciliation to cash flow statement

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	FY16 \$'000	FY15 \$'000
Cash and bank balances	17,406	17,149
Less: cash not available for use	(450)	(2,754)
	<u>16,956</u>	<u>14,395</u>

##### 7.2 Cash balances not available for use

Cash balances not available for use relate to cash reserved for marketing specific pursuits, in accordance with Franchise Agreements, and unclaimed dividends. As at 30 June 2016 cash balances not available for use totalled \$450 thousand (2015: \$2.75 million). These restricted cash balances have not been included in the year end cash balances for the purposes of the Consolidated Statement of Cash Flows.

##### 7.3 Financing facilities

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

Consolidated	FY16 \$'000	FY15 \$'000
Secured bank loan facility:		
Amount used (before deducting debt issue costs)	206,500	206,000
Amount unused	87,500	63,000
	<u>294,000</u>	<u>269,000</u>
Secured ancillary bank facilities (guarantees):		
Amount used	2,121	2,838
Amount unused	1,879	1,162
	<u>4,000</u>	<u>4,000</u>
Secured ancillary bank facilities (asset finance):		
Amount used	290	644
Amount unused	710	1,356
	<u>1,000</u>	<u>2,000</u>
Secured ancillary bank facilities (supply chain finance):		
Amount used	329	-
Amount unused	3,671	5,034
	<u>4,000</u>	<u>5,034</u>
Secured ancillary bank facilities (overdraft):		
Amount used	-	-
Amount unused	1,000	-
	<u>1,000</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 7. Cash and cash equivalents (continued)

### 7.4 Reconciliation of profit for the period to net cash flows from operating activities

Consolidated	FY16 \$'000	FY15 \$'000
Profit for the year	61,302	34,219
Depreciation of non-current assets	5,876	3,189
Amortisation	708	518
Impairment loss on intangible assets	-	2,950
Impairment loss on loans carried at amortised cost	(868)	4,350
Gain on disposal of property, plant and equipment	(69)	(80)
Net foreign exchange loss	(736)	554
Interest income received and receivable	(486)	(265)
Amortisation of borrowing costs	379	223
Fair Value adjustment of PPE	250	-
Non cash - vendor loan	(2,050)	-
Non cash interest expense - discounting of contingent consideration provision	1,437	-
Gain on derecognition of contingent consideration provision	(1,500)	-
Increase / (decrease) in current tax liability	6,762	(6,740)
Increase / (decrease) in deferred tax balances	172	(2,936)
Movements in working capital:		
Trade and other receivables	(3,487)	(5,202)
Inventories	2,438	3,919
Other assets	(568)	(920)
Trade and other payables	(3,850)	(1,165)
Provisions	(2,005)	312
Other liabilities	1,792	1,774
Net cash generated by operating activities	65,497	34,700

#### Accounting policy

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, or at reporting date. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## 8. Trade and other receivables

### 8.1 Trade receivables

Consolidated	FY16 \$'000	FY15 \$'000
<b>Current</b>		
Trade receivables	39,868	32,904
Allowance for doubtful debts	(7,283)	(5,324)
	<u>32,585</u>	<u>27,580</u>
Accrued income	6,363	3,650
Sundry debtors	245	2,438
Other	5,952	7,409
	<u>45,145</u>	<u>41,077</u>
<b>Non-Current</b>		
Trade receivables	765	1,422
Sundry debtors	273	26
Other	2,391	1,384
	<u>3,429</u>	<u>2,832</u>
	<u>48,574</u>	<u>43,909</u>

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

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

Trade receivables disclosed in this table include amounts (summarised in the following table) that are past due at the end of the reporting period but against which the Group has not recognised an allowance for doubtful debtors 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.

### 8.2 Ageing of past due but not impaired receivables

Consolidated	FY16 \$'000	FY15 \$'000
31 – 60 days	851	3,333
61 – 90 days	1,373	1,478
91 + days	17,364	15,317
	<u>19,588</u>	<u>20,128</u>

### 8.3 Movement in the allowance for doubtful debts

Consolidated	FY16 \$'000	FY15 \$'000
Balance at the beginning of the year	5,324	1,039
Amounts acquired through business combinations	-	3,659
Impairment losses recognised on receivables	2,086	2,056
Amounts written off as uncollectable	(127)	(1,430)
Balance at the end of the year	<u>7,283</u>	<u>5,324</u>

## 8. Trade and other receivables (continued)

### 8.3 Movement in the allowance for doubtful debts (continued)

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

The allowance for doubtful debts includes individually impaired trade receivables amounting to \$7.3 million (FY15: \$5.3 million). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the estimated recoverable amount.

### 8.4 Ageing of impaired trade receivables

Consolidated	FY16 \$'000	FY15 \$'000
1 – 30 days	48	355
31 – 60 days	37	86
61 – 90 days	120	367
91 + days	7,078	4,516
	<u>7,283</u>	<u>5,324</u>

## 9. Other financial assets

Consolidated	FY16 \$'000	FY15 \$'000
<b>Current</b>		
<b>Loans and receivables carried at amortised cost</b>		
Vendor finance <sup>(1)</sup>	4,628	2,461
Amounts advanced to associated national marketing funds <sup>(2)</sup>	3,505	4,661
	<u>8,133</u>	<u>7,122</u>
<b>Non-Current</b>		
<b>Loans and receivables carried at amortised cost</b>		
Vendor finance <sup>(1)</sup>	6,453	4,391
Amounts advanced to associated national marketing funds <sup>(2)(3)</sup>	27,665	18,073
	<u>34,118</u>	<u>22,464</u>
	<u>42,251</u>	<u>29,586</u>

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

(2) Amounts advanced to associated national marketing funds represent funding of expenditure provided to certain marketing funds associated with the Group's Brand Systems.

(3) Included above is an amount of \$17.3 million relating to advances outstanding from the Michel's Patisserie Marketing Fund on a long term payment arrangement.

# NOTES TO THE FINANCIAL STATEMENTS

## 10. Inventories

Consolidated	FY16 \$'000	FY15 \$'000
Stock held for wholesale supply	13,568	15,284
Equipment held for resale	727	1,928
Stores held for resale	1,808	3,689
	<u>16,103</u>	<u>20,901</u>

The cost of inventories recognised as an expense during the period in respect of continuing operations was \$106.3 million (FY15: \$75.3 million). No amount has been expensed in the year (FY15: \$3.9 million) in respect of write-downs of stores held for resale to their assessed net realisable value.

### Accounting policy

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.

## 11. Other assets

Consolidated	FY16 \$'000	FY15 \$'000
<b>Current</b>		
Prepayments	<u>2,559</u>	<u>2,338</u>
<b>Non-Current</b>		
Prepayments	<u>523</u>	<u>-</u>
	<u>3,082</u>	<u>2,338</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 12. Property, plant and equipment

Consolidated	Land & buildings at cost \$'000	Leasehold improvements at cost \$'000	Plant & equipment at cost \$'000	Motor vehicles at cost \$'000	Total \$'000
<b>Gross carrying amount</b>					
Balance as at 1 July 2014	10,106	1,301	22,289	404	34,100
Additions	240	-	5,969	342	6,551
Disposals	-	-	(174)	(180)	(354)
Reclassification of Inventories	-	-	(1,217)	-	(1,217)
Acquisitions through business combinations	-	939	11,238	456	12,633
Effect of movements in exchange rates	-	(7)	176	-	169
<b>Balance as at 1 July 2015</b>	<b>10,346</b>	<b>2,233</b>	<b>38,281</b>	<b>1,022</b>	<b>51,882</b>
Additions	3,876	72	9,827	174	13,949
Disposals	(769)	(830)	(830)	(196)	(2,625)
Reclassification of Inventories	-	-	2,470	-	2,470
Fair Value adjustment	-	-	(250)	-	(250)
Effect of movements in exchange rates	-	5	130	-	135
<b>Balance as at 30 June 2016</b>	<b>13,453</b>	<b>1,480</b>	<b>49,628</b>	<b>1,000</b>	<b>65,561</b>
<b>Accumulated depreciation</b>					
Balance as at 1 July 2014	(265)	(267)	(5,708)	(147)	(6,387)
Disposals	-	-	116	121	237
Reclassification of Inventories	-	-	384	-	384
Depreciation expense	(171)	(138)	(2,774)	(106)	(3,189)
<b>Balance as at 1 July 2015</b>	<b>(436)</b>	<b>(405)</b>	<b>(7,982)</b>	<b>(132)</b>	<b>(8,955)</b>
Disposals	18	121	573	157	869
Reclassification of Inventories	-	-	45	-	45
Impairment losses charged to Profit	-	-	(83)	-	(83)
Depreciation expense	(181)	(229)	(5,275)	(191)	(5,876)
<b>Balance as at 30 June 2016</b>	<b>(599)</b>	<b>(513)</b>	<b>(12,722)</b>	<b>(166)</b>	<b>(14,000)</b>
<b>Net book value</b>					
As at 30 June 2015	9,910	1,828	30,299	890	42,927
As at 30 June 2016	12,854	967	36,906	834	51,561

### Accounting policy

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 12. Property, plant and equipment (continued)

### Accounting policy (continued)

Freehold land is not depreciated.

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

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

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

Voluntary company stores (VCS) including leasehold improvements and fixtures and equipment are included as items of property, plant and equipment until such time as the VCS becomes held for sale, and is, thereafter, reclassified to Inventories.

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

- buildings 40 years;
- leasehold improvements 5 - 25 years; and
- plant and equipment 2 - 25 years.

### 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.

### Impairment of non-financial assets other than goodwill and indefinite life intangible assets

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 13. Intangible assets

### 13.1 Intangible assets

Consolidated	Indefinite life			Finite life	
	Goodwill \$'000	Brand Networks \$'000	Intellectual Property Rights \$'000	Other \$'000	Total \$'000
<b>Gross carrying amount</b>					
Balance as at 1 July 2014	30,345	262,946	5,337	514	299,142
Additions	361	242	-	25	628
Reclassification	-	-	-	(163)	(163)
Acquisitions through business combinations	48,199	165,372	-	3,000	216,571
<b>Balance as at 1 July 2015</b>	<b>78,905</b>	<b>428,560</b>	<b>5,337</b>	<b>3,376</b>	<b>516,178</b>
Additions	-	301	-	274	575
Acquisitions through business combinations	405	-	-	-	405
Exchange differences	222	327	545	-	1,094
<b>Balance as at 30 June 2016</b>	<b>79,532</b>	<b>429,188</b>	<b>5,882</b>	<b>3,650</b>	<b>518,252</b>
<b>Accumulated amortisation</b>					
Balance as at 1 July 2014	-	-	-	(21)	(21)
Amortisation expense	-	-	-	(228)	(228)
Impairment losses recognised in profit or loss	-	(2,950)	-	-	(2,950)
<b>Balance as at 1 July 2015</b>	<b>-</b>	<b>(2,950)</b>	<b>-</b>	<b>(249)</b>	<b>(3,199)</b>
Amortisation expense	-	-	-	(651)	(651)
<b>Balance as at 30 June 2016</b>	<b>-</b>	<b>(2,950)</b>	<b>-</b>	<b>(900)</b>	<b>(3,850)</b>
<b>Net book value</b>					
As at 30 June 2015	78,905	425,610	5,337	3,127	512,979
As at 30 June 2016	79,532	426,238	5,882	2,750	514,402

### 13.2 Allocation of goodwill to cash-generating units

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

# NOTES TO THE FINANCIAL STATEMENTS

## 13. Intangible assets (continued)

### 13.2 Allocation of goodwill to cash-generating units (continued)

Goodwill allocation	FY16 \$'000	FY15 \$'000
Donut King Brand System	246	246
Michel's Patisserie Brand System	23,438	23,438
QSR Systems (incorporating Pizza Capers & Crust)	3,789	3,789
Mobile Systems (incorporating Café2U & The Coffee Guy)	6,072	6,072
Coffee Retail Systems (incorporating Gloria Jean's Coffees, bb's Café & Esquires Coffee Houses)	14,682	14,682
Coffee and Allied Beverage (incorporating Wholesale Coffee operations)	31,305	30,678
	<u>79,532</u>	<u>78,905</u>

### 13.3 Allocation of indefinite life intangible assets to cash-generating units

Indefinite life intangibles allocation	FY16 \$'000	FY15 \$'000
Donut King Brand System	38,552	38,523
Coffee Retail Systems (incorporating Gloria Jean's, bb's Café & Esquires Coffee Houses)	154,240	153,633
Brumby's Bakery Brand System	56,566	56,533
Michel's Patisserie Brand System	82,221	82,200
QSR Brand System (incorporating Pizza Capers & Crust)	72,719	72,581
Mobile Systems (incorporating Café2U & The Coffee Guy)	13,720	13,379
Coffee and Allied Beverage (incorporating Wholesale Coffee operations)	14,102	14,098
	<u>432,120</u>	<u>430,947</u>

### 13.4 Assessments of cash-generating units

There are a total of seven CGU's in existence, with six CGU's attributable to the operation of the Group's Brand Systems, and the seventh CGU attributable to the coffee roasting business.

The recoverable amounts of the CGU's are based primarily on a "value in use" calculation, which uses cash flow projections based on the financial budget approved by the Board for FY17 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 commissions.

The cash flows in years two to five are based on the expected average percentage growth rate of 2.5% (FY15: 2.5%) for the Donut King, Brumby's Bakery, Michel's Patisserie and Coffee and Allied Beverage CGU's, 3% (FY15: 3%) for the QSR, Mobile and Coffee Retail CGU's. The growth rates applied are based on management's estimate of forecast cash flow by Brand System/business after considering FY16 with the FY17 budget year. Management considers that the growth rates applied are reasonable.

A pre-tax nominal discount rate of 13% (FY15: 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% (FY15: 2%) for the Donut King, Brumby's Bakery and Michel's Patisserie CGU's, 2.5% (FY15: 2.5%) for the QSR, Mobile, Coffee and Allied Beverage and Coffee Retail CGU's have been used in determining the terminal value for each of the CGU's.

With the acquisition of Gloria Jean's Coffee group, the Esquires Coffee Houses Brand System (incorporating bb's Café) have been grouped with the Gloria Jean's Coffee group as a single CGU called Coffee Retail Systems.

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

## 13. Intangible assets (continued)

### Accounting policy

#### *Intangible assets acquired separately*

Intangible assets with finite lives that are 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 (which are estimated to be between 3 - 5 years). The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

#### *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.

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

### 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.

### Impairment of goodwill and indefinite life intangible assets

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.

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 13. Intangible assets (continued)

### Impairment of goodwill and indefinite life intangible assets (continued)

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.

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. Hence 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.

### 13.5 Determination as indefinite life

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

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

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

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

## 14. Trade and other payables

Consolidated	FY16 \$'000	FY15 \$'000
<b>Current</b>		
Trade payables <sup>(1)</sup>	14,452	16,290
Accruals and other creditors	6,729	13,112
Goods and services tax (GST) payable	577	366
	<u>21,758</u>	<u>29,768</u>

(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 time frame.

## 15. Provisions

Consolidated	FY16 \$'000	FY15 \$'000
<b>Current</b>		
Employee benefits	2,928	3,241
Onerous leases and make-good	513	2,094
Warranties	77	223
	<u>3,518</u>	<u>5,558</u>
<b>Non-Current</b>		
Employee benefits	307	272
	<u>3,825</u>	<u>5,830</u>

## 15. Provisions (continued)

Consolidated	Onerous Leases and Make-Good \$'000
Balance at 1 July 2015	2,094
Movement in provisions	(110)
Payments made	(1,471)
<b>Balance at 30 June 2016</b>	<b>513</b>

### Accounting policy

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, and if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably, a receivable is recognised as an asset.

#### *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.

#### *Onerous leases and make-good*

A provision has been made for the present value of future lease payments where 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 Directors' best estimate of the future sacrifice of economic benefits that will be required to restore the 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. The exit from onerous leases and make-good activities are expected to be completed by the Group within twelve months.

#### *Warranties*

The provision for warranties represents repairs on coffee machines. Management has estimated the provision based on historical warranty trends which may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

# NOTES TO THE FINANCIAL STATEMENTS

## 16. Other liabilities

Consolidated	FY16 \$'000	FY15 \$'000
<b>Current</b>		
Retention bonds and deposits	2,087	1,971
Unearned income	3,828	1,551
Other (contingent consideration) <sup>(1)</sup>	12,996	7,702
	<u>18,911</u>	<u>11,224</u>
<b>Non-Current</b>		
Retention bonds and deposits	66	61
Unearned income	1,464	2,097
Other (contingent consideration) <sup>(1)</sup>	9,451	20,642
	<u>10,981</u>	<u>22,800</u>
	<u>29,892</u>	<u>34,024</u>

(1) Other liabilities represent the estimated fair value of the contingent consideration relating to the acquisition of Gloria Jean's Coffees Brand System and Di Bella Coffee.

### Contingent consideration

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

Management deem the probabilities calculated at acquisition still appropriate as a basis of assessing fair value.

### 17. Borrowings

Consolidated	FY16 \$'000	FY15 \$'000
<b>Secured at amortised cost</b>		
<b>Current</b>		
Bank loans	-	50,000
Equipment loans	165	475
	165	50,475
<b>Secured at amortised cost</b>		
<b>Non-Current</b>		
Bank loans	206,500	156,000
Equipment loans	107	169
	206,607	156,169
	206,772	206,644

The Bank loan facility is secured over the Group's non-current consolidated assets (excluding goodwill and deferred taxes). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

On 23 December 2015, the Group entered into a bi-lateral Senior Finance Facility with National Australia Bank Limited (NAB) and Westpac Banking Corporation, replacing its existing senior debt facility with NAB. The new facility increases the total available facilities from \$278 million to \$304 million, with extended maturity dates on senior debt facilities of December 2018 to December 2020.

### 18. Issued capital

Consolidated	FY16 \$'000	FY15 \$'000
164,968,083 fully paid ordinary shares (FY15: 162,937,484)	324,072	315,051
	324,072	315,051

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.

Consolidated	FY16 No. '000	FY16 \$'000	FY15 No. '000	FY15 \$'000
<b>Fully paid ordinary shares<sup>(1)</sup></b>				
Balance at beginning of period	162,937	315,051	144,868	221,703
Issue of ordinary shares <sup>(2)</sup>	2,031	9,054	18,059	94,481
Share issue costs	-	(47)	-	(1,657)
Related income tax	-	14	-	497
Issue of shares under executive share option plan <sup>(3)</sup>	-	-	10	13
Transfer from equity-settled employee benefits reserve	-	-	-	14
Balance at end of period	164,968	324,072	162,937	315,051

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

(2) During the period, a total of 2,030,599 ordinary shares were issued as follows:

- a. 1,405,763 shares issued on 9 October 2015 in respect of the Company's Dividend Reinvestment Plan, attributable to the payment of the final dividend for the financial year ended 30 June 2015. The issue price of the shares was \$4.17.
- b. 624,836 shares issued on 7 April 2016 in respect of the Company's Dividend Reinvestment Plan, attributable to the payment of the interim dividend for the financial year ended 30 June 2016. The issue price of the shares was \$5.11.

(3) During the current year no shares were issued following the exercise of options (FY15: 10,000 shares issued).

# NOTES TO THE FINANCIAL STATEMENTS

## 18. Issued capital (continued)

### 18.1 Share options granted under the Executive Share Option Plan

In accordance with the provisions of the executive share option plan, as at 30 June 2016, Directors, executives and senior employees have options over nil ordinary shares. As at 30 June 2015, Directors, executives and senior employees had options over 10,000 ordinary shares which are all vested, in aggregate, 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 22 to the financial statements.

## 19. Reserves

Equity-settled employee benefits reserve	FY16 \$'000	FY15 \$'000
Balance at beginning of year	-	14
Transfer to share capital	-	(14)
Balance at end of year	-	-

The equity-settled employee benefits reserve arises on the grant of share options to Directors, executives and senior executive management in accordance with the provisions of RFG's Executive Share Option Plan (ESOP). Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is set out in note 22.

Foreign Currency Translation Reserve	FY16 \$'000	FY15 \$'000
Balance at beginning of year	1,276	354
Exchange difference on translation of foreign operations	649	922
Balance at end of year	1,925	1,276

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

The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policies, as set out in note 23.

## 20. Retained earnings

Consolidated	Notes	FY16 \$'000	FY15 \$'000
Opening balance		87,455	87,972
Net profit attributable to members of the parent entity		61,302	34,219
Dividends provided for or paid	21	(40,510)	(34,736)
Balance at end of year		108,247	87,455

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Dividends

Company	FY16		FY15	
	Cents per share	Total \$'000	Cents per share	Total \$'000
<b>Declared and paid during the financial year</b>				
Fully paid ordinary shares				
Final dividend - fully franked at 30% tax rate <sup>(1)</sup>	11.750	19,145	11.250	16,299
Interim dividend - fully franked at 30% tax rate <sup>(2)</sup>	13.000	21,365	11.500	18,437
	<u>24.750</u>	<u>40,510</u>	<u>22.750</u>	<u>34,736</u>
<b>Declared after the end of the financial year</b>				
Fully paid ordinary shares				
Final dividend - fully franked at 30% tax rate <sup>(3)</sup>	<u>14.500</u>	<u>23,920</u>	<u>11.750</u>	<u>19,145</u>

- (1) In respect of the financial year ended 30 June 2015, as detailed in the Directors' Report for that financial year, a final dividend of 11.75 cents per share, based on 162,937,484 shares on issue at 27 August 2015, franked to 100% at 30% corporate income tax rate, was paid on 9 October 2015. The final dividend was approved by the Directors on 27 August 2015 and, therefore, was not provided for in the Company's financial report. It was resolved that the FY15 final dividend would constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan. The issue price of the shares was \$4.17.
- (2) In respect of profits of the financial year ending 30 June 2016, an interim dividend of 13.00 cents per share, based on 164,343,247 shares on issue at 25 February 2016, franked to 100% at 30% corporate income tax rate, was paid on 7 April 2016. The interim dividend was approved by the Directors on 25 February 2016 and it was resolved that the interim dividend would constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan. The issue price of the shares was \$5.11.
- (3) In respect of profits of the financial year ended 30 June 2016, a final dividend of 14.50 cents per share, based on 164,968,083 shares on issue at 25 August 2016, franked to 100% at 30% corporate income tax rate, will be paid on 7 October 2016. The final dividend was approved by the Directors on 25 August 2016 and, therefore, was not provided for in the Company's financial report. It was resolved that the FY16 final dividend will constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

Company	FY16 \$'000	FY15 \$'000
Adjusted franking account balance	<u>57,106</u>	<u>48,472</u>

## 22. Share-based payments

### 22.1 Executive Share Option Plan (ESOP)

In previous financial years, the Group's ownership-based compensation scheme for Directors, executives and senior employees was in accordance with the provisions of 'ESOP'. Options were granted to purchase parcels of ordinary shares on terms resolved by the Board. Certain Directors and senior executive management have also been granted options pursuant to the terms of formal Option Deeds which are outside the scope of, but substantially in accordance with, the terms of the ESOP.

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

#### Fair value of share options granted in the year

No share options were granted during the financial year (FY15: nil).

### 22.2 Performance Rights Plan

Currently the Group has a long term incentive scheme under a Performance Rights Plan. The Performance Rights Plan was approved by Directors in August 2015 for commencement in the financial year ending 30 June 2016. Under the Group's Long Term Incentive Plan, the Performance Rights Plan, Rights will only vest if performance conditions pertaining to the earnings per share (EPS) growth and relative total shareholder return (TSR) are met and the employee is still employed at the end of the vesting period.

# NOTES TO THE FINANCIAL STATEMENTS

## 22. Share-based payments (continued)

### 22.2 Performance Rights Plan (continued)

Participation in the plan is at the Board's absolute discretion and no individual has a contractual right to participate in the plan. Once vested, a participant will be deemed to have automatically exercised all vested performance rights and the Company will settle its obligation in line with the Performance Rights Plan.

There is no consideration payable by the participant upon exercising of vested performance rights. Upon vesting, the conversion of a performance right to an equity or cash based settlement, is determined using a formula referencing the relevant share prices of the Company, the number of rights exercised, and is at the Board's sole discretion.

The Performance Rights are divided into three (3) equal tranches, with each tranche respectively having a 12 months' performance period aligned to successive financial years.

Each tranche of Rights is dependent on satisfaction of two discrete performance measures:

1. Earnings per Share (EPS) representing 50% of each tranche (EPS Measure); and
2. Relative Total Shareholder Return (TSR) representing 50% of each tranche (TSR Measure).

#### Accounting policy

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.

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 the 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.

#### Measurement of equity-settled share-based payments

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 Monte Carlo simulation (using the Black-Scholes framework). 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.

### 23. Financial instruments

#### 23.1 Capital risk management

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

The Group's overall strategy remains unchanged from FY15.

The capital structure of the Group consists of net debt (borrowings disclosed in note 17, offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings, as disclosed in notes 18, 19 and 20).

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.

#### 23.2 Gearing ratio

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

The gearing ratio of 43.7% at the end of the reporting period is in line with the target gearing ratio range.

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

Consolidated	FY16 \$'000	FY15 \$'000
Debt <sup>(1)</sup>	206,772	206,644
Cash and bank balances	(16,956)	(14,395)
Net debt	189,816	192,249
Equity <sup>(2)</sup>	434,244	403,782
Gearing ratio <sup>(3)</sup>	43.7%	47.6%

(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 17.

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

(3) The Group's gearing ratio for covenant reporting under the senior debt facility with the NAB (net debt/net debt + equity) was 31.0% (FY15: 33.1%).

#### 23.3 Categories of financial instruments

Consolidated	FY16 \$'000	FY15 \$'000
<b>Financial assets</b>		
Loans and receivables		
Trade and other receivables	48,574	43,909
Other financial assets	42,251	29,586
Cash and cash equivalents	17,406	17,149
<b>Financial liabilities</b>		
Trade payables	14,452	16,290
Other payables	7,306	13,478
Retention bonds and deposits	2,153	2,032
Contingent consideration	22,447	28,344
Loans (at amortised cost)	206,772	206,644

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial instruments (continued)

### 23.4 Financial risk management objectives

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

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

### 23.5 Market risk

The Group's activities expose it primarily to the financial risks changes in foreign currency exchange rates (refer note 23.7) and interest rates (refer note 23.6).

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

### 23.6 Interest rate risk management

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

#### Interest rate sensitivity analysis

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's net profit would decrease by \$1.3 million (FY15: \$730 thousand) and increase by \$1.3 million (FY15: \$730 thousand), which is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

### 23.7 Foreign exchange risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Exposure	Assets		Liabilities	
	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000
US Dollar	14,964	7,972	2,614	7,201
Euro	1,475	2,358	880	1,274
New Zealand Dollar	5,229	3,775	671	835

#### Foreign currency sensitivity analysis

The following table summarises the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to Key Management Personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates.

## 23. Financial instruments (continued)

### 23.7 Foreign exchange risk (continued)

#### Foreign currency sensitivity analysis (continued)

Impact of Sensitivity to Profit or Loss	FY16		FY15	
	10%	-10%	10%	-10%
US Dollar	(786)	961	(49)	60
Euro	(37)	45	(69)	84
New Zealand Dollar	(288)	352	(187)	229
Total increase/(decrease)	(1,111)	1,358	(305)	373

### 23.8 Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a measure of mitigating the risk of financial loss from defaults. Credit exposure is reviewed continually.

Trade receivables consist of a large number of unrelated customers. Ongoing credit evaluation is performed on the financial conditions of accounts receivable and, where appropriate, additional collateral is obtained for balances identified as "at risk". Often this collateral is in the form of franchised outlets.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings, assigned by international credit rating agencies.

Except as detailed in the following table, the carrying amount of financial assets recognised in the financial statements, which is net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Financial assets and other credit exposures	FY16 \$'000	FY15 \$'000
<b>Contingent liabilities</b>		
Financial guarantees	814	814
Rental guarantees	2,121	2,838
	<u>2,935</u>	<u>3,652</u>

### 23.9 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 7.3 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 non-discounted cash flows of financial liabilities, using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest cash flows are at floating rate, the non-discounted amount is derived from forward interest rate curves at the end of the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial instruments (continued)

### 23.9 Liquidity risk management (continued)

#### Liquidity and interest rate risk tables (continued)

Consolidated	Weighted	Less than 1 year	1 – 5 years	Total
	average effective interest rate			
	%	\$'000	\$'000	\$'000
<b>FY16</b>				
Trade payables	-	14,452	-	14,452
Other payables	-	7,306	-	7,306
Retention bonds and deposits	-	2,087	66	2,153
Bank loans	3.8	7,393	217,983	225,376
Equipment loans	6.0	165	107	272
Contingent consideration	-	12,997	10,405	23,402
Rental guarantee contracts	0.3	2,121	-	2,121
Financial guarantee contracts	-	814	-	814
		<u>47,335</u>	<u>228,561</u>	<u>275,896</u>
<b>FY15</b>				
Trade payables	-	16,290	-	16,290
Other payables	-	13,478	-	13,478
Retention bonds and deposits	-	1,971	61	2,032
Bank loans	4.3	56,941	164,377	221,318
Equipment loans	6.9	475	169	644
Contingent consideration	-	7,702	22,993	30,695
Rental guarantee contracts	0.9	2,838	-	2,838
Financial guarantee contracts	-	814	-	814
		<u>100,509</u>	<u>187,600</u>	<u>288,109</u>

The maximum amount the Group could be forced to settle under the rental and financial guarantee contracts, if the fully guaranteed amount is claimed by the counterparty to the guarantee, is \$2.9 million (FY15: \$3.7 million). At the end of the reporting period, it was not considered probable that the counterparties to the rental or financial guarantee contracts will claim under those contracts.

## 23. Financial instruments (continued)

### 23.9 Liquidity risk management (continued)

#### Liquidity and interest rate risk tables (continued)

The following table details the Group's expected maturity for its non-derivative financial assets. The information has been presented based on the non-discounted 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	Less than 1 year	1 – 5 years	Total
	average effective interest rate			
	%	\$'000	\$'000	\$'000
<b>FY16</b>				
Cash and cash equivalents	-	17,406	-	17,406
Loans and receivables	-	53,936	38,995	92,931
		<u>71,342</u>	<u>38,995</u>	<u>110,337</u>
<b>FY15</b>				
Cash and cash equivalents	-	17,149	-	17,149
Loans and receivables	-	48,199	25,296	73,495
		<u>65,348</u>	<u>25,296</u>	<u>90,644</u>

The Group has access to financing facilities, as described in note 7.3, of which \$94.7 million was unused at the end of the reporting period (FY15: \$70.6 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

#### 23.10 Fair value of financial instruments

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 2016, the Group has contingent consideration which is classified as a level 3 financial instrument. There are no level 1 or level 2 financial instruments. As at 30 June 2015, the Group had contingent consideration which was classified as a level 3 financial instrument. There were no level 1 or level 2 financial instruments.

#### Accounting policy

##### *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.

##### *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.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial instruments (continued)

### Accounting policy (continued)

#### *Financial guarantee contract liabilities*

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

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

#### *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 only when the Group's obligations are discharged, cancelled or they expire.

24. Subsidiaries

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

Entity	FY16 %	FY15 %	Entity	FY16 %	FY15 %
Retail Food Group Limited <sup>(1)</sup>			Gloria Jeans Coffees Australasia Pty Ltd <sup>(2)</sup>	100	100
Addiption Holdings Pty Ltd <sup>(2)</sup>	100	100	Gloria Jeans Coffees Holdings Pty Ltd <sup>(2)</sup>	100	100
Adonai International Pty Ltd <sup>(2)</sup>	100	100	Gloria Jeans Coffees International Pty Ltd <sup>(2)</sup>	100	100
bb's Café System Pty Ltd <sup>(2)</sup>	100	100	Gloria Jeans Coffees Supply Pty Ltd <sup>(2)</sup>	100	100
BDP Franchise Pty Ltd <sup>(2)</sup>	100	100	Gourmet Foods Australia Pty Ltd <sup>(2)</sup>	100	100
BDP System Pty Ltd <sup>(2)</sup>	100	100	Hot Dog Construction Zone (Aust) Pty Ltd <sup>(2)</sup>	100	100
Booming Pty Ltd <sup>(2)</sup>	100	100	International Franchisor Pty Ltd <sup>(2)</sup>	100	100
Brumby's Bakeries Corporate Retail Division Pty Ltd <sup>(2)</sup>	100	100	Jireh Group Pty Ltd <sup>(2)</sup>	100	100
Brumby's Bakeries Holdings Pty Ltd <sup>(2)</sup>	100	100	Jireh International Pty Ltd <sup>(2)</sup>	100	100
Brumby's Bakeries Pty Ltd <sup>(2)</sup>	100	100	Jireh International Retail Pty Ltd <sup>(2)</sup>	100	100
Brumby's Bakeries System Pty Ltd <sup>(2)</sup>	100	100	Jireh International Warehouse and Distribution Pty Ltd <sup>(2)</sup>	100	100
Café 2U (NZ) Pty Ltd <sup>(2)</sup>	100	100	Jonamill Pty Ltd <sup>(2)</sup>	100	100
Café 2U International Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie (SA) Pty Ltd <sup>(2)</sup>	100	100
Café 2U Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie (VQ) Pty Ltd <sup>(2)</sup>	100	100
Caffe Coffee Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie (VOL) Pty Ltd <sup>(2)</sup>	100	100
Capercorp Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie (WA) Pty Ltd <sup>(2)</sup>	100	100
Capers Construction Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie Corporate Retail Division Pty Ltd <sup>(2)</sup>	100	100
Capers Gourmet Kitchen Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie Management Pty Ltd <sup>(2)</sup>	100	100
CGP Systems Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie Operations Pty Ltd <sup>(2)</sup>	100	100
Coffee Houses CRD Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie System Pty Ltd <sup>(2)</sup>	100	100
Coffee in a Can Pty Ltd <sup>(2)</sup>	100	100	Patisserie Delights Pty Ltd <sup>(2)</sup>	100	100
Coleville Enterprises Pty Ltd <sup>(2)</sup>	100	100	Pizza Capers Franchise Pty Ltd (formally PCGK Holdings Pty Ltd) <sup>(2)</sup>	100	100
Crust Franchise Pty Ltd <sup>(2)</sup>	100	100	Pizza Corporate Retail Division Pty Ltd <sup>(2)</sup>	100	100
DBC IP Holdings Pty Ltd <sup>(2)</sup>	100	100	PRCH Holdings Pty Ltd <sup>(2)</sup>	100	100
DBC Services Pty Ltd <sup>(2)</sup>	100	100	Regional Franchising Systems Pty Ltd <sup>(2)</sup>	100	100
DCM System Pty Ltd <sup>(2)</sup>	100	100	RFG Finance Pty Ltd <sup>(2)</sup>	100	100
DK China Pty Ltd <sup>(2)</sup>	100	100	RFGA Equitech Pty Ltd (formerly RFGA CMF Pty Ltd) <sup>(2)</sup>	100	100
Donquay Pty Ltd <sup>(2)</sup>	100	100	RFGA Holdings (Aust) Pty Ltd <sup>(2)</sup>	100	100
Donut King Corporate Retail Division Pty Ltd <sup>(2)</sup>	100	100	RFGA Holdings Pty Ltd <sup>(2)</sup>	100	100
Donut King Franchise Pty Ltd <sup>(2)</sup>	100	100	RFGA Management Pty Ltd <sup>(2)</sup>	100	100
Donut King System Pty Ltd <sup>(2)</sup>	100	100	Roasted Addiption Pty Ltd <sup>(2)</sup>	100	100
Espresso Concepts Pty Ltd <sup>(2)</sup>	100	100	Roasting Australia Holdings Pty Ltd <sup>(2)</sup>	100	100
Espresso Enterprises Pty Ltd	100	100	Systems Franchisor Pty Ltd <sup>(2)</sup>	100	100
Espresso Kick Pty Ltd <sup>(2)</sup>	100	100	TCG Iprop Pty Ltd <sup>(2)</sup>	100	100
Esquires Coffee Houses System Pty Ltd <sup>(2)</sup>	100	100	The Michel's Group Australia Pty Ltd <sup>(2)</sup>	100	100
Evolution Coffee Roasters Pty Ltd	100	100	bb's New Zealand Limited <sup>A</sup>	100	100
Freezer Rental Pty Ltd <sup>(2)</sup>	100	100	Brumby's Bakeries System (NZ) Limited <sup>A</sup>	100	100

# NOTES TO THE FINANCIAL STATEMENTS

## 24. Subsidiaries (continued)

Entity	FY16 %	FY15 %	Entity	FY16 %	FY15 %
Café 2U (NZ) Limited <sup>Δ</sup>	100	100	TCG Franchising Limited <sup>Δ</sup>	100	100
Caffe Coffee (NZ) Limited <sup>Δ</sup>	100	100	Gloria Jean's Coffees India Private Limited <sup>■</sup>	100	100
CGP (NZ) Limited <sup>Δ</sup>	100	100	Gloria Jean's Gourmet Coffee Corp <sup>■</sup>	100	100
Donut King (NZ) Limited <sup>Δ</sup>	100	100	Gloria Jean's Gourmet Coffee Franchising Corp <sup>■</sup>	100	100
ECH System (NZ) Limited <sup>Δ</sup>	100	100	Maranatha Import Export LLC <sup>■</sup>	100	100
HDCZ (NZ) Limited <sup>Δ</sup>	100	100	Praise IAG Franchisor LLC <sup>■</sup>	100	100
Michel's Patisserie Systems (NZ) Limited <sup>Δ</sup>	100	100	Praise IAG Stores LLC <sup>■</sup>	100	100
RFG (NZ) Holdings Limited <sup>Δ</sup>	100	100	Praise North America IP LLC <sup>■</sup>	100	100
RFG (NZ) Limited <sup>Δ</sup>	100	100	Praise Operations Company LLC <sup>■</sup>	100	100

All entities utilise the functional currency of the country of incorporation.

- (1) Retail Food Group Limited is the head entity within the tax consolidated group.
- (2) These companies are members of the tax consolidated group.
- (3) All entities are incorporated in Australia unless identified with one of the following symbols:
  - Δ New Zealand.
  - USA.

### 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 power over an entity, is exposed or has rights to variable returns from the entity and has the ability to use its power to affect its returns.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Parent entity disclosures

### 25.1 Financial position

Parent entity	FY16 \$'000	FY15 \$'000
<b>Assets</b>		
Current assets	610	6,628
Non-current assets	551,758	547,442
Total assets	552,368	554,070
<b>Liabilities</b>		
Current liabilities	5,744	50,011
Non-current liabilities	206,500	156,000
Total Liabilities	212,244	206,011
<b>Equity</b>		
Issued capital	324,072	315,051
Retained earnings	16,052	33,008
Total equity	340,124	348,059

### 25.2 Financial performance

Parent entity	FY16 \$'000	FY15 \$'000
Profit for the year	23,554	27,378
Other comprehensive income	-	-
Total comprehensive income	23,554	27,378

### 25.3 Other Commitments

The parent entity has no contingent liabilities or expenditure commitments as at 30 June 2016 (FY15: nil).

## 26. Acquisitions

### 26.1 FY15 Acquisitions

Name of businesses / intellectual property acquired	Principal activity	Date of acquisition	Total cost of acquisition \$'000	Cash cost of acquisition \$'000	Scrip cost of acquisition \$'000	Contingent cost of acquisition \$'000
Di Bella Coffee	Coffee Roaster and wholesaler of coffee/allied product	18 Feb 2015	45,496	27,254	2,600	15,642
	Total consideration:		45,496	27,254	2,600	15,642

#### Di Bella Coffee

On 25 November 2014, the Group announced that it had entered into a conditional Sale and Purchase Agreement (SPA) subject to normal contractual and customary terms to acquire Di Bella Coffee for total consideration of \$29.9 million, comprising cash and RFG shares, and contingent consideration payable up to \$17.3 million.

On 18 February 2015, the Group completed the acquisition of the Di Bella Coffee for the following consideration:

- \$27.3 million initial cash payment;
- RFG ordinary shares to the value of \$2.6 million; and
- Earn out payments up to a maximum of \$17.3 million, contingent upon Di Bella Coffee achieving future performance milestones. \$15.6 million was brought to account on acquisition, representing the present value of the estimated fair value of the contingent earn-out. Earn out payments of \$4.9 million have been made since acquisition date.

# NOTES TO THE FINANCIAL STATEMENTS

## 26. Acquisitions (continued)

### 26.1 FY15 Acquisitions (continued)

#### Di Bella Coffee (continued)

This transaction was accounted for on a provisional basis using the acquisition method of accounting as at 30 June 2015, pending further assessment of identifiable intangible assets and deferred tax liabilities. These valuations have since been finalised.

Consideration	FY15 \$'000
Cash	27,254
Scrip consideration	2,600
Contingent consideration	15,642
Total	<u>45,496</u>

The net assets acquired in the business combination are as follows:

Net assets acquired	Fair value on acquisition \$'000
<b>Current assets</b>	
Cash and cash equivalents	51
Trade and other receivables	1,071
Inventories	576
Other current assets	49
Total current assets	<u>1,747</u>
<b>Non-current assets</b>	
Property, plant and equipment	3,659
Deferred tax assets	110
Intangible assets	15,198
Total non-current assets	<u>18,967</u>
Total assets	<u>20,714</u>
<b>Current liabilities</b>	
Trade and other payables	1,639
Borrowings	571
Current tax liabilities	167
Provisions - Current	372
Total current liabilities	<u>2,749</u>
<b>Non-current liabilities</b>	
Borrowings	381
Total non-current liabilities	<u>381</u>
Total liabilities	<u>3,130</u>
<b>Net Assets</b>	17,584
Goodwill on acquisition of business	<u>27,912</u>
Acquisition price	<u>45,496</u>

## 26. Acquisitions (continued)

### 26.1 FY15 Acquisitions (continued)

#### Di Bella Coffee (continued)

Net cash flow on acquisition	FY15 \$'000
Total purchase consideration	45,496
Less: non-cash consideration	<u>(18,242)</u>
Consideration paid in cash	27,254
Less: Cash and cash equivalent balances acquired	<u>(51)</u>
Total	<u>27,203</u>

#### Accounting policy

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## **27. Related party transactions**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed in the following sections.

### **27.1 Equity interests in related parties**

#### **Equity interests in subsidiaries**

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 24 to the financial statements.

#### **Equity interests in associates and joint ventures**

There are no equity interests in associates or joint ventures.

#### **Equity interests in other related parties**

There are no equity interests in other related parties.

### **27.2 Transactions with Key Management Personnel**

Details of all transactions with Key Management Personnel are disclosed in the Directors' Report to the financial statements.

## 28. Events after the reporting period

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

### Final dividend

On 25 August 2016, the Board of Directors declared a final dividend for the financial year ended 30 June 2016, as set out in Note 21 of this financial report.

### Acquisitions

On 25 August 2016 Retail Food Group Limited, via a wholly owned subsidiary, entered into a Share Purchase Agreement (SPA) to acquire the business and operations of Hudson Pacific Corporation Pty Ltd (Hudson Pacific or HPC) for total consideration of c. \$88m comprising c. \$55m cash and RFG scrip allocation. The cash component of consideration is to be funded by existing cash and debt facilities.

The SPA is subject to satisfactory confirmatory due diligence investigations, along with other usual and ordinary conditions, and is programmed for completion in late September 2016.

## 29. Contingent liabilities

Consolidated	FY16 \$'000	FY15 \$'000
<b>Contingent liabilities</b>		
Financial guarantee contracts <sup>(1)</sup>	814	814
Rental guarantee contracts <sup>(2)</sup>	2,121	2,838
	<u>2,935</u>	<u>3,652</u>

(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 (ANZ Bank) to selective Franchisees. The guarantees had been given as security in respect of loans made by the ANZ Bank to enable certain franchisees to commission their outlets. Each guarantee is expected to be extinguished without cost to the Group in future financial periods.

(2) The Group, through various subsidiaries, is guarantor to a number of leases occupied and licensed to franchisees. No liabilities have been recognised as part of these rental guarantees.

### 29.1 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.

## 30. Commitments for Expenditure

Consolidated	FY16 \$'000	FY15 \$'000
Plant and equipment	13,201	9,753
Inventories	17,753	15,799
	<u>30,954</u>	<u>25,552</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 31. Operating Leases

### 31.1 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.

### 31.2 Amounts recognised in profit or loss

Consolidated	FY16 \$'000	FY15 \$'000
Lease expense	9,126	12,126
	<u>9,126</u>	<u>12,126</u>

### 31.3 Future minimum lease payments

Consolidated	FY16 \$'000	FY15 \$'000
Less than one year	5,274	5,420
Between one and five years	13,518	15,169
More than five years	1,555	4,169
	<u>20,347</u>	<u>24,758</u>

### 31.4 Liabilities recognised in respect of non-cancellable operating leases

Consolidated	FY16 \$'000	FY15 \$'000
Onerous leases and make-good (Note: 15)	513	2,094
	<u>513</u>	<u>2,094</u>

## Accounting policy

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 32. Remuneration of auditors

Consolidated	FY16 \$	FY15 \$
<b>Audit services</b>		
Auditors of the parent entity		
Audit of the financial report	350,000	330,000
Review of the half-year financial report	65,000	65,000
Audit services – opening balances of acquired entities	-	202,000
	<u>415,000</u>	<u>597,000</u>
Other auditors		
Audit and review of financial statements	23,450	19,539
	<u>23,450</u>	<u>19,539</u>

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

# ADDITIONAL STOCK EXCHANGE INFORMATION

## Number of holders of equity securities as at 15 August 2016

### Ordinary share capital

- 164,968,083 fully paid ordinary shares are held by 18,471 individual shareholders.

All issued ordinary shares carry one vote per share.

### Distribution of holders of equity securities

	Total holders fully paid ordinary shares	Fully paid ordinary shares	% Issued capital	Total holders options	Options
1 - 1000	7,327	3,963,749	2.4%	-	-
1,001 - 5,000	8,401	21,434,189	13.0%	-	-
5,001 - 10,000	1,713	12,670,204	7.7%	-	-
10,001 - 100,000	969	20,515,733	12.4%	-	-
100,001 and over	61	106,384,208	64.5%	-	-
	18,471	164,968,083	100%	-	-

### Substantial shareholders

Ordinary shareholders	Fully paid		Partly paid	
	Number held	Percentage	Number held	Percentage
Mr Anthony (Tony) Alford	19,635,758	11.88%	-	-
Mawer Investment Management Limited	7,235,777	4.40%	-	-

### Twenty largest holders of quoted equity instruments

Ordinary shareholders	Fully paid		Partly paid	
	Number	Percentage	Number	Percentage
HSBC Custody Nominees	27,905,110	16.9%	-	-
JP Morgan Nominees Australia	23,419,503	14.2%	-	-
Citicorp Nominees Pty Ltd	9,479,021	5.7%	-	-
CGFH C2 Pty Ltd	8,884,987	5.4%	-	-
Alford s Holdings (Qld) Pty Ltd	6,637,309	4.0%	-	-
National Nominees Limited	4,447,706	2.7%	-	-
Brecot Pty Ltd	2,532,921	1.5%	-	-
Anttra Pty Ltd	2,338,717	1.4%	-	-
Tea & Coffee Traders Pty Ltd	1,882,814	1.1%	-	-
BNP Paribas Noms Pty Ltd	1,793,398	1.1%	-	-
UBS Nominees Pty Ltd	1,401,201	0.8%	-	-
AMA Holdings (Qld) Pty Ltd	1,294,042	0.8%	-	-
Brecot No 1 Pty Ltd	981,552	0.6%	-	-
CSF Investments (Qld) Pty Ltd	969,556	0.6%	-	-
WSS Holdings (Aust) Pty Ltd	927,217	0.6%	-	-
Risby Investments Pty Ltd	832,008	0.5%	-	-
Cakyto Holdings Pty Ltd	737,815	0.5%	-	-
Bexlie Holdings (QLD) Pty Ltd	737,365	0.4%	-	-
Ms Alicia Jayne Atkinson	714,441	0.4%	-	-
AMP Life Limited	686,612	0.4%	-	-
	98,603,295	59.6%	-	-



*Cookies + Cream  
Flaffe*

*A scrumptious blend  
of white chocolate  
& cookie chunks*

*espresso  
MENU*

*espresso*  
The traditional way of  
making coffee, for  
the true coffee connoisseur.

*espresso for*  
A single shot of rich espresso  
finished with a dash of  
sweetened milk.

*long black*  
A double shot of coffee  
with some hot water.

*espresso*  
The perfect way to enjoy  
your coffee.

# STRENGTH IN BRANDS.



## RETAIL FOOD GROUP NATIONAL OFFICE

ADDRESS 1 Olympic Circuit Southport QLD 4215 Australia

TELEPHONE +61 (07) 5591 3242

FAX +61 (07) 5591 9021

E-MAIL [rfga@rfg.com.au](mailto:rfga@rfg.com.au)

WEBSITE [www.rfg.com.au](http://www.rfg.com.au)

**RETAILFOODGROUP**  
STRENGTH IN BRANDS

