

# APPENDIX 4E

## Retail Food Group Limited

### SECTION A

#### RESULTS FOR ANNOUNCEMENT TO THE MARKET

##### Reporting period

Current reporting period: Financial year ended 30 June 2017

Previous corresponding period: Financial year ended 30 June 2016

##### Revenue and net profit

Details		Growth PCP %		FY17 \$'000
Revenue from operations	up	27.0%	to	349,295
Underlying Profit after tax attributable to members	up	14.0%	to	75,740
Profit from ordinary activities after tax attributable to members	up	16.9%	to	61,927
Net profit attributable to members	up	16.9%	to	61,927

##### Dividends

Details	Cents per share	Total amount \$'000	Franked/Unfranked	Payment date
<b>Declared and paid during the financial year</b>				
Final FY16 dividend	14.50	23,920	100% Franked	7 October 2016
Interim FY17 dividend	14.75	25,968	100% Franked	10 April 2017
<b>Declared after the end of the financial year</b>				
Final FY17 dividend	15.00	26,510	100% Franked	17 October 2017

Record date for determining entitlements to the final FY17 dividend: 12 September 2017.

##### Net tangible assets per security

Details	30 June 2017	30 June 2016
Net tangible (liabilities)/assets per security <sup>(1)</sup>	(11.5) cents <sup>(2)</sup>	(13.3) cents <sup>(3)</sup>

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

(2) 30 June 2017 calculation based on 176,736,066 shares.

(3) 30 June 2016 calculation based on 164,968,083 shares.

### SECTION B

#### Commentary on the results

For comments on trading performance during the financial year, refer to the Directors Report and the FY17 results media release.

The final fully franked dividend of 15.00 cents per share was approved by the Directors on 29 August 2017. In complying with accounting standards, as the dividend was not approved prior to year-end, no provision has been recognised for this dividend.



**Retail Food Group Limited**  
**Annual financial report**  
**Financial year ended - 30 June 2017**

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## SUMMARY FINANCIAL INFORMATION

Item	REPORTED			UNDERLYING OPERATIONS <sup>(1)</sup>		
	FY16 (Previously reported)		FY16 (Restated)	FY17	FY16	FY17
<b>Financial</b>						
Revenue	\$275.1m		\$275.1m	\$349.3m		
EBITDA*	\$103.7m		\$92.7m <sup>(2)</sup>	\$106.5m	\$110.2m	\$123.5m
EBIT*	\$97.2m		\$86.2m <sup>(2)</sup>	\$97.2m	\$104.2m	\$115.5m
NPAT	\$61.3m		\$53.0m <sup>(2)</sup>	\$61.9m	\$66.4m	\$75.7m
Basic EPS	37.4 cps		32.3 cps <sup>(2)</sup>	35.7 cps	40.5 cps	43.7 cps
Dividend	27.50 cps		27.50 cps	29.75 cps		
<b>Operating Performance</b>						
Revenue Growth	30.9%		30.9%	27.0% <sup>(3)</sup>		
EBITDA Growth*				14.8% <sup>(3)</sup>	24.0%	12.1%
EBIT Growth*				12.8% <sup>(3)</sup>	22.1%	10.9%
NPAT Growth				16.9% <sup>(3)</sup>	20.5%	14.0%
Basic EPS Growth				10.6% <sup>(3)</sup>	13.7%	7.9%

\* EBITDA, EBIT, Underlying EBITDA, Underlying EBIT & Underlying NPAT are non-IFRS profit measures used by Directors and Management to assess the underlying performance of the Group.

(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 (Restated)

Acquisition transaction and integration costs  
(including restructuring costs)

Asset impairment

EBIT - UNDERLYING OPERATIONS

NPAT results from 'Underlying Operations'

NPAT - REPORTED

Post-tax impact of non-underlying EBIT adjustments

NPAT - UNDERLYING OPERATIONS

	FY16 (Restated)	FY17
EBIT - REPORTED (Restated)	\$86.2m <sup>(2)</sup>	\$97.2m
Acquisition transaction and integration costs (including restructuring costs)	\$9.1m <sup>(2)</sup>	\$13.1m
Asset impairment	\$8.9m <sup>(2)</sup>	\$5.2m
EBIT - UNDERLYING OPERATIONS	\$104.2m	\$115.5m
NPAT - REPORTED	\$53.0m <sup>(2)</sup>	\$61.9m
Post-tax impact of non-underlying EBIT adjustments	\$13.4m <sup>(2)</sup>	\$13.8m
NPAT - UNDERLYING OPERATIONS	\$66.4m	\$75.7m

(2) Restated – see Note 34.

(3) FY17 Operating Performance growth measures are based on FY16 Restated Reported results.

# CORPORATE DIRECTORY

<b>Directors</b>	Mr Colin Archer Chairman and Independent Non-Executive Director
	Mr Andre Nell Executive Managing Director
	Ms Jessica Buchanan Independent Non-Executive Director
	Mr Stephen Lonie Independent Non-Executive Director
	Ms Kerry Ryan Independent Non-Executive Director
	Mr Russell Shields Independent Non-Executive Director
	Mr Anthony (Tony) Alford Non-Independent Non-Executive Director (to 3 July 2017)
<b>Company Secretary</b>	Mr Anthony Mark Connors LLB
<b>Registered office &amp; Principal place of business</b>	RFG House 1 Olympic Circuit Southport QLD 4215
<b>Share register</b>	Computershare Investor Services 117 Victoria Street West End Brisbane QLD 4101
<b>Solicitors</b>	McCullough Robertson Lawyers Level 11, 66 Eagle Street Brisbane QLD 4000
<b>Auditors</b>	PricewaterhouseCoopers 480 Queen St Brisbane QLD 4000
<b>Bankers</b>	National Australia Bank Limited Level 20, 100 Creek Street Brisbane QLD 4000
	Westpac Banking Corporation Level 7, 260 Queen Street Brisbane QLD 4000
<b>Stock exchange listings</b>	Retail Food Group Limited (ASX: RFG) shares are listed on the Australian Securities Exchange
<b>Website Address</b>	<a href="http://www.rfg.com.au">www.rfg.com.au</a>

# 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 2017 in accordance with the provisions of the *Corporations Act 2001*.

## Information about the Directors

Name	Particulars
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 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.
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.
Ms Jessica Buchanan	Independent Non-Executive Director. Ms Buchanan joined the Board on 29 May 2012. Ms Buchanan has over 15 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 last re-elected to the Board at the Company's AGM held on 26 November 2015, 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, Corporate Travel Management Limited and Apollo Tourism & Leisure Limited. Mr Lonie is the Chairman of the Company's Audit and Risk Management Committee and a member the Nominations and Remuneration Committees. Mr Lonie was last re-elected to the Board at the Company's AGM held on 30 November 2016, following retirement by rotations
Ms Kerry Ryan	Independent Non-Executive Director, Bachelor of Laws and Bachelor of Arts (major in international relations). Ms Ryan joined the Board on 27 August 2015. Ms Ryan's professional background is in commercial law, and she has extensive experience across international markets in the retail and franchise areas. She is a director of the Richmond Football Club and its health and fitness business Aligned Leisure, and she is a member of the Advisory Board of Lexvoco, a legal services and consultancy business. Ms Ryan is a Fellow of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia. She is a member of the Law Institute of Victoria.
Mr Russell Shields	Independent Non-Executive Director, Fellow of The Australian Institute of Company Directors, Senior Fellow of Finsia, Director of Eclipx and Aquis Entertainment. 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. Mr Shields is a member of the Company's Audit & Risk Management Committee.
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-Independent Non-Executive Director on 1 July 2016. Mr Alford resigned from the Board on 3 July 2017.

# DIRECTORS' REPORT

## 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
	Apollo Tourism & Leisure Limited	20 September 2016 to present
Mr Russell Shields	Eclix Group Limited	24 March 2015 to present
	Aquis Entertainment Limited	7 August 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 Colin Archer	389,377	-
Mr Andre Nell	12,710	53,763
Ms Jessica Buchanan	11,628	-
Mr Stephen Lonie	52,435	-
Ms Kerry Ryan	10,000	-
Mr Russell Shields	7,500	-
Mr Anthony (Tony) Alford	19,643,078	-

## 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 and FY19 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, 17 Board meetings, 5 Audit and Risk Management Committee meetings, 2 Remuneration Committee meetings and 2 Nominations Committee meetings were held.

Directors	Board of Directors		Audit Committee		Remuneration Committee		Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Colin Archer	17	17	5	5	2	2	2	2
Mr Andre Nell	17	17	-	-	-	-	-	-
Ms Jessica Buchanan	17	17	-	-	2	2	2	2
Mr Stephen Lonie	17	16	5	5	2	1	2	1
Ms Kerry Ryan	17	16	5	5	-	-	-	-
Mr Russell Shields	17	17	2	2	-	-	-	-
Mr Anthony (Tony) Alford	17	17	-	-	-	-	-	-

# 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 the role of Director of Corporate Services on 10 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 2017 Corporate Governance Statement is dated as at 30 June 2017 and reflects the corporate governance practices in place throughout the 2017 financial year. The FY17 Corporate Governance Statement was approved by the Board on 29 August 2017. 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, Café2U, 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 (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, 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;
- Development and management of the coffee roasting facilities and the wholesale supply of coffee and allied products to the 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; and
- Development and management of the procurement, warehousing, manufacturing and distribution business under the Hudson Pacific Food Service, Dairy Country, Bakery Fresh and Associated Food Service brands.

### Changes in state of affairs

On 22 September 2016, the Group acquired 100% of the issued share capital of Hudson Pacific Corporation (HPC) for a total purchase consideration of \$86.4 million. HPC is an integrated procurement, warehousing, manufacturing and distribution business, comprising the Hudson Pacific Food Service, Dairy Country and Bakery Fresh business units. The acquisition created revenue diversification and vertical integration opportunities and a significant benefit to the Group's existing franchisee and wholesale customer networks.

On 12 May 2017, the Group acquired 100% of the issued share capital of Associated Foodservice (AFS) for a total purchase consideration of \$5.6 million. AFS is a food service business that bolsters the Group's food service pursuits, and adds valuable scale and management talent to the operations conducted by the HPC food service business.

On 26 July 2017 the Group announced the completion of joint ventures with UAE-based businesses, the Al Hathboor Group and HKO Group, to accelerate Brand System expansion in the Gulf region, and to establish a coffee enterprise focused on realising significant commercial coffee opportunities throughout the Middle East & North Africa (MENA) region. Under the agreements, RFG will maintain a 50% interest in the joint ventures, whilst also retaining existing Middle East Brand System royalty and certain coffee income streams.

# DIRECTORS' REPORT

## Review of operations and financial condition

### Group overview

The following table summarises the Group's results for the financial years ending 30 June 2017 and 30 June 2016:

Item	FY17	FY16	Change
NPAT (Underlying) <sup>(1)</sup>	\$75.7m	\$66.4m	\$9.3m
NPAT <sup>(2)</sup>	\$61.9m	\$53.0m	\$8.9m
Revenue <sup>(1)</sup>	\$349.3m	\$275.1m	\$74.2m
EBITDA (Underlying) <sup>(1)(3)</sup>	\$123.5m	\$110.2m	\$13.3m
EBITDA <sup>(2)(3)</sup>	\$106.5m	\$92.7m	\$13.8m
EPS (Underlying) <sup>(1)</sup>	43.70 cps	40.50 cps	3.20 cps
EPS <sup>(2)</sup>	35.70 cps	32.30 cps	3.40 cps
Dividend per Share (DPS)	29.75 cps	27.50 cps	2.25 cps

(1) These figures are not subject to audit.

(2) Restated FY16 - see Note 34.

(3) EBITDA is a non-IFRS profit measure.

The results for the 2017 financial year reflect a continuation of the contribution from the Group's existing Cash Generating Units (CGU's), contributions from Hudson Pacific Corporation (HPC) and Associated Foodservice (AFS) during the year, and benefits from organisational restructuring activities undertaken as a consequence of acquisition completion, and costs which have been segregated from underlying operations.

The Group has restated its statutory reported results for the financial years ended prior to and including 30 June 2015 (FY15) and the financial year ended 30 June 2016 (FY16). The restatements are further discussed within this Directors' Report under the heading 'Accounting adjustments in the Financial Statements at 30 June 2017', and more particularly detailed in Note 34 of these financial statements. Underlying results for the FY16 and FY17 years as quoted have not been impacted by the restatements.

Revenue for FY17 was \$349.3 million, representing a 27.0% increase (or \$74.2 million) on the prior corresponding period (PCP). The increase in revenue is primarily attributable to the following factors:

- A \$100.6 million contribution from the HPC and AFS acquisitions; offset by
- A \$17.0 million decrease in Brand System segment revenues (Bakery/Café, QSR and Coffee Retail), predominantly attributable to programmed reduction in sales revenue from corporate store operations across all Brand Systems, cessation of revenues from New Zealand, primarily within the Coffee Retail Brand System CGU as a result of appointing a New Zealand master franchise partner in December 2015, a reduction in territory licence revenues achieved, and a decrease in Brand System coffee and allied product sales compared to the PCP; and
- A \$9.6 million decrease in Coffee & Allied Beverage revenue, primarily attributable to substantial 'in-home' capsule machine and capsule sales associated with the national launch of the 'next generation' capsule machine campaign occurring in FY16.

The 12.1% Underlying EBITDA growth and 14.0% Underlying NPAT growth was predominantly attributable to positive contributions from FY17 HPC and AFS acquisitions, the realised synergistic benefits from vertical integration and restructuring activities, sale of Master Franchise Licences, and an increase in higher margin product sales in the Coffee & Allied Beverage segment relative to PCP.

Underlying EPS of 43.7 cps represented a 7.9% increase on PCP. The FY17 full year Dividend increased 8.2% to 29.75cps.

Underlying EBITDA and Underlying NPAT for FY17 excludes \$13.1 million (pre-tax) in acquisition, integration and restructuring costs, primarily attributable to the HPC acquisition, significant due diligence investigation of complimentary assets, \$1.4 million amortisation of acquired intangible assets, and costs associated with exiting discontinued operations. The FY17 costs excluded from Underlying EBITDA also includes a \$5.2 million non-cash write-down of amounts invoiced to marketing funds, more particularly detailed in this Directors' Report discussing accounting restatements and adjustments in the financial statements at 30 June 2017.

### Review of Operations

#### Financial Position and Cash Flows

Net Assets of \$465.2 million have increased by \$89.1 million (or 23.7%) from 30 June 2016 primarily as a result of the Group's FY17 acquisitions which were funded by capital raising activities. The acquisition note (Note 26.1) to the accompanying financial statements presents the net assets acquired by the Group in respect of the Hudson Pacific Corporation and Associated Foodservice acquisitions and associated Goodwill.



# DIRECTORS' REPORT

## Review of operations and financial condition (continued)

### Financial Position and Cash Flows (continued)

Return on Investment (EBIT/Total Assets) decreased by 1.0% on PCP to 10.5% on reported earnings, primarily attributable to the less than 12 month EBIT contributions of FY17 acquisitions. On an underlying basis, Return on Investment decreased by 1.4% to 12.4%.

Cash inflows from operating activities for FY17 were \$63.8 million (FY16: \$64.8 million), with the decrease in net operating cash inflow attributable to cash outflows arising from acquisition, integration and restructuring costs incurred in the year, as well as a significant increase in working capital balances as a result of the HPC and AFS acquisitions. The cash conversion to EBITDA ratio of 88.9% for the year (FY16: 100.4%) reflects the positive cash generation of the business, albeit being enhanced by the \$5.2 million non-cash write-down of amounts invoiced to marketing funds offsetting increased cash outflows arising from acquisition, integration and restructuring costs incurred.

The Group received \$35.6 million (before costs) in cash arising from the issue of shares from the 29 September 2016 Share Placement, and issued a further \$43.2 million in shares to fund acquisitions and dividend reinvestment.

### Debt Structure

As at 30 June 2017, the Group's total gross debt increased to \$257.3 million including ancillary facilities, with cash reserves and total facility headroom of circa \$96.9 million. The increase is primarily attributable to the HPC and AFS acquisitions previously discussed.

During the period, the Group:

- Increased its total bi-lateral senior finance facility by \$40.0 million. Westpac Banking Corporation contributed the entire \$40.0 million funding increase to the bi-lateral facility; and
- Enhanced interest rate risk management measures by entering into fixed interest rate contracts covering an additional \$100 million of gross debt with a 3.0 - 4.5 year maturity profile, with the total debt subject to fixed interest rates as at the date of this report being \$150 million.

### Operating Segment Review

For management purposes, the Group is organised into five major operating divisions. These divisions are the basis on which the Group reports its primary segment information. During the period, the Operating divisions of the Group were restructured in preparation to execute on the Group's long-term growth strategies, including acquisition opportunities. The chief operating decision makers of the Group consider that the aggregation and rationalisation of operating divisions will assist in the realisation of greater synergistic benefits within each Division, and will ultimately result in a more dynamic business.

The Group's reportable segments under AASB 8 are as follows:

- Bakery/Café Division (incorporating Michel's Patisserie, Donut King, and Brumby's Bakery Brand Systems);
- QSR Division (incorporating Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Coffee Retail Division (incorporating Gloria Jean's Coffees, It's A Grind, Esquires, Café2U and The Coffee Guy Brand Systems);
- Coffee and Allied Beverage Division (incorporating Wholesale Coffee operations); and
- Commercial Food Services Division (incorporating procurement, warehousing, manufacturing and distribution operations).

#### *Brand System Operations*

All Brand System segments, with the exception of Coffee and Allied Beverage, and Commercial Food Services, are referred to collectively by management as Franchise Operations. Underlying Franchise Operations EBITDA for FY17 was \$97.5 million (FY16: \$96.1 million), representing growth of 1.5% (or \$1.4 million), primarily attributable to a decrease in operational costs arising from the investment in organisational restructuring and synergy extraction activities undertaken in FY16 and operating cost savings emanating from the further programmed reduction in Corporate stores traded compared to the prior corresponding period (PCP).

New outlet commissionings for FY17 were 210 (PCP: 258) and net outlet decline of 14 was realised in FY17 (PCP: growth of 84).

The Group has granted a total of 15 new Master Franchise licences since FY16, increasing penetration to 81 international territories currently, in addition to Domestic operations. A number of these international licences granted were in respect of the Donut King, It's A Grind, Pizza Capers and Brumby's Bakery Brand Systems, and include the grant of Master Franchise rights for Donut King in Sweden, representing Donut King's first foray into the European market, whilst Pizza Capers granted Master Franchise rights for the Indian market. Gloria Jean's Coffees did however represent the majority of the Group's new international licensing activity, with Master Rights granted for regions such as the United Kingdom, Kenya and various Pacific countries. In addition to these new licenses issued, the Group realised an important breakthrough in its long-term growth strategy to establish international hubs with the completion of Middle East joint venture agreements in July 2017.

# DIRECTORS' REPORT

## 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 FY17 was \$14.2 million (FY16: \$14.1 million), representing an increase of \$0.1 million, due to a \$10.0 million decrease in revenues primarily attributable to substantial sales of the low margin 'in-home' capsule machine and capsule sales associated with the national launch of the 'next generation' capsule machine occurring in FY16, offset by an increase of higher margin contract roasting and commercial product sales relative to PCP, and realised cost benefits from prior period restructuring activities.

#### *Commercial Food Services*

The newly formed Commercial Food Services Division EBITDA was \$11.8 million (FY16: nil) primarily attributable to the earnings contribution of 9 months from the HPC acquisition, completed 22 September 2016.

In May 2017, the Group acquired Associated Foodservice, which is included in the Commercial Food Services Division. The acquisition has significant integration opportunities and substantially increases the scale of food service activities undertaken by the Group in support of its franchise community.

#### *Future developments*

The Group will continue to pursue key organic growth platforms of its Brand Systems, Coffee & Allied Beverage and Commercial Food Services Divisions, investigate and evaluate potential complementary asset acquisitions, and focus on completion of integration and restructuring activities commenced subsequent to the most recent acquisitions.

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.

### Accounting adjustments in the Financial Statements at 30 June 2017

#### Accounting for intangible assets and impairment testing

The Directors have determined to make two retrospective adjustments to the financial statements as at 30 June 2017 as follows:

- The IFRS Interpretation Committee (IFRIC) issued an agenda decision in November 2016 which confirmed the recommended treatment of non-tax amortising intangible assets, these assets are being used in the business and not held for re-sale and thus must carry a commensurate deferred tax liability on the basis that the difference between accounting and taxation treatments results in a permanent difference which needs to be recognised in the accounts. Given the previous ambiguity in the interpretation of this requirement, the IFRIC determination allows corporations the opportunity to make retrospective adjustments in regard to the implementation of this decision through the consolidated statement of financial position. The Directors have adopted and implemented this decision in the financial statements as at 30 June 2017. Full details of this adjustment and its consequential impact on the financial statements is set out in Note 34.
- Following a review of the Group's accounting policies and impairment testing of intangible assets, including consideration of the November 2016 IFRIC decision (discussed in Note 34), the Group has revised its approach to its impairment testing of intangible assets, specifically its Brand System intangible assets. It has been determined that each Brand System represents an individual CGU or Cash Generating Unit for the purposes of impairment testing. To be clear, the business has been and continues to be managed at the segment level but, given that some of the benefits of Group level activities, such as CGU level procurement contract rebates, do ultimately flow to each Brand System, the more appropriate view from an accounting perspective is to test at this Brand System level and then test at the segment level for Brand System and goodwill assets. As a result of this approach, the Group has recorded a reduction of \$46.5 million, gross of the deferred tax liability as noted previously, in the carrying value of its intangible assets. The net impact of this impairment to retained earnings is \$31.5 million. Full details of this adjustment are set out in Note 34.

It is important to note that these technical accounting changes do not impact on the Group's business model, cash flows of the business, or the manner in which the Group defines and operates its Brand Systems at the CGU and segment level. Indeed, the valuation of the Group's intangible assets, when viewed at the segment and Group level, comfortably exceeds the carrying value of those assets.

The readers of these financial statements should be aware that RFG tests its intangible assets for impairment on a "value in use" basis as it intends to use these acquired assets in its continuing business operations.

# DIRECTORS' REPORT

## Accounting adjustments in the Financial Statements at 30 June 2017 (continued)

### Summary of Group Intangible Assets as at 30 June 2017

The Group continues to carry a significant investment in intangible assets, predominately Brand Systems and goodwill, as set out in Note 13 of this report.

### Other important accounting corrections and adjustments

There are also two other accounting adjustments this year that impact on the financial statements:

- In Note 34, a restatement of the allocation of the consideration paid for acquisitions between remuneration to the vendors and goodwill due to the specific wording of the arrangements is reported, although the underlying objective of the arrangements was to secure an effective transition of the business to RFG stewardship; and
- On 21 June 2017, the Group advised of a write-down of \$22 million receivable from the Brand System marketing funds. Since that date, the Group has continued to consider its other current marketing investment in its franchise marketing systems and, following further consideration, the Group has revised its accounting policies with respect to the marketing funds, such that the accounting for franchise system marketing expenditure will be incurred and recovered on an annual basis, and the Directors have resolved to take a further write-down on the balance of advances to the marketing funds in completing its financial statements for the year ended 30 June 2017.

In previous years, the Group has provided significant financial assistance to its Brand Systems through advances to the respective marketing funds, including for the purposes of investment in significant strategic research and development expenditure on projects designed to provide longer term future economic benefits to the respective Brand Systems. These projects included Project EVO (Evolution) development undertaken in the Bakery Café and Coffee Retail Brand Systems, first commenced in the financial year ended 30 June 2012, which was focused on the regeneration of each franchise system, and the Michel's Patisserie National Bakery Solution (NBS), commenced in the financial year ended 30 June 2013, which included the introduction of a new product distribution process and development of in-store product finishing solutions. The Directors have assessed that the benefit of the investment made by the Group in these longer tail franchise system marketing projects has now been substantially attained, and future investments will be undertaken by the Group and accounted for under the Group's accounting policy "internally generated intangible assets including research and development expenditure" in accordance with AASB 138 *Intangible Assets*.

As the investments in Project EVO and the NBS were initiated in the years ended 30 June 2012 and 30 June 2013 respectively, and completed in prior periods, the implementation of this decision has required a re-statement of the current and prior years, which is detailed in Note 34 of the financial statements as at 30 June 2017. It should also be noted that the underlying marketing fund recoveries available to RFG from the marketing funds will be unchanged in the future and be wholly dependent on the future performance of each franchise system.

RFG's past approach to its management of the Brand System marketing funds has been generally consistent with industry convention, including the advance expenditure on marketing initiatives in anticipation of generating benefits. However, the Directors consider that this revised approach will improve the future management of Brand System marketing funds.

### Accounting standards

Compliance with accounting standards is a mandatory obligation and these accounting adjustments reflect what the Directors consider to be proper and conservative positions in regard to these current and emerging issues.

It is important to note that, whilst these adjustments are material in scale, they have no impact on the Group's underlying business model or cash flows, but are the outcome of the implementation of accounting standards and the underlying matters of judgement that apply to their implementation.

### Potential impact of new accounting standards

The financial statements also contain references to the potential impact of new accounting standards, some of which have been subject to recent conjecture in regard to the Group.

The major new standard that is under evaluation is AASB 16 *Leases*.

The Group operates in the retail industry through franchisees and carries a large number of leases, including 'back-to-back' leases. The Group is advanced in assessing the impact of this new standard, but is not in a position to disclose a precise financial impact as there is still a significant amount of work to be completed and reviewed, to be more certain of the impact.

The new leasing Standard may have a significant impact on the Group's financial statements, particularly with the inclusion of new assets and liabilities associated with lease recognition. In addition, there may be a significant impact on the way that the revenues and expenses associated with lease accounting will be reported in the consolidated statement of profit or loss and other comprehensive income. This new accounting standard is not expected to have any significant impact on the Group's business model, operations, cash flows, obligations or banking relationships.

# DIRECTORS' REPORT

## Group Risk Profile

Material risks affecting the Group and which have the potential to affect the financial performance of the Group (and its financial position), include:

- **Supply Chain Disruption:** Which could impact on the Group's ability to supply value-added products to its customers (such as coffee products) or on the Group's franchisees' ability to operate franchised outlets;
- **Changes in Consumer Demand/Market Trends:** The performance of the Group's franchised Brand Systems and retail facing coffee brands is subject to consumer discretionary spending patterns, adverse changes to the general economic landscape (domestically, in countries where the Group or its licensees operate and, in some cases, on a global basis), consumer sentiment and retail, lifestyle or food trends within the market from time to time;
- **Food Safety/OH&S:** There is a risk that inadequate practices associated with the Group's manufacturing pursuits, supply chain and outlet operations (including franchised outlet operations) might result in a health and safety incident;
- **Margin Risk:** The Group and its franchisees operate within highly competitive environments, with high reliance on labour, supply inputs, rents, utilities and other costs. Increases in these inputs could directly (or in the case of franchisees, indirectly) impact on financial performance of the Group;
- **Pillars of growth:** A number of the Group's pillars of growth (including international, Commercial and Coffee & Allied Beverage) continue to be in a growth or developmental stage. Failure of these pillars to produce anticipated results might impact on the Group's financial performance and position;
- **M&A:** Mergers & Acquisitions activity continues to represent a key platform for the Group's growth. A failure to effectively execute M&A activity might impact the Group's financial performance and underlying value, the Group's assets, particularly the value of its intangible assets including goodwill;
- **People & Culture:** There is a risk that the Group's human resources complement and internal culture are negatively impacted by new acquisitions, growth or other change, or may not be best aligned to support the Group's strategic priorities; and
- **Geo-political:** Regulatory interventions, such as a potential sugar tax or changes to workplace legislation, and political instability in certain regions, have the potential to impact the Group's performance and operations.

## Acquisitions

On 25 August 2016, the Group announced that it had entered into a conditional Share Purchase Agreement (SPA), subject to normal contractual and customary terms to acquire Hudson Pacific Corporation (HPC). Settlement was completed on 22 September 2016 through the purchase of shares of HPC for a total consideration of \$86.4 million and control of HPC transferred to the Group at this time (refer to Note 26.1 for further details).

On 12 May 2017, the Group acquired 100% of the issued share capital of Associated Foodservice (AFS) through a Sales and Purchase Agreement (SPA) for a total purchase consideration of \$5.6 million. The acquisition has significant integration opportunities and substantially increases the scale of food service activities undertaken by the Group in support of its franchise community (refer to Note 26.1 for further details).

## 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 29 August 2017, the Board of Directors declared a final dividend in respect of profits of the financial year ending 30 June 2017. The final dividend of 15.00 cents per share (based on 176,736,066 shares on issue at 29 August 2017), franked to 100% at 30% corporate income tax rate will be paid on 17 October 2017. The final dividend was approved by the Directors following the conclusion of FY17 and, therefore, was not provided for in the year-end financial report. It was resolved that the final FY17 dividend will constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan.

## Joint Venture

On 26 July 2017 the Group announced the completion of joint ventures with UAE-based businesses, the Al Hathboor Group and HKO Group, to accelerate Brand System expansion in the Gulf region, and to establish a coffee enterprise focused on realising significant commercial coffee opportunities throughout the Middle East & North Africa (MENA) region. Under the agreements, RFG will maintain a 50% interest in the joint ventures, whilst also retaining existing Middle East Brand System royalty and certain coffee income streams.

# DIRECTORS' REPORT

## Dividends

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

Company	FY17		FY16	
	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>	14.50	23,920	11.75	19,145
Interim dividend - fully franked at 30% tax rate <sup>[2]</sup>	14.75	25,968	13.00	21,365
	<b>29.25</b>	<b>49,888</b>	<b>24.75</b>	<b>40,510</b>
<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>	15.00	26,510	14.50	23,920

- (1) In respect of the financial year ended 30 June 2016, as detailed in the Directors' Report for that financial year, 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, was 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 would constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan. The issue price of the shares was \$6.71.
- (2) In respect of profits of the financial year ended 30 June 2017, an interim dividend of 14.75 cents per share, based on 176,054,084 shares on issue at 23 February 2017, franked to 100% at 30% corporate income tax rate, was paid on 10 April 2017. The interim dividend was approved by the Directors on 23 February 2017 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 \$5.28.
- (3) In respect of profits of the financial year ended 30 June 2017, a final dividend of 15.00 cents per share, based on 176,736,066 shares on issue at 29 August 2017, franked to 100% at 30% corporate income tax rate, will be paid on 17 October 2017. The final dividend was approved by the Directors on 29 August 2017 and, therefore, was not provided for in the Company's financial report. It was resolved that the FY17 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 extent 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.

# DIRECTORS' REPORT

## Non-audit services (continued)

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 23 of the financial report.

## Rounding off of amounts

The Company is a company of the kind referred to in *ASIC Corporations Instrument 2016/191* 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 FY17 remuneration report, outlining key aspects of the Company's 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 2017.

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:

<b>Executive and Non-executive directors</b>	<b>Position</b>
Mr Colin Archer	Chairman and Independent Non-Executive Director
Mr Andre Nell	Executive Managing Director
Ms Jessica Buchanan	Independent Non-Executive Director
Mr Stephen Lonie	Independent Non-Executive Director
Ms Kerry Ryan	Independent Non-Executive Director
Mr Russell Shields	Independent Non-Executive Director
Mr Anthony (Tony) Alford (to 3 July 2017)	Non-Independent Non-Executive Director (to 3 July 2017)
<b>Senior executive management</b>	<b>Position</b>
Mr Gary Alford	Chief Executive Officer
Mr Peter McGettigan	Chief Financial Officer
Mr Anthony Mark Connors	Company Secretary, Director Corporate Services
Mr Michael Gilbert (from 21 June 2017)	Chief Executive - International

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

These named persons were senior executive management throughout the financial year and since the end of the financial year. Michael Gilbert was appointed to Chief Executive - International on 21 June 2017. Prior to his appointment, he held the position of Chief Franchise Officer.

# DIRECTORS' REPORT

## Remuneration report (continued)

### 1. Key Management Personnel (continued)

Mr Anthony (Tony) Alford became a Non-Independent Non-Executive Director on 1 July 2016 and resigned from this position on 3 July 2017.

Mr Gary Alford was appointed as Chief Executive Officer of the Company on 1 July 2016 and will retire from this position in September 2017.

### 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.

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 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 and incentives to pre-determined performance criteria; and
- Reference any changes to measurable performance criteria.

# DIRECTORS' REPORT

## Remuneration report (continued)

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

Remuneration is also reviewed on promotion.

Executives receive a superannuation guarantee contribution required by the Government, which is currently 9.5% (FY16: 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 defined role 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 performance rights which can convert to ordinary shares of the Company on vesting under the rules of the Company's Performance Rights Plan. The decision to grant Rights to executives is based on past performance. In respect of the Performance Rights granted, there are performance criteria required to be achieved in order for the Performance Rights to vest.

#### 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 Executive Managing Director, recommends to the Remuneration Committee, the performance bonus amounts for 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.



# DIRECTORS' REPORT

## Remuneration report (continued)

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

#### 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 the Directors in August 2015. Performance Rights were granted on 14 July 2016 under this Plan with respect to the FY16, FY17, FY18 and FY19 performance periods. The following Key Management Personnel have been granted Performance Rights to date:

- Mr Andre Nell;
- Mr Gary Alford;
- Mr Peter McGettigan;
- Mr Anthony Mark Connors; and
- Mr Michael Gilbert.

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.

Note the summary information in relation to the Group's earnings and movements in shareholder wealth for the five years to 30 June 2017:

Metrics	FY13	FY14	FY15	FY16	FY17
Share price at start of financial year	\$2.65	\$3.95	\$4.54	\$5.43	\$5.53
Share price at end of financial year	\$3.95	\$4.54	\$5.43	\$5.53	\$4.70
Interim dividend	9.50 cps	10.75 cps	11.50 cps	13.00 cps	14.75 cps
Final dividend	10.25 cps	11.25 cps	11.75 cps	14.50 cps	15.00 cps
Basic EPS (Underlying)	27.9 cps	26.5 cps	35.6 cps	40.5 cps	43.7 cps
Basic EPS <sup>(1)</sup>	26.0 cps	26.5 cps	22.1 cps	37.4 cps	35.7 cps
Diluted EPS <sup>(1)</sup>	25.9 cps	26.5 cps	22.1 cps	37.4 cps	35.7 cps

(1) EPS figures are as historically reported.

# DIRECTORS' REPORT

## Remuneration report (continued)

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

FY17 Name	Short-term Benefits			Long-term Benefits			Total
	Salary & fees	Bonus	Other	Super-annuation	Performance Rights	Other	
	\$	\$	\$	\$	\$	\$	
<b>Non-Executive Directors</b>							
Mr Colin Archer	203,798	-	-	18,411	-	-	222,209
Ms Jessica Buchanan	112,000	-	-	-	-	-	112,000
Mr Stephen Lonie	118,904	-	-	11,296	-	-	130,200
Ms Kerry Ryan	102,929	-	-	9,778	-	-	112,707
Mr Russell Shields	101,159	-	-	9,610	-	-	110,769
Mr Anthony (Tony) Alford <sup>Δ</sup>	222,921	242,000	-	12,537	-	605,075	1,082,533
<b>Executive Directors</b>							
Mr Andre Nell	583,577	121,911	1,800	19,828	20,414	-	747,530
<b>Senior Executive Management</b>							
Mr Gary Alford	412,888	102,431	-	47,680	8,334	-	571,333
Mr Peter McGettigan	333,598	112,074	1,800	30,100	10,403	-	487,975
Mr Anthony Mark Connors	275,587	121,293	1,800	19,716	7,489	-	425,885
Mr Michael Gilbert	12,690	-	69	771	259	-	13,789
	2,480,051	699,709	5,469	179,727	46,899	605,075	4,016,930

Δ In relation to Mr Anthony (Tony) Alford's FY17 Remuneration:

- Bonus (Short-term Benefit) is comprised of Mr Alford's FY16 Short Term Incentive component.
- Other (Long-term Benefit) is comprised of Mr Alford's long service leave and retirement benefits.

FY16 Name	Short-term Benefits			Long-term Benefits			Total
	Salary & fees	Bonus	Other	Super-annuation	Performance Rights	Other	
	\$	\$	\$	\$	\$	\$	
<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 Andre Nell	338,549	57,593	1,869	19,308	-	-	417,319
Mr Gary Alford	327,130	58,922	-	31,077	5,655	-	422,784
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
	2,409,143	529,995	5,607	152,365	14,448	-	3,111,558

# 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:

	Fixed		Short-term Incentive		Long-term Incentive	
	FY17 %	FY16 %	FY17 %	FY16 %	FY17 %	FY16 %
<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	100.0	-	-	-	-
Mr Russell Shields	100.0	100.0	-	-	-	-
Mr Anthony (Tony) Alford	77.6	67.5	22.4	32.5	-	-
<b>Executive Directors</b>						
Mr Andre Nell	81.0	86.2	16.3	13.8	2.7	-
<b>Senior Executive Management</b>						
Mr Gary Alford	80.6	84.7	17.9	14.0	1.5	1.3
Mr Peter McGettigan	74.9	88.2	23.0	10.5	2.1	1.3
Mr Anthony Mark Connors	69.8	89.3	28.5	9.4	1.7	1.3
Mr Michael Gilbert	98.1	-	-	-	1.9	-

### Bonuses

Key Management Personnel were granted a cash bonus of \$699,709 during the year ended 30 June 2017 in respect of their performance for the year ended 30 June 2016. The bonuses were approved by the Board.

# DIRECTORS' REPORT

## Remuneration report (continued)

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

#### Performance Rights Plan

Under the Group's Long Term Incentive Plan, so called 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.

Participating employees do not receive any dividends and are not entitled to vote in relation to the Rights during 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 respective tranche having a 12 month 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).

The valuation of rights granted is as follows:

Grant date	Vesting & Exercise Date	Base Price	Value per Right at Grant date					
			Tranche 1		Tranche 2		Tranche 3	
			TSR	EPS	TSR	EPS	TSR	EPS
14 July 2016	1 July 2018	\$5.59	-	\$5.06	\$2.54	\$5.06	\$2.77	\$5.06
14 July 2016	1 July 2019	\$5.61	\$2.42	\$4.80	\$2.49	\$4.80	\$2.49	\$4.80
1 December 2016	1 July 2019	\$6.19	\$3.73	\$5.40	\$2.84	\$5.40	\$2.84	\$5.40

Grants made to Key Management Personnel, which have not yet vested, as at 30 June 2017 are as follows:

Executive	Year of grant	Year in which Rights may Vest	Number of Rights Granted	Number of Rights Forfeited	Forfeited %	Maximum Value yet to Vest \$
Andre Nell	FY17	FY19	53,763	8,961	17%	\$364,334
Gary Alford	FY17	FY18	13,417	2,236	17%	\$80,278
Gary Alford	FY17	FY19	13,441	2,240	17%	\$91,085
Peter McGettigan	FY17	FY18	10,733	1,789	17%	\$64,219
Peter McGettigan	FY17	FY19	17,921	2,986	17%	\$121,445
Anthony Mark Connors	FY17	FY18	10,465	1,744	17%	\$62,616
Anthony Mark Connors	FY17	FY19	10,484	1,747	17%	\$71,047
Michael Gilbert	FY17	FY18	4,830	805	17%	\$28,900
Michael Gilbert	FY17	FY19	13,441	2,240	17%	\$91,085

In July 2017 the Directors engaged the services of an external remuneration consulting firm to review and provide recommendations on remuneration of the Group's Key Management Personnel. Any changes to the remuneration structure will be implemented commencing in the financial year ended 30 June 2018.

# DIRECTORS' REPORT

## Remuneration report (continued)

### 5. Key Management Personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY17	Balance 1 July 2016	Granted as Compensation	Received on Vesting of Rights	Net Other Change	Balance 30 June 2017	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
<b>Non-Executive Directors</b>						
Mr Colin Archer	375,578	-	-	13,799	389,377	-
Ms Jessica Buchanan	23,256	-	-	(11,628)	11,628	-
Mr Stephen Lonie	49,929	-	-	2,506	52,435	-
Ms Kerry Ryan	10,000	-	-	-	10,000	-
Mr Russell Shields	-	-	-	7,500	7,500	-
Mr Anthony (Tony) Alford	19,635,758	-	-	7,320	19,643,078	834,421
<b>Executive Directors</b>						
Mr Andre Nell	12,102	-	-	608	12,710	-
<b>Senior Executive Management</b>						
Mr Gary Alford	829,567	-	-	7,320	836,887	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Mr Peter McGettigan	30,442	-	-	1,527	31,969	-
Mr Michael Gilbert	1,793	-	-	91	1,884	-
	<u>21,163,992</u>	-	-	<u>29,043</u>	<u>21,193,035</u>	<u>834,421</u>

FY16	Balance 1 July 2015	Granted as Compensation	Received on Vesting of Rights	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 Andre Nell	11,478	-	-	624	12,102	-
Mr Gary Alford	829,567	-	-	-	829,567	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Mr Peter McGettigan	28,874	-	-	1,568	30,442	-
	<u>22,608,400</u>	-	-	<u>(1,446,201)</u>	<u>21,162,199</u>	<u>827,101</u>

Nil Rights were exercised by Key Management Personnel during the financial year (FY16: nil).

Details of the Performance Rights Plan are contained in Note 22.

# DIRECTORS' REPORT

## Remuneration report (continued)

### 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 and 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 \$ 1.1 million. Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align Non-Executive Directors' interests with shareholder interests, the Non-Executive Directors are encouraged to hold shares in the Company.

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 six (6) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) 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 six (6) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Anthony Mark Connors	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of six (6) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Michael Gilbert	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least three (3) months notice or payment of the equivalent salary of the required notice in lieu.

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

# DIRECTORS' REPORT

## Remuneration report (continued)

### 7. Loans to Key Management Personnel

There were no loans outstanding at the end of the financial year (FY16: \$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	FY17 \$	FY16 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:		
Franchise revenue	80,504	66,906
	<u>80,504</u>	<u>66,906</u>
Consolidated profit includes the following expenses arising from transactions with key management personnel of the Group or their related parties:		
Consulting services	146,000	83,678
	<u>146,000</u>	<u>83,678</u>

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

- 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 \$80,504, excluding GST, earned by the Group in respect of royalties and product sales to this store (FY16: \$66,906). As at 30 June 2017, \$21 of trading debt were outstanding (FY16: nil).
- During FY16, the Group engaged the services of marketing consulting firms Brands R People 2 Pty Ltd and Consumerology Pty Ltd, being related parties of Ms Jessica Buchanan. No amounts were billed to the Group during FY17 or were due and payable as at 30 June 2017 (FY16: \$83,678).
- During FY17, the Group engaged the consulting services of Mr Tony Alford with respect to due diligence activities. Included in acquisition costs for the year is an amount of \$146,000 with respect to these services, and was due and payable as at 30 June 2017 (FY16: \$nil).

# DIRECTORS' REPORT

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

RETAIL FOOD GROUP LIMITED



Mr Colin Archer  
Chairman and Independent Non-Executive Director



Mr Andre Nell  
Executive Managing Director

Southport  
29 August 2017





## Auditor's Independence Declaration

As lead auditor for the audit of Retail Food Group Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Retail Food Group Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Steven Bosiljevac', with a long horizontal stroke extending to the right.

Steven Bosiljevac  
Partner  
PricewaterhouseCoopers

Brisbane  
29 August 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2017

Consolidated	Notes	FY17 \$'000	Restated FY16 \$'000
<b>Continuing operations</b>			
Revenue from sale of goods	2	245,873	164,840
Cost of sales	5	(167,772)	(97,675)
<b>Gross Profit</b>		<u>78,101</u>	<u>67,165</u>
Other revenue	2	103,422	110,257
Other gains and losses	5	6,102	(25)
Selling expenses		(10,167)	(15,530)
Marketing expenses		(2,501)	(3,755)
Occupancy expenses		(7,952)	(7,595)
Administration expenses		(25,680)	(20,197)
Operating expenses		(25,660)	(26,858)
Finance costs	3	(9,560)	(9,574)
Other expenses	5	(18,492)	(17,305)
<b>Profit before income tax</b>		<u>87,613</u>	<u>76,583</u>
Income tax expense	4	(25,686)	(23,620)
<b>Profit for the year from continuing operations</b>	5	<u>61,927</u>	<u>52,963</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	19	(241)	1,429
Changes in the fair value of Cashflow Hedges	19	(1,762)	-
Income tax relating to these items	19	529	-
<b>Other comprehensive income for the year, net of tax</b>		<u>(1,474)</u>	<u>1,429</u>
<b>Total comprehensive income for the year</b>		<u>60,453</u>	<u>54,392</u>
Profit is attributable to:			
Equity holders of the parent		<u>61,927</u>	<u>52,963</u>
Total comprehensive income is attributable to:			
Equity holders of the parent		<u>60,453</u>	<u>54,392</u>
<b>Earnings per share</b>			
From continuing operations:			
Basic (cents per share)	6	35.7	32.3
Diluted (cents per share)	6	35.7	32.3

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2017

Consolidated	Notes	FY17 \$'000	Restated FY16 \$'000	Restated FY15 \$'000
<b>Current assets</b>				
Cash and cash equivalents	7	10,269	17,406	17,149
Trade and other receivables	8	83,392	41,012	41,077
Other financial assets	9	9,481	5,568	2,461
Inventories	10	28,451	15,655	20,453
Current tax assets	4	-	4,455	8,550
Other	11	3,215	2,210	2,338
<b>Total current assets</b>		<b>134,808</b>	<b>86,306</b>	<b>92,028</b>
<b>Non-current assets</b>				
Trade and other receivables	8	2,423	3,429	2,832
Other financial assets	9	14,260	9,646	4,391
Property, plant and equipment	12	95,554	51,106	42,927
Intangible assets	13	668,926	595,524	594,101
Deferred tax assets	4	13,657	7,394	7,779
<b>Total non-current assets</b>		<b>794,820</b>	<b>667,099</b>	<b>652,030</b>
<b>Total assets</b>		<b>929,628</b>	<b>753,405</b>	<b>744,058</b>
<b>Current liabilities</b>				
Trade and other payables	14	69,816	22,373	29,768
Borrowings	17	722	165	50,475
Current tax liabilities	4	2,546	-	-
Provisions	15	7,422	3,518	5,558
Other	16	10,747	18,911	9,724
<b>Total current liabilities</b>		<b>91,253</b>	<b>44,967</b>	<b>95,525</b>
<b>Non-current liabilities</b>				
Borrowings	17	249,248	205,735	156,169
Derivative financial instruments	23	1,810	-	-
Deferred tax liabilities	4	119,433	115,908	115,908
Provisions	15	393	307	272
Other	16	2,319	10,366	22,185
<b>Total non-current liabilities</b>		<b>373,203</b>	<b>332,316</b>	<b>294,534</b>
<b>Total liabilities</b>		<b>464,456</b>	<b>377,283</b>	<b>390,059</b>
<b>Net assets</b>		<b>465,172</b>	<b>376,122</b>	<b>353,999</b>
<b>Equity</b>				
Issued Capital	18	402,472	324,072	315,051
Reserves	19	106	1,495	66
Retained earnings	20	62,594	50,555	38,882
<b>Total equity</b>		<b>465,172</b>	<b>376,122</b>	<b>353,999</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2017

Consolidated	Notes	Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000
Balance as at 30 June 2015 (Reported)		315,051	1,276	87,455	403,782
Impact of restatement <sup>(1)</sup>		-	(1,210)	(48,573)	(49,783)
<b>Balance as at 30 June 2015 (Restated)</b>		<b>315,051</b>	<b>66</b>	<b>38,882</b>	<b>353,999</b>
Profit for the year <sup>(1)</sup>		-	-	52,963	52,963
Other comprehensive income		-	1,429	-	1,429
Total comprehensive income		-	1,429	52,963	54,392
Issue of ordinary shares	18	9,054	-	-	9,054
Share issue costs	18	(47)	-	-	(47)
Related income tax	18	14	-	-	14
Payment of dividends	21	-	-	(40,510)	(40,510)
Impact of restatement		-	-	(780)	(780)
<b>Balance at 30 June 2016 (Restated)</b>		<b>324,072</b>	<b>1,495</b>	<b>50,555</b>	<b>376,122</b>
<b>Balance at 1 July 2016 (Restated)</b>		<b>324,072</b>	<b>1,495</b>	<b>50,555</b>	<b>376,122</b>
Profit for the year		-	-	61,927	61,927
Other comprehensive income		-	(1,474)	-	(1,474)
Total comprehensive income		-	(1,474)	61,927	60,453
Issue of ordinary shares	18	78,780	-	-	78,780
Share issue costs	18	(543)	-	-	(543)
Related income tax	18	163	-	-	163
Payment of dividends	21	-	-	(49,888)	(49,888)
Recognition of share-based payments	19	-	85	-	85
<b>Balance at 30 June 2017</b>		<b>402,472</b>	<b>106</b>	<b>62,594</b>	<b>465,172</b>

(1) Restated - see Note 34.

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 2017

Consolidated	Notes	FY17 \$'000	Restated FY16 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		456,000	332,754
Payments to suppliers and employees		(361,329)	(239,623)
Interest and other costs of finance paid		(9,416)	(9,036)
Income taxes paid		(21,460)	(19,298)
<b>Net cash provided by operating activities</b>	7	<u>63,795</u>	<u>64,797</u>
<b>Cash flows from investing activities</b>			
Interest received		801	486
Amounts advanced to other entities		(5,696)	(8,719)
Payments for property, plant and equipment		(30,650)	(14,429)
Proceeds from sale of property, plant and equipment		163	131
Payments for intangible assets		(537)	(575)
Payments for business (net of cash acquired)		(67,195)	(6,953)
<b>Net cash used in investing activities</b>		<u>(103,114)</u>	<u>(30,059)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities	18	35,600	-
Proceeds from borrowings		189,500	148,500
Repayment of borrowings		(149,500)	(148,372)
Dividends paid		(42,888)	(31,456)
Payment for share issue costs		(543)	(47)
Payment for debt issue costs		(223)	(802)
<b>Net cash used in from financing activities</b>		<u>31,946</u>	<u>(32,177)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(7,336)</u>	<u>2,467</u>
Effects of exchange rate changes on cash and cash equivalents		(37)	94
Cash and cash equivalents at the beginning of period		16,956	14,395
<b>Cash and cash equivalents at end of year</b>	7	<u>9,583</u>	<u>16,956</u>

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

# NOTES TO THE FINANCIAL STATEMENTS

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# NOTES TO THE FINANCIAL STATEMENTS

## Results for the year

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### 1. Segment information

#### 1.1 Description of segments and principal activities

The operating segments of the Group reflect the basis of internal reports about the components of the Group that are reviewed regularly by the Chief Operating Decision Makers ("CODM"), for the purpose of allocating resources to the segments and, to assess their performance.

In prior reporting periods the Group's operating segments were aligned across the following major operating divisions:

- 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, It's A Grind, and Esquires Brand Systems); and
- Coffee and Allied Beverage (incorporating Wholesale Coffee operations and other unallocated amounts).

During the period, the operating divisions of the Group were restructured in preparation to execute on the Group's long-term growth strategies including acquisition opportunities. The Chief Operating Decision Makers ("CODM") of the Group consider that the aggregation and rationalisation of operating divisions will assist in the realisation of greater synergistic benefits within each Division, and will ultimately result in a more dynamic business. This restructure was aligned with an internal management restructure which resulted in the appointment of a Senior Manager to each Division.

The Donut King, Michel's Patisserie, and Brumby's Bakery Brand Systems, previously recognised as individual operating divisions, have been combined to form the Bakery/Café Division. In addition, the Café2U and The Coffee Guy Brand Systems previously reported as the Mobile Systems Division have been incorporated with the Coffee Retail Division. The creation of the Commercial Food Services Division was a direct result of the acquisition of the Hudson Pacific Corporation on 22 September 2016. Management envisage that the long-term growth strategy of the Group will result in additional segments in future reporting periods.

In keeping with the requirements of AASB 8 the operating segments of the Group are:

- Bakery/Café Division (incorporating Michel's Patisserie, Donut King and Brumby's Bakery Brand Systems);
- QSR Division (incorporating Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Coffee Retail Division (incorporating Gloria Jean's Coffees, It's A Grind, Esquires, Café2U and The Coffee Guy Brand Systems);
- Coffee & Allied Beverage Division (incorporating Wholesale Coffee operations); and
- Commercial Food Service Division (incorporating procurement, warehousing, manufacturing and distribution operations).

Prior period comparatives have been restated to reflect the organisational change.

#### 1.2 Segment information provided to the Chief Operating Decision Makers

##### Segment Revenue

Revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. Sales between segments are carried out at arm's length and are eliminated on consolidation, identified as Inter-segment revenue as presented in Note 1.3.

##### Segment EBITDA

The CODM assess the performance of the operating segments based on a measure of segment EBITDA.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Segment information (continued)

### 1.3 Segment revenues and results

The CODM assess the performance of the operating segments based on Segment EBITDA. This is a non-IFRS measure of underlying EBITDA and excludes the effects of acquisitions and restructuring activities, and asset impairments.

Information related to the Group's operating results per segment is presented in the following table.

Segment	Bakery Cafe		OSR Systems		Coffee Retail Systems		Coffee and Allied Beverage		Commercial Food Services		Total	
	FY17 \$'000	FY16 \$'000	FY17 \$'000	FY16 \$'000	FY17 <sup>(2)</sup> \$'000	FY16 \$'000	FY17 <sup>(3)</sup> \$'000	FY16 \$'000	FY17 \$'000	FY16 \$'000	FY17 \$'000	FY16 <sup>(4)</sup> \$'000
External revenue	66,608	62,088	19,587	21,849	86,168	98,077	63,726	73,367	100,550	-	336,639	255,381
External revenue – Corporate stores	8,175	11,957	1,345	2,334	3,137	5,425	-	-	-	-	12,657	19,716
Inter-segment revenue	791	828	31	70	474	699	-	-	-	-	1,297	1,597
Segment revenue <sup>(1)</sup>	75,574	74,873	20,963	24,253	89,779	104,201	63,726	73,367	100,550	-	350,592	276,694
Segment EBITDA	43,720	43,930	12,962	14,677	40,786	37,439	14,219	14,105	11,780	-	123,467	110,151
Depreciation & amortisation											(9,338)	(6,584)
Finance costs											(9,561)	(9,574)
Acquisition, integration & restructuring costs											(11,755)	(8,519)
Asset Impairment											(5,200)	(8,891)
Profit before tax											87,613	76,583
Income tax expense											(25,686)	(23,620)
Profit after tax for the year											61,927	52,963

(1) Segment revenue reconciles to total revenues from continuing operations as follows:

	FY17 \$'000	Restated FY16 \$'000
Revenue for the period – Statutory	349,295	275,097
Inter-segment revenue: eliminated on consolidation	1,297	1,597
Total segment revenue	350,592	276,694

(2) In December 2015, the Group granted a Master Franchise License in New Zealand, devolving day-to-day network management and operational obligations in New Zealand to an experienced licensee. Associated revenues for the Coffee Retail division have decreased by \$3.1 million in FY17 on the prior corresponding period.

(3) \$10.0 million of FY16 external revenues in the Coffee & Allied Beverage Division were associated with the national launch of next generation capsule machines, not recurring in the FY17 year.

(4) Restated - see Note 34.



# NOTES TO THE FINANCIAL STATEMENTS

## 1. Segment information (continued)

### 1.4 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	FY17 \$'000	Restated FY16 \$'000
Revenue from the sale of goods	245,873	164,840
Revenue from the rendering of services	96,523	102,084
Initial Master Franchise Revenue	5,188	7,010
	<u>347,584</u>	<u>273,934</u>
Interest Revenue		
Bank deposits	109	113
Other loans and receivables	692	372
	<u>801</u>	<u>485</u>
Rental revenue	910	678
	<u>349,295</u>	<u>275,097</u>

## 3. Finance costs

Consolidated	FY17 \$'000	FY16 \$'000
Interest on bank overdrafts and loans	9,184	9,195
Total interest expense	<u>9,184</u>	<u>9,195</u>
Other finance costs	376	379
	<u>9,560</u>	<u>9,574</u>

## 4. Income taxes

### 4.1 Income tax recognised in profit or loss

Consolidated	FY17 \$'000	Restated FY16 \$'000
Current tax:		
In respect of current year <sup>(1)</sup>	28,796	23,448
	<u>28,796</u>	<u>23,448</u>
Deferred tax:		
In respect of the current year	(3,110)	172
	<u>(3,110)</u>	<u>172</u>
Total income tax expense recognised in the current year relating to continuing operations	<u>25,686</u>	<u>23,620</u>

(1) Restated FY16 - see Note 34.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. Income taxes (continued)

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

Consolidated	FY17 \$'000	Restated FY16 \$'000
Profit from continuing operations before income tax expense <sup>(2)</sup>	87,613	76,583
Income tax expense calculated at 30% (FY16: 30%)	26,284	22,975
Effect of:		
Expenses that are not deductible in determining taxable profit	879	638
Different tax rates of subsidiaries operating in other jurisdictions <sup>(1)</sup>	(12)	(17)
Benefit of tax losses in foreign jurisdictions not brought to account as a deferred tax asset	-	(177)
Other	82	201
Non-assessable income	(1,547)	-
Income tax expense recognised in profit or loss (relating to continuing operations)	25,686	23,620

The tax rate used for the FY17 and FY16 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% (FY16: 28%) is payable by New Zealand corporate entities, and 34% (FY16: 34%) is payable by United States of America corporate entities.  
 (2) Restated FY16 - see Note 34.

### 4.2 Income tax recognised directly in equity

Consolidated	Notes	FY17 \$'000	FY16 \$'000
Share issue costs	18	163	14
Total income tax recognised directly in equity		163	14

### 4.3 Current tax liabilities

Consolidated	FY17 \$'000	Restated FY16 \$'000
Current tax assets <sup>(1)</sup>	-	4,455
Current tax liabilities	(2,546)	-
	(2,546)	4,455

- (1) Restated FY16 - see Note 34.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. Income taxes (continued)

### 4.4 Deferred tax balances

Consolidated FY17	Opening balance	Recognised in profit or loss	Recognised directly in equity	Recognised in other comprehensive income	Acquisitions/ disposals	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Temporary differences</b>						
Intangible assets <sup>(1)</sup>	(114,722)	-	-	-	(3,369)	(118,091)
Unrealised exchange differences	66	(57)	-	-	-	9
Employee benefits	972	543	-	-	-	1,515
Provisions <sup>(1)</sup>	437	3,154	-	-	1,695	5,286
Doubtful debts	2,184	303	-	-	540	3,027
Unearned income	1,067	63	-	-	-	1,130
Share issue costs	646	(358)	163	-	-	451
Other	99	(336)	-	529	70	362
	(109,251)	3,312	163	529	(1,064)	(106,311)
<b>Unused tax losses and credits</b>						
Tax (losses)/credits	737	(202)	-	-	-	535
	737	(202)	-	-	-	535
	(108,514)	3,110	163	529	(1,064)	(105,776)

Consolidated FY16	Opening balance	Recognised in profit or loss	Recognised directly in equity	Recognised in other comprehensive income	Acquisitions/ Disposals	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Temporary differences</b>						
Intangible assets <sup>(1)</sup>	(116,574)	1,852	-	-	-	(114,722)
Unrealised exchange differences	38	28	-	-	-	66
Employee benefits	1,029	(57)	-	-	-	972
Provisions <sup>(1)</sup>	2,873	(2,436)	-	-	-	437
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
	(108,931)	(107)	14	(227)	-	(109,251)
<b>Unused tax losses and credits</b>						
Tax (losses)/credits	802	(65)	-	-	-	737
	802	(65)	-	-	-	737
	(108,129)	(172)	14	(227)	-	(108,514)

(1) Restated FY16 - see Note 34.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. Income taxes (continued)

### 4.4 Deferred tax balances (continued)

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

Consolidated	FY17 \$'000	Restated FY16 \$'000
Deferred tax assets <sup>(1)</sup>	13,657	7,394
Deferred tax liabilities <sup>(1)</sup>	(119,433)	(115,908)
	<u>(105,776)</u>	<u>(108,514)</u>

(1) Restated FY16 - see Note 34.

### 4.5 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 5. Profit for the year from continuing operations

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

Consolidated	FY17 \$'000	Restated FY16 \$'000
Cost of sales <sup>(2)</sup>	167,772	97,675
(Gain)/loss on disposal of assets <sup>(3)</sup>	(1,943)	25
Write-down of inventory to net realisable value <sup>(1)</sup>	608	(3)
Write-down of property, plant and equipment to net realisable value <sup>(1)</sup>	189	-
Impairment loss on trade receivables <sup>(1)</sup>	2,462	2,086
Impairment (gain)/loss on loans carried at amortised cost <sup>(1)</sup>	295	(868)
De-recognition of Marketing Fund receivables <sup>(1) (2)</sup>	5,200	8,891
Contingent consideration deemed remuneration	462	-
Adjustments to contingent consideration provision <sup>(3)</sup>	(3,359)	1,437
Acquisition transaction and integration costs (including restructuring costs) <sup>(2)</sup>	11,794	8,339
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment <sup>(1)</sup>	7,762	5,876
Amortisation of acquired intangible assets - customer contracts	1,376	631
Amortisation - other <sup>(1)</sup>	200	77
Total depreciation and amortisation expense	<u>9,338</u>	<u>6,584</u>
Employee benefits expenses:		
Post-employment benefits (defined contribution plans)	5,194	3,733
Other employee benefits (wages and salaries)	72,195	56,697
Total employee benefits expense	<u>77,389</u>	<u>60,430</u>

(1) Amounts are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

(2) Restated FY16 - see Note 34.

(3) Amounts are included in Other gains and losses in the consolidated statement of profit or loss and other comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

## 6. Earnings per share

Consolidated	FY17 \$'000	Restated FY16 \$'000
<b>Basic earnings per share</b>		
From continuing operations	35.7	32.3
	<u>35.7</u>	<u>32.3</u>
<b>Diluted earnings per share</b>		
From continuing operations	35.7	32.3
	<u>35.7</u>	<u>32.3</u>

### 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	FY17 \$'000	Restated FY16 \$'000
Profit for the year	61,927	52,963
Earnings used in the calculation of basic EPS from continuing operations	<u>61,927</u>	<u>52,963</u>

  

Consolidated	2017 No. '000	2016 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	<u>173,441</u>	<u>164,099</u>

### 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	FY17 \$'000	Restated FY16 \$'000
Profit for the year	61,927	52,963
Earnings used in the calculation of diluted EPS from continuing operations	<u>61,927</u>	<u>52,963</u>

  

Consolidated	2017 No. '000	2016 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	173,441	164,099
Adjustments for calculation of diluted EPS:		
Performance rights	16	-
Weighted average number of ordinary shares for purpose of diluted EPS	<u>173,457</u>	<u>164,099</u>

#### Performance Rights:

Performance rights granted to employees under the Performance Rights Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required performance hurdles have been confirmed to have been met up to the reporting date, and to the extent to which they are dilutive.

# NOTES TO THE FINANCIAL STATEMENTS

## Operations

### Assets and liabilities

#### 7. Cash and cash equivalents

##### 7.1 Reconciliation to Consolidated Statement of Cash Flows

For the purposes of the consolidated 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 consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

Consolidated	FY17 \$'000	FY16 \$'000
Cash and bank balances	10,269	17,406
Less: cash not available for use	(686)	(450)
	<u>9,583</u>	<u>16,956</u>

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

Cash balances not available for use relate to unclaimed dividends. As at 30 June 2017, cash balances not available for use totalled \$686 thousand (2016: \$450 thousand). These restricted cash balances have not been included in the period 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	FY17 \$'000	FY16 \$'000
Secured bank loan facility:		
Amount used (before deducting debt issue costs)	246,500	206,500
Amount unused	87,500	87,500
	<u>334,000</u>	<u>294,000</u>
Secured ancillary bank facilities (guarantees):		
Amount used	3,282	2,121
Amount unused	718	1,879
	<u>4,000</u>	<u>4,000</u>
Secured ancillary bank facilities (asset finance):		
Amount used	117	290
Amount unused	883	710
	<u>1,000</u>	<u>1,000</u>
Secured ancillary bank facilities (supply chain finance):		
Amount used	2,538	329
Amount unused	1,462	3,671
	<u>4,000</u>	<u>4,000</u>
Secured ancillary bank facilities (overdraft):		
Amount used	-	-
Amount unused	1,000	1,000
	<u>1,000</u>	<u>1,000</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	FY17 \$'000	Restated FY16 \$'000
Profit for the year <sup>(1)</sup>	61,927	52,963
Depreciation of non-current assets	7,762	5,876
Amortisation	1,576	708
Impairment loss on loans carried at amortised cost	5,496	8,023
Impairment loss on inventory	608	-
Impairment loss on property, plant and equipment	189	-
Non-cash employee benefits expense-share based payments	85	-
Net foreign exchange loss	(130)	(736)
Fair Value adjustment of property, plant and equipment	-	250
Interest income received and receivable	(801)	(486)
Amortisation of borrowing costs	376	379
Gain on disposal of property, plant and equipment	(1,943)	(69)
Non cash - vendor loan	(2,446)	(2,050)
(Gain)/loss on contingent consideration provision	(3,359)	1,437
Contingent consideration deemed remuneration	462	-
Increase/(decrease) in current tax liability	7,107	4,095
Increase/(decrease) in deferred tax balances	(3,117)	172
Movements in working capital:		
Trade and other receivables	(14,286)	(3,487)
Inventories	(1,489)	2,438
Other assets	(535)	(568)
Trade and other payables	7,583	(3,935)
Provisions	(463)	(2,005)
Other liabilities	(807)	1,792
Net cash generated by operating activities	<u>63,795</u>	<u>64,797</u>

(1) Restated FY16 - see Note 34.

### 7.5 Non-cash investing and financing activities

Acquisition of property, plant and equipment by means of finance leases were \$3.8 million (FY16: nil).



# NOTES TO THE FINANCIAL STATEMENTS

## 8. Trade and other receivables

### 8.1 Trade receivables

Consolidated	FY17 \$'000	Restated FY16 \$'000
<b>Current</b>		
Trade receivables <sup>(1)</sup>	81,286	35,735
Allowance for doubtful debts	(10,094)	(8,001)
	71,192	27,734
Accrued income	5,897	6,363
Sundry debtors	1,754	963
Other	4,549	5,952
	83,392	41,012
<b>Non-Current</b>		
Trade receivables	1,582	765
Sundry debtors	280	273
Other	561	2,391
	2,423	3,429
	85,815	44,441

(1) Restated FY16 - see Note 34.

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 the 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 (disclosed 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.

Trade receivables under formal or contractual payment arrangements have been reclassified to Other financial assets and the comparative period financial statements have been restated.

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

Consolidated	FY17 \$'000	Restated FY16 \$'000
31 – 60 days	3,121	793
61 – 90 days	1,729	1,337
91 + days	13,972	15,539
	18,822	17,669

# NOTES TO THE FINANCIAL STATEMENTS

## 8. Trade and other receivables (continued)

### 8.3 Movement in the allowance for doubtful debts

Consolidated	FY17 \$'000	Restated FY16 \$'000
Balance at the beginning of the year	8,001	5,324
Reclassification to other receivables	43	718
Amounts acquired through business combinations	1,892	-
Impairment losses recognised on receivables	2,462	2,086
Amounts written off as uncollectable	(2,304)	(127)
Balance at the end of the year	<u>10,094</u>	<u>8,001</u>

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 \$10.1 million (FY16: \$8.0 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	FY17 \$'000	Restated FY16 \$'000
1 – 30 days	479	57
31 – 60 days	873	57
61 – 90 days	590	125
91 + days	8,152	7,762
	<u>10,094</u>	<u>8,001</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 9. Other financial assets

Consolidated	FY17 \$'000	Restated FY16 \$'000
<b>Current</b>		
<b>Loans and receivables carried at amortised cost</b>		
Vendor finance <sup>(1)</sup>	5,159	4,628
Inventory held on behalf of third party <sup>(2)</sup>	2,232	-
Other <sup>(3)</sup>	2,090	940
	9,481	5,568
 <b>Non-Current</b>		
<b>Loans and receivables carried at amortised cost</b>		
Vendor finance <sup>(1)</sup>	11,458	8,103
Other <sup>(3)</sup>	2,802	1,543
	14,260	9,646
	23,741	15,214

- (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, with guarantors as co-signatories to the loan agreement. These loan receivables are undertaken at arm's length and can be interest bearing. Recoverability of these loan receivables are assessed on the same basis as trade receivables (Note 8). These balances include individually impaired loan receivables amounting to \$2.3 million (FY16: \$0.7 million). The impairment recognised represents the difference between the carrying amount of these loan receivables and the present value of the estimated recoverable amount.
- (2) Inventory held on behalf of third party represents inventory processed or manufactured on behalf of a third party.
- (3) Other represents all trade receivables under formal or contractual payment arrangements. The receivables under these repayment arrangements have been reclassified from Trade receivables to Other financial assets and the comparative period financial statements have been restated.
- (4) See Note 34 for prior period restatements with respect to amounts advanced to associated national marketing funds as Other financial assets.

# NOTES TO THE FINANCIAL STATEMENTS

## 10. Inventories

Consolidated	FY17 \$'000	Restated FY16 \$'000
Stock held for wholesale supply	25,144	13,568
Equipment held for resale	819	727
Stores held for resale <sup>(1)</sup>	2,488	1,360
	<u>28,451</u>	<u>15,655</u>

(1) Restated FY16 - see Note 34.

The cost of inventories recognised as an expense during the period in respect of continuing operations was \$167.8 million (FY16: \$97.7 million). Additionally, an amount of \$608 thousand has been expensed in the year (FY16: nil expensed) in respect of write-downs of stores held for resale to their assessed net realisable value.

## 11. Other assets

Consolidated	FY17 \$'000	FY16 \$'000
<b>Current</b>		
Prepayments	<u>3,215</u>	<u>2,210</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 12. Property, plant and equipment

Consolidated	Notes	Land & buildings at cost	Leasehold improvements at cost	Plant & equipment at cost	Motor vehicles at cost	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross carrying amount</b>						
Balance as at 1 July 2015		10,346	2,233	38,281	1,022	51,882
Additions		3,876	72	9,572	174	13,694
Disposals		(769)	(830)	(830)	(196)	(2,625)
Reclassification of Inventories		-	-	2,270	-	2,270
Fair Value adjustment		-	-	(250)	-	(250)
Effect of movements in exchange rates		-	5	130	-	135
<b>Balance as at 1 July 2016 (Restated)</b>		<b>13,453</b>	<b>1,480</b>	<b>49,173</b>	<b>1,000</b>	<b>65,106</b>
Additions		8,529	117	25,087	834	34,567
Disposals		-	(26)	(2,136)	(129)	(2,291)
Reclassification of Inventories		-	-	(1,005)	(146)	(1,151)
Effect of movements in exchange rates		-	(1)	(77)	-	(78)
Acquisitions	26.1	-	1,484	18,066	982	20,532
<b>Balance as at 30 June 2017</b>		<b>21,982</b>	<b>3,054</b>	<b>89,108</b>	<b>2,541</b>	<b>116,685</b>
<b>Accumulated depreciation</b>						
Balance as at 1 July 2015		(436)	(405)	(7,982)	(132)	(8,955)
Reclassification of Inventories		-	-	45	-	45
Disposals		18	121	573	157	869
Depreciation charge		(181)	(229)	(5,275)	(191)	(5,876)
Impairment losses charged to Profit		-	-	(83)	-	(83)
<b>Balance as at 1 July 2016</b>		<b>(599)</b>	<b>(513)</b>	<b>(12,722)</b>	<b>(166)</b>	<b>(14,000)</b>
Reclassification of Inventories		-	-	247	2	249
Disposals		-	7	471	93	571
Depreciation charge		(174)	(192)	(7,105)	(291)	(7,762)
Impairment losses charged to Profit		-	-	(189)	-	(189)
<b>Balance as at 30 June 2017</b>		<b>(773)</b>	<b>(698)</b>	<b>(19,298)</b>	<b>(362)</b>	<b>(21,131)</b>
<b>Net book value</b>						
As at 30 June 2016 (Restated)		12,854	967	36,451	834	51,106
As at 30 June 2017		21,209	2,356	69,810	2,179	95,554

### Leased assets

Land and buildings include \$3.8 million where the Group is a lessee under a finance lease.

# NOTES TO THE FINANCIAL STATEMENTS

## 13. Intangible assets

### 13.1 Intangible assets

Consolidated	Notes	Indefinite Life			Finite Life	Total
		Goodwill	Brand Networks	Intellectual Property Rights	Other	
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross carrying amount</b>						
		206,516	428,560	4,792	3,376	643,244
		-	301	-	274	575
		405	-	-	-	405
		222	327	545	-	1,094
		<b>207,143</b>	<b>429,188</b>	<b>5,337</b>	<b>3,650</b>	<b>645,318</b>
		-	350	-	187	537
		-	(218)	-	-	(218)
	26.1	63,404	-	-	11,230	74,634
		(10)	(15)	-	-	(25)
		<b>270,537</b>	<b>429,305</b>	<b>5,337</b>	<b>15,067</b>	<b>720,246</b>
<b>Accumulated amortisation</b>						
		-	(48,894)	-	(249)	(49,143)
		-	-	-	(651)	(651)
		-	(48,894)	-	(900)	(49,794)
		-	-	-	(1,526)	(1,526)
		-	(48,894)	-	(2,426)	(51,320)
<b>Net book value</b>						
		207,143	380,294	5,337	2,750	595,524
		<b>270,537</b>	<b>380,411</b>	<b>5,337</b>	<b>12,641</b>	<b>668,926</b>

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

Goodwill has been allocated for impairment testing purposes to the following operating segments:

Goodwill allocation	FY17 \$'000	Restated FY16 \$'000
Bakery/Café Systems	76,864	76,864
OSR Systems	25,092	25,092
Coffee Retail Systems	65,367	67,345
Coffee and Allied Beverage	39,810	37,842
Commercial Food Services	63,404	-
	<b>270,537</b>	<b>207,143</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 13. Intangible assets (continued)

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

Indefinite life intangibles allocation	FY17 \$'000	Restated FY16 \$'000
Donut King Brand System	36,186	36,152
Brumby's Bakeries Brand System	53,480	53,465
Michel's Patisserie Brand System	82,234	82,220
Pizza Capers Gourmet Kitchens Brand System (PC)	4,384	4,384
Crust Gourmet Pizza Bars Brand System (CGP)	43,040	42,993
The Coffee Guy Brand System	957	972
Café2U Brand System	9,252	9,248
Gloria Jeans Brand system	141,960	142,095
Di Bella Coffee	14,255	14,102
	<u>385,748</u>	<u>385,631</u>

### 13.4 Assessments of cash-generating units

There are a total of ten CGU's in existence, with eight CGU's attributable to the operation of the Group's Brand Systems, the ninth CGU attributable to the coffee roasting business, and the tenth CGU attributable to the commercial food services business.

Goodwill is tested for impairment at the operating segment level.

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 FY18 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 and increased customer counts.

The cash flows in years two to five are based on the expected average percentage growth rate of 2.5% (FY16: 2.5%) for the Donut King, Brumby's Bakery, and Michel's Patisserie CGU's, 3% (FY16: 3%) for the PC, CGP, Mobile, Coffee Retail, Coffee and Allied Beverage, and Commercial Food Services CGU's. The growth rates applied are based on management's estimate of forecast cash flow by Brand System/business after considering FY17 with the FY18 budget year. Management considers that the growth rates applied are reasonable.

A post-tax nominal discount rate of 9.9% (FY16: 9.9%) 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% (FY16: 2%) for the Donut King, Brumby's Bakery and Michel's Patisserie CGU's, 2.5% (FY16: 2.5%) for the PC, CGP, Mobile, Coffee and Allied Beverage and Coffee Retail CGU's have been used in determining the terminal value for each of the CGU's.

The creation of the Commercial Food Services CGU was a direct result of the acquisitions of the Hudson Pacific Corporation and Associated Foodservice.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 14. Trade and other payables

Consolidated	FY17 \$'000	Restated FY16 \$'000
<b>Current</b>		
Trade payables <sup>(1)</sup>	57,629	14,452
Accruals and other creditors	11,469	7,344
Goods and services tax (GST) payable	718	577
	<u>69,816</u>	<u>22,373</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.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

## 15. Provisions

Consolidated	FY17 \$'000	FY16 \$'000
<b>Current</b>		
Employee benefits	6,340	2,928
Onerous leases and make-good	650	513
Other provisions	432	77
	<u>7,422</u>	<u>3,518</u>
<b>Non-Current</b>		
Employee benefits	393	307
	<u>7,815</u>	<u>3,825</u>

Consolidated	Employee benefits	Onerous Leases and Make-Good	Other
	\$'000	\$'000	\$'000
<b>Balance at 1 July 2016</b>	3,235	513	77
Movement in provisions	2,436	(148)	-
Payments made	(1,386)	(265)	(1,101)
Amounts acquired through business combination	2,448	550	1,456
<b>Balance at 30 June 2017</b>	<u>6,733</u>	<u>650</u>	<u>432</u>



# NOTES TO THE FINANCIAL STATEMENTS

## 16. Other liabilities

Consolidated	FY17 \$'000	Restated FY16 \$'000
<b>Current</b>		
Retention bonds and deposits	2,098	2,087
Unearned income	2,016	3,828
Other (contingent consideration) <sup>(1)</sup>	6,633	12,996
	<u>10,747</u>	<u>18,911</u>
<b>Non-Current</b>		
Retention bonds and deposits	53	66
Unearned income	1,934	1,464
Other (contingent consideration) <sup>(1)</sup>	332	8,836
	<u>2,319</u>	<u>10,366</u>
	<u>13,066</u>	<u>29,277</u>

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

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

## Capital

### 17. Borrowings

Consolidated	FY17 \$'000	Restated FY16 \$'000
<b>Secured at amortised cost</b>		
<b>Current</b>		
Finance lease liabilities	679	-
Equipment loans	43	165
	<u>722</u>	<u>165</u>
<b>Secured at amortised cost</b>		
<b>Non-Current</b>		
Bank loans	246,500	206,500
Finance lease liabilities	3,400	-
Equipment loans	74	107
Borrowing Costs (Deferred)	(726)	(872)
	<u>249,248</u>	<u>205,735</u>
	 <u>249,970</u>	 <u>205,900</u>

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.

During the period, the Group:

- Increased its total bi-lateral senior finance facility by \$40.0 million. Westpac Banking Corporation contributed the entire \$40.0 million funding increase to the bi-lateral facility; and
- Enhanced interest rate risk management measures by entering into fixed interest rate contracts covering an additional \$100 million of gross debt with a 3.0 - 4.5 year maturity profile, with the total debt subject to fixed interest rates as at the date of this report being \$150 million.

# NOTES TO THE FINANCIAL STATEMENTS

## 18. Issued capital

Consolidated	FY17 \$'000	FY16 \$'000
176,736,066 fully paid ordinary shares (FY16: 164,968,083)	402,472	324,072
	402,472	324,072

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	FY17 No. '000	FY17 \$'000	FY16 No. '000	FY16 \$'000
<b>Fully paid ordinary shares <sup>(1)</sup></b>				
Balance at beginning of period	164,968	324,072	162,937	315,051
Issue of ordinary shares <sup>(2)</sup>	11,768	78,780	2,031	9,054
Share issue costs	-	(543)	-	(47)
Related income tax	-	163	-	14
Balance at end of period	176,736	402,472	164,968	324,072

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

(2) During the period, a total of 11,767,983 ordinary shares were issued as follows:

- a. 509,210 shares issued on 7 October 2016 in respect of the Company's Dividend Reinvestment Plan, attributable to the payment of the final dividend for the financial year ended 30 June 2016. The issue price of the shares was \$6.71.
- b. 681,982 shares issued on 10 April 2017 in respect of the Company's Dividend Reinvestment Plan, attributable to the payment of the interim dividend for the financial year ended 30 June 2017. The issue price of the shares was \$5.28.
- c. 5,197,044 shares issued on 6 October 2016 in respect of the Company's Dividend Reinvestment Plan shortfall placement, The issue price was \$6.85.
- d. 5,379,747 issued on 22 September 2016 in respect of the acquisition of Hudson Pacific Corporation.

# NOTES TO THE FINANCIAL STATEMENTS

## 19. Reserves

Equity-settled employee benefits reserve	FY17 \$'000	FY16 \$'000
Balance at beginning of year	-	-
Recognition of share-based payments	85	-
Balance at end of year	85	-

The equity-settled employee benefits reserve arises on the grant of rights to Directors, executives and senior executive management in accordance with the provisions of RFG's Performance Rights Plan. Amounts are transferred out of the reserve and into issued capital when the rights vest. Further information about share-based payments to employees is set out in Note 22.

Foreign Currency Translation reserve	FY17 \$'000	Restated FY16 \$'000
Balance at beginning of year	1,495	66
Exchange difference on translation of foreign operations	(241)	1,429
Balance at end of year	1,254	1,495

Foreign currency translation reserve represents foreign exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur.

Hedging reserve	FY17 \$'000	FY16 \$'000
Balance at beginning of year	-	-
Changes in the fair value of Cashflow Hedges	(1,762)	-
Deferred tax	529	-
Balance at end of year	(1,233)	-

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income, as described in Note 33.10. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

<b>Total Reserves</b>	<b>106</b>	<b>1,495</b>
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## 20. Retained earnings

Consolidated	Notes	FY17 \$'000	Restated FY16 \$'000
Balance at beginning of year		50,555	38,882
Net profit attributable to members of the parent entity		61,927	52,963
Dividends provided for or paid	21	(49,888)	(40,510)
Impact of restatement		-	(780)
Balance at end of year		62,594	50,555

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Dividends

Company	FY17		FY16	
	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>	14.50	23,920	11.75	19,145
Interim dividend - fully franked at 30% tax rate <sup>[2]</sup>	14.75	25,968	13.00	21,365
	<u>29.25</u>	<u>49,888</u>	<u>24.75</u>	<u>40,510</u>

### Declared after the end of the financial year

Fully paid ordinary shares				
Final dividend - fully franked at 30% tax rate <sup>[3]</sup>	15.00	26,510	14.50	23,920

- (1) In respect of the financial year ended 30 June 2016, as detailed in the Directors' Report for that financial year, 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, was 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 would constitute an eligible dividend for the purpose of the Company's Dividend Reinvestment Plan. The issue price of the shares was \$6.71.
- (2) In respect of profits of the financial year ended 30 June 2017, an interim dividend of 14.75 cents per share, based on 176,054,084 shares on issue at 23 February 2017, franked to 100% at 30% corporate income tax rate, was paid on 10 April 2017. The interim dividend was approved by the Directors on 23 February 2017 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 \$5.28.
- (3) In respect of profits of the financial year ended 30 June 2017, a final dividend of 15.00 cents per share, based on 176,736,066 shares on issue at 29 August 2017, franked to 100% at 30% corporate income tax rate, will be paid on 17 October 2017. The final dividend was approved by the Directors on 29 August 2017 and, therefore, was not provided for in the Company's financial report. It was resolved that the FY17 final dividend will constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

Company	FY17 \$'000	FY16 \$'000
Adjusted franking account balance	<u>61,581</u>	<u>57,106</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 22. Share-based payments

### 22.1 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.

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 price of the Company and 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 respective tranche having a 12 month 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).

Performance rights granted under the Performance Rights Plan carry no rights to dividends and no voting rights.

The following table summarises the Performance Rights granted under the plan:

	Number of Performance Rights		
	Tranche 1	Tranche 2	Tranche 3
<b>As at 30 June 2016</b>	-	-	-
Granted during the year	65,613	65,613	65,613
Forfeited during the year	(30,247)	(18,584)	(10,684)
<b>As at 30 June 2017</b>	<b>35,366</b>	<b>47,029</b>	<b>54,929</b>

Performance Rights outstanding at the end of the year have the following expiry dates and base prices:

Grant Date	Expiry Date	Base Price	Performance Rights Issued	
			FY17	FY16
14 July 2016	1 July 2018	\$5.61	39,504	-
14 July 2016	1 July 2019	\$5.61	53,017	-
1 December 2016	1 July 2019	\$6.19	44,803	-
			<b>137,324</b>	<b>-</b>

### 22.2 Executive Share Option Plan

In accordance with the provisions of the executive share option plan, as at 30 June 2017, Directors, executives and senior employees have options over nil ordinary shares (FY16: nil).

Share options granted under the executive share option plan carry no rights to dividends and no voting rights.

# NOTES TO THE FINANCIAL STATEMENTS

## Risk

### 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 FY16.

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 51.7% 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	FY17 \$'000	Restated FY16 \$'000
Debt <sup>(2)</sup>	249,970	205,900
Cash and bank balances	(9,583)	(16,956)
Net debt <sup>(1)</sup>	<u>240,387</u>	<u>188,944</u>
Equity <sup>(3)</sup>	<u>465,172</u>	<u>376,122</u>
Gearing ratio <sup>(4)</sup>	<u>51.7%</u>	<u>50.2%</u>

(1) Restated FY16 - see Note 34.

(2) 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.

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

(4) The Group's gearing ratio for covenant reporting under the senior bi-lateral debt facility with the NAB and Westpac (net debt/net debt + equity) was 34.7% (FY16 restated: 34.2%).

#### 23.3 Categories of financial instruments

Consolidated	FY17 \$'000	FY16 \$'000
<b>Financial assets</b>		
Loans and receivables		
Trade and other receivables	85,815	44,441
Other financial assets	23,741	15,214
Cash and cash equivalents	10,269	17,406
<b>Financial liabilities</b>		
Trade payables	57,629	14,452
Other payables	12,187	7,921
Retention bonds and deposits	2,151	2,153
Contingent consideration	6,965	21,832
Loans (at amortised cost)	249,970	205,900
Derivative financial instruments	1,810	-

# 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 Derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes. The Group has the following derivative financial instruments:

	FY17 \$'000	FY16 \$'000
<b>Non-current liabilities</b>		
Interest rate swap contracts - cash flow hedges	1,810	-
Total non-current derivative financial instrument liabilities	1,810	-

### 23.6 Market risk

The Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates (refer Note 23.8) and interest rates (refer Note 23.7).

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

### 23.7 Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at variable (floating) interest rates. 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.

During the year, the Group enhanced its interest rate risk management measures via entering into fixed interest rate contracts covering an additional \$150 million of gross debt with a 3.0 - 4.5 year maturity profile, of which \$50 million is forward starting in October 2017. The fixed interest rate contracts were taken out to hedge the interest rate risk of associated movements in the Bank Bill Swap Benchmark (BBSW), and the Group considers these derivatives to be effective hedges in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. The hedged interest payment transactions are expected to impact profit monthly between 1 and 4.5 years from the reporting date. The swaps are expected to be highly effective and therefore no hedge ineffectiveness has been recognised in the profit or loss in the year ended 30 June 2017.

At 30 June 2017 the Groups weighted average interest rate is 3.73% and total debt at fixed interest rates is \$150 million.

#### 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.

Sensitivity	Impact on post-tax profit		Impact on other components of equity	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Interest rates - increase by 100 basis points (1%)	(965)	(1,300)	3,274	-
Interest rates - decrease by 100 basis points (1%)	965	1,300	(3,274)	-

### 23.8 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:



# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial instruments (continued)

### 23.8 Foreign exchange risk (continued)

Exposure	Assets		Liabilities	
	FY17 \$'000	FY16 \$'000	FY17 \$'000	FY16 \$'000
US Dollar	14,764	14,964	3,652	2,614
Euro	1,648	1,475	2,472	880
New Zealand Dollar	4,462	5,229	451	671

#### 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.

Impact of Sensitivity to Profit or Loss	FY17		FY16	
	10%	-10%	10%	-10%
US Dollar	(707)	864	(786)	961
Euro	52	(65)	(37)	45
New Zealand Dollar	(255)	312	(288)	352
Total increase/(decrease)	(910)	1,111	(1,111)	1,358

### 23.9 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	FY17 \$'000	FY16 \$'000
<b>Contingent liabilities</b>		
Financial guarantees	814	814
Rental guarantees	3,282	2,121
Letters of credit	2,538	329
	<u>6,634</u>	<u>3,264</u>

### 23.10 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial instruments (continued)

### 23.10 Liquidity risk management (continued)

#### Liquidity and interest rate risk tables

The following table details the Group's remaining contractual maturity for its 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.

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Over 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000
<b>FY17</b>					
<b>Non-derivatives</b>					
Trade payables	-	57,629	-	-	57,629
Other payables	-	12,187	-	-	12,187
Retention bonds and deposits	-	2,098	53	-	2,151
Bank loans	3.7	9,117	257,715	-	266,832
Equipment loans	6.0	43	74	-	117
Contingent consideration	-	6,633	332	-	6,965
Finance lease liabilities	7.0	702	3,049	1,460	5,211
Rental guarantee contracts	0.3	3,282	-	-	3,282
Financial guarantee contracts	-	814	-	-	814
Letters of credit	0.3	2,538	-	-	2,538
		<u>95,043</u>	<u>261,223</u>	<u>1,460</u>	<u>357,726</u>
<b>Derivatives</b>					
<b>Interest rate swaps</b>					
- (inflow)	1.7	(2,505)	(6,001)	-	(8,506)
- outflow	2.5	3,680	8,925	-	12,605
		<u>1,175</u>	<u>2,924</u>	<u>-</u>	<u>4,099</u>
<b>FY16 <sup>(1)</sup></b>					
<b>Non-derivatives</b>					
Trade payables	-	14,452	-	-	14,452
Other payables	-	7,921	-	-	7,921
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	-	12,996	8,836	-	21,832
Rental guarantee contracts	0.3	2,121	-	-	2,121
Financial guarantee contracts	-	814	-	-	814
Letters of credit	0.3	329	-	-	329
		<u>48,278</u>	<u>226,992</u>	<u>-</u>	<u>275,270</u>

(1) Restated FY16 - see Note 34.

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 \$4.1 million (FY16: \$2.9 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial instruments (continued)

### 23.10 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 average effective interest rate	Less than 1 year	1 – 5 years	Total
	%	\$'000	\$'000	\$'000
<b>FY17</b>				
Cash and cash equivalents	-	10,269	-	10,269
Loans and receivables	-	92,710	18,038	110,748
		<u>102,979</u>	<u>18,038</u>	<u>121,017</u>
<b>FY16</b>				
Cash and cash equivalents	-	17,406	-	17,406
Loans and receivables <sup>(1)</sup>	-	46,580	13,199	59,779
		<u>63,986</u>	<u>13,199</u>	<u>77,185</u>

(1) Restated - see Note 34.

The Group has access to financing facilities, as described in Note 7.3, of which \$91.6 million was unused at the end of the reporting period (FY16: \$94.7 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial instruments (continued)

### 23.11 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.

#### *Recognised fair value measurements*

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2017.

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

<i>Recurring fair value measurements</i> At 30 June 2017	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial Liabilities</b>					
Derivatives used for hedging - interest rates swaps	23.5	-	1,810	-	1,810
Contingent consideration	23.3	-	-	6,965	6,965
<b>Total financial liabilities</b>		-	1,810	6,965	8,775

<i>Recurring fair value measurements</i> At 30 June 2016	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial Liabilities</b>					
Contingent consideration	23.3	-	-	21,832	21,832
<b>Total financial liabilities</b>		-	-	21,832	21,832

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

Consolidated	Contingent consideration payable \$'000
Opening balance 30 June 2016	21,832
Acquisitions	723
(Gains)/losses recognised in other income	(3,359)
Cash payments	(12,231)
<b>Closing balance 30 June 2017</b>	<b>6,965</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Group structure

### 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	FY17 %	FY16 %	Entity	FY17 %	FY16 %
Addiction Holdings Pty Ltd <sup>(2)</sup>	100	100	Gloria Jean's Coffees Pty Ltd <sup>(2)</sup>	100	100
Adonai International Pty Ltd <sup>(2)</sup>	100	100	Gloria Jeans Coffees Supply Pty Ltd <sup>(2)</sup>	100	100
Associated Foodservice Distributors Pty Ltd <sup>(2)</sup>	100	-	Gloria Jean's Coffees UK Limited*	100	100
Associated Smallgoods Distributors Pty Ltd <sup>(2)</sup>	100	-	Gloria Jean's Gourmet Coffee Pty Ltd <sup>(2)</sup>	100	100
Bakery Fresh Pty Ltd <sup>(2)</sup>	100	-	Gloria Jeans Inc.*	100	100
bb's Café System Pty Ltd <sup>(2)</sup>	100	100	Gourmet Foods Australia Pty Ltd <sup>(2)</sup>	100	100
bb's New Zealand Limited <sup>Δ</sup>	100	100	HDCZ (NZ) Limited <sup>Δ</sup>	100	100
BDP Franchise Pty Ltd <sup>(2)</sup>	100	100	Hot Dog Construction Zone (Aust) Pty Ltd <sup>(2)</sup>	100	100
BDP System Pty Ltd <sup>(2)</sup>	100	100	Hudson Pacific Corporation Pty Ltd <sup>(2)</sup>	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	It's a Grind Inc.*	100	100
Brumby's Bakeries Franchise 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 (NZ) Limited <sup>Δ</sup>	100	100	Jireh International Warehouse and Distribution Pty Ltd <sup>(2)</sup>	100	100
Brumby's Bakeries System Pty Ltd <sup>(2)</sup>	100	100	Jonamill Pty Ltd <sup>(2)</sup>	100	100
C2U (NZ) Limited <sup>Δ</sup>	100	100	Maranatha Import Export India Private Limited*	100	100
Café 2U (NZ) Pty Ltd <sup>Δ</sup>	100	100	Maranatha Import Export LLC*	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 (VO) Pty Ltd <sup>(2)</sup>	100	100
Caffe Coffee (NZ) Limited <sup>Δ</sup>	100	100	Michel's Patisserie (VOL) Pty Ltd <sup>(2)</sup>	100	100
Caffe Coffee Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie (WA) Pty Ltd <sup>(2)</sup>	100	100
Capercorp Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie Corporate Retail Division Pty Ltd <sup>(2)</sup>	100	100
Capers Construction Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie Management Pty Ltd <sup>(2)</sup>	100	100
Capers Gourmet Kitchen Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie Operations Pty Ltd <sup>(2)</sup>	100	100
CGP (NZ) Limited <sup>Δ</sup>	100	100	Michel's Patisserie System Pty Ltd <sup>(2)</sup>	100	100
CGP Systems Pty Ltd <sup>(2)</sup>	100	100	Michel's Patisserie Systems (NZ) Limited <sup>Δ</sup>	100	100
Coffee Houses CRD Pty Ltd <sup>(2)</sup>	100	100	Patisserie Delights Pty Ltd <sup>(2)</sup>	100	100
Coffee in a Can Pty Ltd <sup>(2)</sup>	100	100	Pizza Capers Franchise Pty Ltd (formally PCGK Holdings Pty Ltd) <sup>(2)</sup>	100	100
Coleville Enterprises Pty Ltd <sup>(2)</sup>	100	100	Pizza Corporate Retail Division Pty Ltd <sup>(2)</sup>	100	100
Crust Franchise Pty Ltd <sup>(2)</sup>	100	100	Pizza Holdings Pty Ltd <sup>(2)</sup>	100	100
Dairy Country Pty Ltd <sup>(2)</sup>	100	-	Pizza Restaurant Holdings Pty Ltd <sup>(2)</sup>	100	100
DBC IP Holdings Pty Ltd <sup>(2)</sup>	100	100	Praise Coffee Inc.*	100	100
DBC Services Pty Ltd <sup>(2)</sup>	100	100	Praise Holdings LLC*	100	100
DCM System Pty Ltd <sup>(2)</sup>	100	100	Praise IAG Franchisor LLC*	100	100
DiBella Coffee LLC*	100	100	Praise IAG Stores LLC*	100	100
DK China Pty Ltd <sup>(2)</sup>	100	100	Praise International North America Inc.*	100	100
Donquay Pty Ltd <sup>(2)</sup>	100	100	Praise North America IP LLC*	100	100
Donut King (NZ) Limited <sup>Δ</sup>	100	100	Praise Operations Company LLC*	100	100
Donut King Corporate Retail Division Pty Ltd <sup>(2)</sup>	100	100	Praise US Holdings Inc.*	100	100
Donut King Franchise Pty Ltd <sup>(2)</sup>	100	100	PRCH Holdings Pty Ltd <sup>(2)</sup>	100	100

# NOTES TO THE FINANCIAL STATEMENTS

## 24. Subsidiaries (continued)

Entity	FY17 %	FY16 %	Entity	FY17 %	FY16 %
Donut King System Pty Ltd <sup>(2)</sup>	100	100	Regional Franchising Systems Pty Ltd <sup>(2)</sup>	100	100
ECH System (NZ) Limited <sup>Δ</sup>	100	100	Retail Food Group Limited <sup>(1)</sup>	100	100
Edglo Enterprises Inc.*	100	100	Retail Food Group USA Inc.*	100	100
Espresso Concepts Pty Ltd <sup>(2)</sup>	100	100	RFG (NZ) Holdings Limited <sup>Δ</sup>	100	100
Espresso Enterprises Pty Ltd <sup>(2)</sup>	100	100	RFG (NZ) Limited <sup>Δ</sup>	100	100
Espresso Kick Pty Ltd <sup>(2)</sup>	100	100	RFG Finance Pty Ltd <sup>(2)</sup>	100	100
Esquires Coffee Houses System Pty Ltd <sup>(2)</sup>	100	100	RFGA Equitech Pty Ltd (formerly RFGA CMF Pty Ltd) <sup>(2)</sup>	100	100
Esquires International Pty Ltd <sup>(2)</sup>	100	100	RFGA Holdings (Aust) Pty Ltd <sup>(2)</sup>	100	100
Evolution Coffee Roasters Pty Ltd <sup>(2)</sup>	100	100	RFGA Holdings Pty Ltd <sup>(2)</sup>	100	100
Freezer Rental Pty Ltd <sup>(2)</sup>	100	100	RFGA Management Pty Ltd <sup>(2)</sup>	100	100
GJCI Malaysia SDN BHD*	100	100	Roasted Addiqtion Pty Ltd <sup>(2)</sup>	100	100
Gloria Jean's Coffees India Private Limited*	100	100	Roasting Australia Holdings Pty Ltd <sup>(2)</sup>	100	100
Gloria Jean's Gourmet Coffee Corp*	100	100	Snowycold Pty Ltd <sup>(2)</sup>	100	100
Gloria Jean's Gourmet Coffee Franchising Corp*	100	100	Systems Franchisor Pty Ltd <sup>(2)</sup>	100	100
Gloria Jeans Coffees Australasia Pty Ltd <sup>(2)</sup>	100	100	TCG Franchising Limited <sup>Δ</sup>	100	100
Gloria Jeans Coffees Holdings Pty Ltd <sup>(2)</sup>	100	100	TCG Iprop Pty Ltd <sup>(2)</sup>	100	100
Gloria Jean's Coffees International (UK) Pty Ltd*	100	100	The Michel's Group Australia Pty Ltd <sup>(2)</sup>	100	100
Gloria Jean's Coffees International China*	100	100	WDM Holdings Pty Ltd <sup>(2)</sup>	100	-
Gloria Jeans Coffees International Pty Ltd <sup>(2)*</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:  
<sup>Δ</sup> New Zealand.  
\* Other international tax jurisdictions

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Parent entity disclosures

### 25.1 Financial position

Parent entity	FY17 \$'000	Restated FY16 \$'000
<b>Assets</b>		
Current assets	41	610
Non-current assets	676,807	579,618
Total assets	676,848	580,228
<b>Liabilities</b>		
Current liabilities	3,266	6,089
Non-current liabilities	247,592	206,500
Total Liabilities	250,858	212,589
<b>Equity</b>		
Issued capital	402,472	324,072
Retained earnings	24,666	43,567
Reserves	(1,233)	-
Equity-settled employee benefits	85	-
Total equity	425,990	367,639

### 25.2 Financial performance

Parent entity	FY17 \$'000	Restated FY16 \$'000
Profit for the year	30,987	36,800
Other comprehensive income	(1,233)	-
Total comprehensive income	29,754	36,800

### 25.3 Other Commitments

The parent entity has no contingent liabilities or expenditure commitments as at 30 June 2017 (FY16: nil).

## 26. Acquisitions

### 26.1 FY17 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
Hudson Pacific Corporation	Procurement, warehousing, manufacturing and distribution business	22 September 2016	86,411	49,510	36,178	723
Associated Foodservice Distribution Pty Ltd	Procurement, warehousing and distribution business	12 May 2017	5,625	5,625	-	-
Total consideration:			92,036	55,135	36,178	723

# NOTES TO THE FINANCIAL STATEMENTS

## 26. Acquisitions (continued)

### 26.1 FY17 Acquisitions (continued)

#### Hudson Pacific Corporation

On 22 September 2016, the Group acquired 100% of the issued share capital of Hudson Pacific Corporation through a Sales and Purchase Agreement (SPA). The acquisition has significant integration opportunities and substantially increases the scale of food service activities undertaken by the Group in support of its franchise community.

This transaction has been accounted for on a provisional basis using the acquisition method of accounting as at 30 June 2017.

Details of the purchase consideration are as follows:

Consideration	FY17 \$'000
Cash	49,510
Scrip consideration	36,178
Contingent consideration	723
Total	<u>86,411</u>

Shares issued as scrip consideration relates to 5,379,747 shares which are held in escrow and will be released in tranches from 2017 - 2019. The fair value of these shares is based on the share price as at settlement date, discounted for the impact of escrow terms.

Additional amounts payable contingent on key persons remaining associated with Hudson Pacific Corporation for periods of 12, 24 and 36 months have not been included in contingent consideration of the business. In accordance with the Group's accounting policy on acquisitions, these contingent payments will be recognised in profit or loss as incurred. The potential undiscounted amount payable is \$1.6 million.

The acquired businesses' contribution of gross revenues and earnings before interest, tax, depreciation and amortisation (EBITDA) to the Group for the period from 22 September 2016 to 30 June 2017 are included within the Commercial Food Services segment in Note 1.3 of this report.



# NOTES TO THE FINANCIAL STATEMENTS

## 26. Acquisitions (continued)

### 26.1 FY17 Acquisitions (continued)

#### Hudson Pacific Corporation (continued)

The provisional assessment of 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	577
Trade and other receivables	25,004
Inventories	11,500
Other current assets	470
Current tax assets	106
<b>Total current assets</b>	<u>37,657</u>
<b>Non-current assets</b>	
Property, plant and equipment	20,101
Deferred tax assets	2,197
Intangible assets	11,230
<b>Total non-current assets</b>	<u>33,528</u>
<b>Total assets</b>	<u>71,185</u>
<b>Current liabilities</b>	
Trade and other payables	36,085
Provisions	4,453
<b>Total current liabilities</b>	<u>40,538</u>
<b>Non-current liabilities</b>	
Deferred tax liability	3,369
<b>Total non-current liabilities</b>	<u>3,369</u>
<b>Total liabilities</b>	<u>43,907</u>
<b>Net Assets</b>	27,278
Goodwill on acquisition of business	59,133
Acquisition price	<u>86,411</u>
<b>Net cash flow on acquisition</b>	
Total purchase consideration	86,411
Less: non-cash consideration	<u>(36,901)</u>
Consideration paid in cash	49,510
Less: Cash and cash equivalent balances acquired	<u>(577)</u>
<b>Total</b>	<u>48,933</u>

The goodwill is attributable to the profitability of the acquired business and the vertical integration synergies expected to arise from the acquisition. The goodwill will not be deductible for tax purposes.

# NOTES TO THE FINANCIAL STATEMENTS

## 26. Acquisitions (continued)

### 26.1 FY17 Acquisitions (continued)

#### Associated Foodservice

On 12 May 2017, the Group acquired 100% of the issued share capital of Associated Foodservice through a Sales and Purchase Agreement (SPA). The acquisition has significant integration opportunities and substantially increases the scale of food service activities undertaken by the Group in support of its franchise community.

This transaction has been accounted for on a provisional basis using the acquisition method of accounting as at 30 June 2017, pending further assessment of identifiable intangible assets, acquisition liabilities and deferred tax liabilities.

Details of the purchase consideration are as follows:

Consideration	FY17 \$'000
Cash	5,696
Receivable	(71)
Total	<u>5,625</u>

The acquired businesses' contribution of gross revenues and earnings before interest, tax, depreciation and amortisation (EBITDA) to the Group for the period from 12 May 2017 to 30 June 2017 are included within the Commercial Food Services segment in Note 1.3 of this report.

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	61
Trade and other receivables	3,180
Inventories	<u>1,316</u>
Total current assets	<u>4,557</u>
<b>Non-current assets</b>	
Property, plant and equipment	431
Deferred tax asset	<u>109</u>
Total non-current assets	<u>540</u>
<b>Total assets</b>	<u>5,097</u>
<b>Current liabilities</b>	
Trade and other payables	<u>3,743</u>
Total current liabilities	<u>3,743</u>
<b>Total liabilities</b>	<u>3,743</u>
<b>Net Assets</b>	1,354
Goodwill on acquisition of business	<u>4,271</u>
Acquisition price	<u>5,625</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 26. Acquisitions (continued)

### 26.1 FY17 Acquisitions (continued)

#### Associated Foodservice (continued)

Net cash flow on acquisition	FY17 \$'000
Total purchase consideration	5,625
Add: Consideration Receivable	<u>71</u>
Consideration paid in cash	5,696
Less: Cash and cash equivalent balances acquired	<u>(61)</u>
Total	<u>5,635</u>

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

## Other

### 28. Events after the reporting period

There have not been any matters or circumstances, other than those referred to in this Annual Report, that have arisen since the end of the year, that have 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 29 August 2017, the Board of Directors declared a final dividend for the financial year ended 30 June 2017, as set out in Note 21 of this financial report.

#### Joint Venture

On 26 July 2017 the Group announced the completion of joint ventures with UAE-based businesses, the Al Hathboor Group and HKO Group, to accelerate Brand System expansion in the Gulf region, and to establish a coffee enterprise focused on realising significant commercial coffee opportunities throughout the Middle East & North Africa (MENA) region. Under the agreements, RFG will maintain a 50% interest in the joint ventures, whilst also retaining existing Middle East Brand System royalty and certain coffee income streams.

### 29. Contingent liabilities

Consolidated	FY17 \$'000	FY16 \$'000
<b>Contingent liabilities</b>		
Financial guarantee contracts <sup>(1)</sup>	814	814
Rental guarantee contracts <sup>(2)</sup>	3,282	2,121
Letters of credit	2,538	329
	<u>6,634</u>	<u>3,264</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 in relation to 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	FY17 \$'000	FY16 \$'000
Plant and equipment	<u>3,280</u>	<u>12,537</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.

The Group has a large number of back-to-back leases with Franchise Partners, which are contracted at substantially offsetting terms. The Group has not recognised these leases as commitments.

### 31.2 Amounts recognised in profit or loss

Consolidated	FY17 \$'000	FY16 \$'000
Lease expense	8,044	9,126
	<u>8,044</u>	<u>9,126</u>

### 31.3 Future minimum lease payments

Consolidated	FY17 \$'000	FY16 \$'000
Less than one year	8,066	5,274
Between one and five years	18,299	13,518
More than five years	1,252	1,555
	<u>27,617</u>	<u>20,347</u>

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

Consolidated	FY17 \$'000	FY16 \$'000
Onerous leases and make-good (Note: 15)	650	513
	<u>650</u>	<u>513</u>

## 32. Remuneration of auditors

Consolidated	FY17 \$	FY16 \$
<b>Audit and other assurance services:</b>		
Audit and review of financial statements	485,000	415,000
<b>Other assurance services:</b>		
Consulting services on acquisition	363,187	-
IT review	36,220	-
<b>Taxation services:</b>		
Tax advice on acquisition	20,305	-
	<u>904,712</u>	<u>415,000</u>
<b>Other auditors</b>		
Audit and review of financial statements	20,000	23,450
	<u>20,000</u>	<u>23,450</u>

The auditor of Retail Food Group Limited in FY17 is PricewaterhouseCoopers. The auditor of Retail Food Group Limited in FY16 was Deloitte Touche Tohmatsu.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above.

### 33.1 Basis of preparation

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.

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

#### (a) Statement of compliance

The financial statements comply with Australian Accounting Standards. The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Directors on the 29 August 2017.

#### (b) Basis of measurement

The financial statements have 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 Corporations Instrument 2016/191, and, in accordance with that Corporations Instrument, 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 2017.

#### (d) Going concern basis

The financial statements have 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.1 Basis of preparation (continued)

#### (e) Foreign currencies (continued)

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 the consolidated 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 consolidated financial statements are included in the following notes:

Note 33.2 - Revenue Recognition

Note 8 - Recoverability of Debtors

Note 33.3 - Deferred Tax assets

Note 33.6 - Impairment of non-financial assets other than goodwill and indefinite life intangible assets

Note 33.7 - Impairment of goodwill and indefinite life intangible assets

Note 33.7 - Determination as indefinite life intangible assets

Note 16 - Fair value of assets and liabilities acquired 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 consolidated 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.

#### (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 are 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.

##### New Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial statements, the following Standards and Interpretations have been issued but were not yet effective.

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', and the relevant amending standards	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020

The Group has yet to fully assess the impact the following accounting standards and amendments will have on the financial statements when applied in future periods:

##### AASB 16 *Leases*

AASB 16 will result in the majority of all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, a depreciating non-financial asset (the right to use the leased item) and the associated payable, under the lease, are recognised.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.1 Basis of preparation (continued)

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

##### New Standards and Interpretations issued but not yet effective (continued)

In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The only exceptions will be short-term and low-value leases.

The Group operates in the retail industry through franchisees and carries a large number leases, including 'back-to-back' leases with Franchise Partners. The Group is advanced in assessing the impact of this new standard, but is not in a position to disclose a precise financial impact as there is still a significant amount of work to be completed and reviewed, to be more certain of the impact.

The new leasing Standard may have a significant impact on the Group's financial statements, particularly with the inclusion of new assets and liabilities associated with lease recognition. In addition, there may be a significant impact on the way that the revenues and expenses associated with lease accounting will be reported in the consolidated statement of profit or loss and other comprehensive income.

This new accounting standard is not expected to have any significant impact on the Group's business model, operations, cash flows, obligations or banking relationships.

No significant impact is expected for the Group's finance leases.

##### AASB 9 *Financial Instruments*

The Group has yet to undertake a detailed assessment of the classification and measurement of financial assets.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than incurred credit losses, as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. Whilst the group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. Whilst the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of AASB 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

##### AASB 15 *Revenue from Contracts with Customers*

The Group is undertaking a comprehensive review of its revenue arrangements ahead of the FY19 application of AASB 15 *Revenue from Contracts with Customers*. The Group has not reached a determination as to the impact of the new accounting standard.

#### (i) 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 profit or loss and other 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 Subsidiaries' financial statements to make their accounting policies consistent with those used by other members of the Group.

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

### 33.2 Revenue Recognition

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.



# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.2 Revenue Recognition (continued)

#### *Revenue from processing of dairy products on behalf of third parties*

Revenue is recognised when the terms of the relevant agreement have been met and the processed goods are delivered to the customer.

#### *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.

### 33.3 Income taxes

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 profit or loss and other 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 taxes 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 this case the tax is also recognised outside profit or loss, or where it arises 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 base 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 do so 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.3 Income taxes (continued)

#### 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 in relation to the application of income tax legislation.

#### *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.

### 33.4 Cash and cash equivalents

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

### 33.5 Inventories

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

### 33.6 Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

The gain or loss arising on the disposal or retirement of an item of property, plant or 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:

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.6 Property, plant and equipment (continued)

- 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.

### 33.7 Intangible assets

#### *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 2 - 10 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), so 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 operating segments expected to benefit from the synergies of the combination. Operating segments, 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 operating segments 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 on a pro-rata basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.7 Intangible assets (continued)

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

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. 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.

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 financial years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### 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 are:

- 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 future net cash inflows to the Group; and
- There are currently no legal, technical or commercial obsolescence factors applying to the assets or related products 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 forecasted 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.

#### Internally Generated Intangible Assets, Including Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the development phase of internal projects is recognised if all of the following requirements have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset for use or sale;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the total of expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the consolidated statement of profit or loss and other comprehensive income in the period incurred.

### 33.8 Provisions

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

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.8 Provisions (continued)

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.

### 33.9 Share-based payments

Equity-settled share-based payments to employees, and others providing similar services, are measured at the fair value of the equity instrument at the grant date.

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. Rights subject to marketing conditions have been valued using the Monte Carlo simulation (using the Black-Scholes framework) and rights subject to non-market conditions have been value using the Black-Scholes option pricing model. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.10 Financial instruments

#### *Financial Assets*

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.

#### *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.

#### *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 in Note 2.

#### *Derivatives and hedging activities*

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- Hedges of a net investment in a foreign operation (net investment hedges).

At the inception of the hedging transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 23.10. Movements in the hedging reserve in shareholders' equity are shown in Note 19. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.10 Financial instruments (continued)

#### (i) Cash flow hedge

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance costs. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires and is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

#### (ii) Net investment hedges

Hedges of net investments in foreign operations are accounted for on a similar basis to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses. Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

#### (iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

### 33.11 Acquisitions

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Summary of Significant Accounting Policies (continued)

### 33.11 Acquisitions (continued)

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.

### 33.12 Operating Leases

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

## 34. Prior Period Restatement

### 34.1 Change in accounting policy

In November 2016, the IFRS Interpretation Committee (IFRIC) issued an agenda decision which confirmed that an intangible asset with an indefinite useful life is not the same as a non-depreciable asset. As a consequence, entities can no longer presume that such assets will always be recovered through sale in measuring their deferred tax balances. Instead, entities will need to determine whether they expect to recover the carrying amounts of their indefinite life intangible assets through use or sale and reflect this approach in the measurement of the deferred tax balances, where required. The Group previously applied a dual method of recovery, whereby the assets were held and used for a period of time, prior to the carrying amount of these assets being expected to be recovered through sale, which meant that the capital gains tax base was used and no deferred tax balance needed to be recognised.

Following the IFRIC decision, the Group has reviewed the tax effect accounting for its indefinite life brand system intangible assets. The Group has now changed its accounting policy and is measuring the deferred tax balances for its indefinite life Brand System intangible assets, assuming recovery through use, which is a better reflection of how the Group expects to recover the value of these assets. As there are no tax deductions that can be claimed in relation to the indefinite life brand system intangible assets while they are being held, the tax base of these assets is zero, which requires the recognition of deferred tax liabilities.

The change in policy has been applied retrospectively, as is allowed under the recent IFRIC agenda decision. As the Group's brand systems businesses were acquired as part of business combinations in prior years, corresponding adjustments were necessary to goodwill. With the resultant uplift in goodwill, the Group has re-examined its impairment assessments from prior periods.

The restated comparative period Financial Statement adjustments arising from this change in accounting policy is quantified in the summarised tables at Note 34.3 of this report.

### 34.2 Prior period corrections and restatements

#### Impairment testing of Brand System intangible assets

Following a review of the Group's accounting policies and impairment testing of intangible assets, including consideration the November 2016 IFRIC decision (discussed in Note 34.1), the Group has revised its approach to its impairment testing of intangible assets. The Group has historically allocated Identifiable Intangible Assets (Brand Systems) to Cash Generating Units (CGU), which represents the lowest level within the entity at which the assets are monitored for internal management purposes. The Group negotiates certain contracts and earns related contractual revenues at this Market Segment level, in addition to revenues earned at the individual Brand System level. These CGU's are listed in Note 13 Intangible Assets.

The Group has historically tested Brand System assets for impairment at the Market Segment level, as stated in Note 13 Intangible Assets. The recoverable amounts of the Market Segments were based primarily on a "value in use" calculation, which uses cash flow projections based on the financial budget approved by the Board as the year one cash flow. 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.

As a result of this review, it has been determined that each Brand System generates cash in-flows that are largely independent from other Brand Systems and therefore represent an individual CGU for the purposes of impairment testing. Impairment testing has been conducted on a retrospective basis. As a result, it has been determined that certain individual Brand Systems were impaired in the financial years prior to and ended 30 June 2015, when tested on an individual basis. Accordingly, it is necessary to restate the consolidated statement of financial position and consolidated statement of changes in equity for the financial year ended 30 June 2015.

The decisions made to group these Brand Systems into Market Segment CGU's are consistent with the Group strategy of extracting growth and synergies from complimentary assets. A summary of the Brand Systems impaired, and the years in which they were aggregated with other Brand Systems is outlined below.

Individual Brand Systems impaired in the financial years prior to and ended 30 June 2015 include:

- Pizza Capers - grouped with Crust as QSR CGU in the financial year ended 30 June 2013;
- The Coffee Guy - grouped with Café 2U as Mobile CGU in the financial year ended 30 June 2015;
- Esquires Coffee Houses - grouped with bb's as a CGU in the financial year ended 30 June 2011;
- bb's café - grouped with Esquires as a CGU in the financial year ended 30 June 2011;
- Esquires and bb's café CGU grouped with Gloria Jeans as Coffee Retail CGU in the financial year ended 30 June 2015;
- Big Dads Pies - grouped with Brumby's in the financial year ended 30 June 2011;
- DCM Coffee & Donuts - grouped with Donut King in the financial year ended 30 June 2010;

The restated comparative period financial statement adjustments arising from the review of impairment testing is quantified in the summarised tables at Note 34.3 of this report.

It should be noted that there has been no cash flow impact associated with the restatement for 2015 or any subsequent period, nor has there been any consolidated statement of profit or loss and other comprehensive income impact on any reporting periods subsequent to 30 June 2015. There has been no change in the manner in which goodwill is tested for impairment.

# NOTES TO THE FINANCIAL STATEMENTS

## 34. Prior Period Restatement (continued)

### 34.2 Prior period corrections and restatements (continued)

#### Contingent milestone payments on acquisitions of businesses and subsidiaries accounted for using the acquisition method in accordance with AASB 3 *Business Combinations*

Arising from the acquisition of Hudson Pacific Corporation on 22 September 2016, the Group reassessed its accounting policies on acquisitions accounted for using the acquisition method of accounting in accordance with AASB 3 *Business Combinations*, taking into account a review of prior period acquisitions. With respect to acquisitions, milestone payments to vendors, contingent upon a future outcome that include or imply a service obligation by the vendor, are now recognised in the consolidated statement of profit or loss and other comprehensive income over the service period. As a result of this assessment, the Group has determined contingent consideration payments that were incorrectly recorded as goodwill to which the policy applies are to be recognised in profit or loss in the 2015 and 2016 financial years.

The restated comparative period financial statement adjustments arising from the review of acquisition accounting in accordance with AASB 3 *Business Combinations* is quantified in the summarised tables at Note 34.3 of this report.

#### Accounting for franchise system marketing expenditure and internally generated intangible assets

Following the write-down of advances to marketing funds announced on 21 June 2017, the Group conducted a further detailed review of its accounting policies with respect to franchise system marketing expenditure, and accounting for internally generated intangible assets, including research and development expenditure.

The Group has historically funded and accounted for marketing fund deficits as 'other receivables' of the Group, and recovered these amounts in future periods from the marketing funds. Expenses of the marketing funds permitted under the terms of the respective franchise agreements and incurred by the Group have been recharged to the marketing funds and reported as 'marketing expenses' and 'other revenue' within the Group's consolidated statement of profit or loss and other comprehensive income. This marketing fund expenditure has included significant strategic research and development expenditure on projects designed to provide longer term future economic benefits to the respective franchise systems<sup>1</sup>.

As a result of this review, the Group has determined that the accounting for franchise system marketing expenditure will be incurred and recovered on an annual basis, with the revenue and expenditure associated with franchise system marketing activities presented net within the Group consolidated statement of profit or loss and other comprehensive income.

Strategic research and development expenditure on projects designed to provide longer term future economic benefits to the respective franchise systems will be accounted for under the Group's accounting policy regarding "internally generated intangible assets including research and development expenditure" in accordance with AASB 138 *Intangible Assets* (refer to note 33.7 of this report).

This revision in the Groups' accounting policy with respect to franchise system marketing expenditure has required a restatement of the consolidated statement of profit or loss and other comprehensive income, and consolidated statement of financial position presentation retrospectively.

Additionally, the Group has elected to apply the new accounting policy with respect to internally generated intangible assets including research and development expenditure for future financial periods, commencing 1 July 2017. Accordingly, expenditure from past development projects have not been reallocated to intangible assets, and total advances to marketing funds not recovered have been written-down to nil.

The Group consolidated statement of profit or loss and other comprehensive income has been restated for the financial year ended 30 June 2016 to present revenue and expenditure associated with franchise system marketing activities on a net basis, and recognise the write-down of advances to marketing funds not recovered in that year. The write-down of advances to marketing funds not recovered prior to and including the financial year ended 30 June 2015 will be recognised in the financial year ended 30 June 2015. Accordingly, it has also been necessary to restate the consolidated statement of financial position and consolidated statement of changes in equity for the financial years ended 30 June 2015 and 30 June 2016 respectively.

The restated comparative period financial statement adjustments arising from the review of accounting for franchise system marketing expenditure is quantified in the summarised tables at Note 34.3 of this report.

#### Restatement of reclassification of certain receivables

Trade receivables under formal or contractual payment arrangements have been reclassified to Other Financial Assets.

The restated comparative period financial statement adjustments arising from the reclassification of trade receivables is quantified in the following summarised tables.

<sup>1</sup> Including 'Project Evolution' development undertaken in the Bakery Café Brand Systems commenced in the financial year ended 30 June 2012, and the Michel's Patisseries National Bakery Solution commenced in the financial year ended 30 June 2013.

# NOTES TO THE FINANCIAL STATEMENTS

## 34. Prior Period Restatement (continued)

### 34.3 Summary of changes in accounting policies and prior period restatements

Consolidated Statement of Financial Position	30-Jun-15 Reported	Deferred tax adjustment	Intangible asset impairment testing adjustment	Contingent consideration adjustment	De-recognition of Marketing Fund receivables	Total 2015 year adjustments	30-Jun-15 Restated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Inventories	20,901	-	-	-	(448)	(448)	20,453
Other financial assets	29,586	-	-	-	(22,734)	(22,734)	6,852
Current tax assets	1,595	-	-	-	6,955	6,955	8,550
Deferred tax assets	8,664	-	(885)	-	-	(885)	7,779
Intangible assets	512,979	130,576	(46,489)	(2,965)	-	81,122	594,101
<b>Total assets</b>	<b>680,048</b>	<b>130,576</b>	<b>(47,374)</b>	<b>(2,965)</b>	<b>(16,227)</b>	<b>64,010</b>	<b>744,058</b>
Deferred tax liabilities	-	130,576	(14,668)	-	-	115,908	115,908
Other	34,024	-	-	(2,115)	-	(2,115)	31,909
<b>Total liabilities</b>	<b>276,266</b>	<b>130,576</b>	<b>(14,668)</b>	<b>(2,115)</b>	<b>-</b>	<b>113,793</b>	<b>390,059</b>
<b>Net assets</b>	<b>403,782</b>	<b>-</b>	<b>(32,706)</b>	<b>(850)</b>	<b>(16,227)</b>	<b>(49,783)</b>	<b>353,999</b>
Foreign currency translation reserve	1,276	-	(1,210)	-	-	(1,210)	66
Retained earnings	87,455	-	(31,496)	(850)	(16,227)	(48,573)	38,882
<b>Total equity</b>	<b>403,782</b>	<b>-</b>	<b>(32,706)</b>	<b>(850)</b>	<b>(16,227)</b>	<b>(49,783)</b>	<b>353,999</b>

Consolidated Statement of Financial Position	30-Jun-16 Reported	Intangible asset impairment testing adjustment	Contingent consideration adjustment	Trade receivables reclassification	De-recognition of Marketing Fund receivables	Total 2015 year adjustments carried forward	30-Jun-16 Restated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	48,574	-	-	(4,133)	-	-	44,441
Inventories	16,103	-	-	-	-	(448)	15,655
Other financial assets	42,251	-	-	4,133	(8,436)	(22,734)	15,214
Current tax assets	-	-	-	-	(2,500)	6,955	4,455
Deferred tax assets	8,279	-	-	-	-	(885)	7,394
Property, plant and equipment	51,561	-	-	-	(455)	-	51,106
Intangible assets	514,402	-	-	-	-	81,122	595,524
<b>Total assets</b>	<b>700,786</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,391)</b>	<b>64,010</b>	<b>753,405</b>
Trade and other payables	21,758	-	615	-	-	-	22,373
Current tax liabilities	5,167	-	-	-	(5,167)	-	-
Deferred tax liabilities	-	-	-	-	-	115,908	115,908
Other	29,892	-	1,500	-	-	(2,115)	29,277
<b>Total liabilities</b>	<b>266,542</b>	<b>-</b>	<b>2,115</b>	<b>-</b>	<b>(5,167)</b>	<b>113,793</b>	<b>377,283</b>
<b>Net assets</b>	<b>434,244</b>	<b>-</b>	<b>(2,115)</b>	<b>-</b>	<b>(6,224)</b>	<b>(49,783)</b>	<b>376,122</b>
Foreign currency translation reserve	1,925	780	-	-	-	(1,210)	1,495
Retained earnings	108,247	(780)	(2,115)	-	(6,224)	(48,573)	50,555
<b>Total equity</b>	<b>434,244</b>	<b>-</b>	<b>(2,115)</b>	<b>-</b>	<b>(6,224)</b>	<b>(49,783)</b>	<b>376,122</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 34. Prior Period Restatement (continued)

### 34.3 Summary of changes in accounting policies and prior period restatements (continued)

Consolidated Statement of Profit or Loss and Other Comprehensive Income	30-Jun-16 Reported	Intangible asset impairment	Contingent consideration adjustment	De-recognition of Marketing Fund receivables	Marketing expenditure reclassification	30-Jun-16 Restated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Continuing operations</b>						
Revenue from sale of goods	169,269	-	-	-	(4,429)	164,840
Cost of sales	(106,280)	-	-	-	8,605	(97,675)
Other revenue	141,202	-	-	-	(30,945)	110,257
Other gains and losses	640	-	(1,500)	-	835	(25)
Marketing expenses	(28,224)	-	-	-	24,469	(3,755)
Occupancy expenses	(8,265)	-	-	-	670	(7,595)
Administration expenses	(20,992)	-	-	-	795	(20,197)
Other expenses	(7,799)	-	(615)	(8,891)	-	(17,305)
<b>Profit before tax</b>	<b>87,589</b>	<b>-</b>	<b>(2,115)</b>	<b>(8,891)</b>	<b>-</b>	<b>76,583</b>
Income tax expense	(26,287)	-	-	2,667	-	(23,620)
<b>Profit for the period</b>	<b>61,302</b>	<b>-</b>	<b>(2,115)</b>	<b>(6,224)</b>	<b>-</b>	<b>52,963</b>
Exchange differences on translation foreign operations	649	780	-	-	-	1,429
<b>Other Comprehensive Income</b>	<b>649</b>	<b>780</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,429</b>
<b>Total comprehensive income</b>	<b>61,951</b>	<b>780</b>	<b>(2,115)</b>	<b>(6,224)</b>	<b>-</b>	<b>54,392</b>
<b>Earnings per share</b>						
From continuing operations:						
Basic (cents per share)	37.4	-	(1.3)	(3.8)	-	32.3
Diluted (cents per share)	37.4	-	(1.3)	(3.8)	-	32.3

Consolidated Statement of Changes in Equity	Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000
Balance as at 30 June 2015 (Reported)	315,051	1,276	87,455	403,782
Total 2015 year adjustments	-	(1,210)	(48,573)	(49,783)
<b>Balance as at 30 June 2015 (Restated)</b>	<b>315,051</b>	<b>66</b>	<b>38,882</b>	<b>353,999</b>
Profit for the year ended 30 June 2016 (Reported)	-	-	61,302	61,302
De-recognition of Marketing Fund receivables	-	-	(6,224)	(6,224)
Contingent consideration adjustment	-	-	(2,115)	(2,115)
<b>Profit for the year ended 30 June 2016 (Restated)</b>	<b>-</b>	<b>-</b>	<b>52,963</b>	<b>52,963</b>
Net income recognised directly in equity	-	1,429	-	1,429
Intangible asset impairment adjustment	-	-	(780)	(780)
Issue of ordinary shares net of costs	9,021	-	-	9,021
Payment/Provision of dividends	-	-	(40,510)	(40,510)
<b>Balance as at 30 June 2016 (Restated)</b>	<b>324,072</b>	<b>1,495</b>	<b>50,555</b>	<b>376,122</b>

# NOTES TO THE FINANCIAL STATEMENTS

## DIRECTORS' DECLARATION

The Directors declare that:

- (a) In the Directors' opinion, the financial statements and notes set out on pages 24 to 82 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- (b) 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;
- (c) In the Directors' opinion, the financial statements are in compliance with International Financial Reporting Standards, as disclosed in the notes to the financial statements of the FY17 Annual Report;
- (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  
29 August 2017



## *Independent auditor's report*

To the shareholders of Retail Food Group Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Retail Food Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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### *Our Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.





Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> <li>• For the purpose of our audit we used overall Group materiality of \$4,800,000 which represents approximately 5% of the Group's profit before tax.</li> <li>• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>• We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.</li> <li>• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</li> </ul>	<ul style="list-style-type: none"> <li>• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>• The Group is structured across 5 operating segments that include 8 components with activities primarily located in Australia. We structured our audit identifying the following components for which we performed a full scope audit: Bakery/Café Division, QSR Division, Coffee Retail Division, International Franchising, Coffee &amp; Allied Beverage and Dairy Country. We performed specific audit procedures over the corporate head office areas including, amongst others the Group tax position, borrowings of the Group, and the Group recoverability assessment in relation to goodwill, intangible assets and other brand system assets.</li> <li>• At the Group level, we performed further audit procedures over the consolidation process and the preparation of the financial report.</li> </ul>	<ul style="list-style-type: none"> <li>• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Management Committee: <ul style="list-style-type: none"> <li>– Revenue recognition</li> <li>– Recoverability of brand system receivables</li> <li>– Acquisition accounting</li> <li>– Assessment of impairment of intangible assets</li> <li>– Prior period restatements</li> </ul> </li> <li>• These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.





<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Revenue recognition</b> <i>(Refer to note 2 – FY17: \$349.3m FY16: \$275.1m)</i></p> <p>The Group has multiple revenue streams with customers, some of which can be complex. Complexity can arise from the judgement by the Group regarding the identification and recognition of each source of revenue based on the terms of the relevant agreements and business activities.</p> <p>Revenue recognition was a key audit matter because of this complexity and the significance of revenue to the financial performance of the Group. Particular revenue streams that involve judgements on the quantum and timing of revenue recognition include:</p> <ul style="list-style-type: none"><li>• For Master Franchise Agreements (both International and Domestic), the Group receives Master Franchise Fees at the commencement of the agreement in addition to other Master Franchise Fees over the term of the agreement.</li><li>• Supplier and distributor arrangements, where the Group grants exclusive supply rights to the Group's franchisees and receives amounts upfront from the suppliers and distributors at the commencement of the arrangements.</li></ul>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"><li>• We developed an understanding of the revenue streams for Master Franchise Fees and Supplier and Distributor License Fees and the basis used to recognise revenue.</li><li>• We tested a sample of Master Franchise Agreements to evaluate if the Master Franchise Fees were recorded in the correct accounting period. This included testing of amounts recorded to the underlying agreement and payment receipts.</li><li>• Where individually material Supplier and Distributor License Fees were identified, we tested amounts recognised by the Group to the terms of the supplier agreements to determine whether the revenue and related costs were recorded accurately and within the correct accounting period.</li><li>• For significant Supplier and Distributor License Fees that had previously been deferred, we checked whether the amounts recognised in the current year were consistent with the terms of the Supplier and Distributor agreement and the recognition profile for each agreement.</li></ul>



### **Key Audit Matter**

### **How our audit addressed the key audit matter**

**Recoverability of brand system receivables**  
(Refer to note 8 and 9 – FY17: \$109.5m FY16: \$59.7m)

The Group recognises material amounts due from brand system franchisees at the reporting date, which included in trade receivables of \$85.8m and other financial assets of \$23.7m.

Trade receivables of \$85.8m include an amount of \$14.0m due from debtors that is more than 91 days past due but against which the Group has not recognised an allowance for doubtful debts.

Other financial assets includes \$16.6m relating to vendor finance due from franchisees against which the Group has not recognised an allowance for doubtful debts.

The Group assesses the recoverability of the trade receivables and other financial assets by considering any change in the credit quality of the debtors from the date credit was initially granted up to the end of the reporting period. The Group also holds collateral over the majority of these trade receivables and vendor finance balances in the form of the franchised outlets.

During the year the Group also performed a detailed assessment of the accounting policy relating to marketing fund advances of \$31.2m included in other financial assets in prior periods. As a result of this review, the Group has derecognised the receivables through a restatement of prior periods.

This is further discussed in the key audit matter of prior period restatements reported further on.

The recoverability of brand system receivables was a key audit matter due to the financial size of these balances and the amount of judgement involved in assessing any potential impairments.

We performed the following procedures, amongst others:

- We tested the accuracy of the aged brand system receivables listing through tracing a sample to the underlying invoices to verify the dates included in the report.
- We sought external confirmations for a sample of franchisee debtors with outstanding balances at a period during the year. For those where no response was obtained, we performed alternative procedures through assessing the quantum of subsequent receipts from those debtors post balance sheet date and tested the allocation of these receipts to debtor's balances.
- We tested a sample of trade receivables and vendor finance amounts due from franchisees to subsequent receipts in the bank including testing if they were in line with the agreed payment plans for those franchisees.
- We developed an understanding of the Group's policies and procedures in relation to the recognition of provisions for doubtful debts.
- We made enquiries of management in respect of past due debtors and assessed the risk of delinquency or impairment.
- We considered selected correspondence between the Group and franchisees in respect of balances past due or on payment plans.



### **Key Audit Matter**

#### **Acquisition accounting**

*(Refer to note 26 – FY17: \$92.0m)*

During the year, the Group acquired Hudson Pacific Corporation (HPC) and Associated Foodservice (AF). Australian Accounting Standards require the Group to identify the fair value of all assets and liabilities of the newly acquired business.

The accounting for the business combination of HPC was a key audit matter given that this acquisition was material to the Group and involved significant judgements made by the Group, including:

- Determination of the amount of the purchase consideration, specifically including the issue of shares as part of the consideration.
- Identification and measurement of consideration payable contingent on certain future events.
- Assessment of the fair value of assets and liabilities acquired including the valuation of intangible assets acquired.

### **How our audit addressed the key audit matter**

We performed the following procedures, amongst others:

- We read the relevant sale and purchase agreements in relation to the acquisition and agreed the cash payment of consideration to banking and accounting records.
- We tested the fair value of shares issued as consideration by comparing them to the ASX quoted share price at the date of the acquisition.
- In relation to the valuation of the contingent consideration, we assessed the approved forecasts and budgets of the acquired businesses for the relevant earn-out periods under the agreement with reference to the historical performance of those businesses.
- We compared the recognised fair value of assets and liabilities acquired to valuation reports, where available, and assessed the appropriateness of the valuation methodology used by the Group with the assistance of PwC valuation experts.
- We tested the mathematical accuracy of the calculation of the resultant goodwill.
- We assessed the adequacy of the business combination disclosures in light of the requirements of Australian Accounting Standards.



## Key Audit Matter

## How our audit addressed the key audit matter

### **Assessment of impairment of intangible assets**

*(Refer to note 13 – FY17: \$668.9m FY16: \$595.5m)*

The Group recognises goodwill and indefinite life intangible assets which relate to brand networks and intellectual property. As required by Australian Accounting Standards, these non-amortising assets are tested annually for impairment.

During the year, the Group reassessed its cash generating units (CGUs) for the purpose of testing indefinite life assets for impairment which resulted in each brand network being identified as a CGU.

This reassessment of CGUs resulted in the Group re-performing impairment testing at the previous reporting periods, 30 June 2015 and 30 June 2016. In doing so, impairment of certain brand network indefinite life assets was identified in prior periods. This is further discussed in the key audit matter on prior period restatement reported further on.

The Group performed impairment assessments over each of their CGUs by calculating the value in use of the assets (including indefinite life intangible assets) for each CGU using discounted cash flow models (the models).

Key judgements in the models are budgeted brand system cash flows, the expected average percentage growth rate, discount rates and terminal growth rates.

The assessment of impairment was a key audit matter due to the size of goodwill and indefinite life intangible assets in the balance sheet and the key judgements and assumptions incorporated in the impairment models prepared to assess the recoverable amount of the goodwill and indefinite life intangible assets.

We performed the following procedures, amongst others:

- We assessed whether the Group's identification of CGUs was consistent with our knowledge of the operations, internal reporting lines and the level of largely independent cash-flows.
- We tested the mathematical accuracy of the calculations in the models and compared the future cash flow forecasts in the models to the Board approved budgets.
- We assessed the 2018 year cash flow forecasts in each of the models by developing an understanding of the underlying drivers for growth and profitability in the context of the Group's future plans. The growth rates used do not exceed long term average growth rates for the markets in which each of the CGUs operate and were consistent with external market data for the market relevant to each CGU.
- We assessed the Group's ability to forecast future results of the business by comparing budgets with actual results for the prior years.
- We compared the discount rates used by the Group to external market trends that were obtained with the assistance of PwC valuation experts.
- We performed a sensitivity analysis by reducing the cash flow growth rates and terminal growth rates used in the models, and increased the discount rate within a reasonably foreseeable range.
- We evaluated the adequacy of the disclosures made in the financial report in light of the requirements of the Australian Accounting Standards.



<b>Key Audit Matter</b>	<b>How our audit addressed the key audit matter</b>
<p data-bbox="263 555 598 616"><b>Prior period restatements</b> <i>(Refer note 34)</i></p> <p data-bbox="263 649 837 840">The following restatements of the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statements of Financial Position and the Consolidated Statement of Changes in Equity and Consolidated Statement of Cashflows have been made in relation to prior periods:</p> <ul data-bbox="263 873 837 1254" style="list-style-type: none"><li>• A change in accounting policy to recognise deferred tax liabilities on brand network intangible assets;</li><li>• The derecognition of goodwill which has been identified as employment expenses arising from business combinations;</li><li>• Impairment of brand network intangible assets as a result of a historical reassessment of cash generating units;</li><li>• The derecognition of marketing fund advances of prior periods not deemed to meet the definition of an asset.</li></ul> <p data-bbox="263 1288 774 1377">These matters and their financial impacts are explained in detail in the referenced note to the financial statements.</p> <p data-bbox="263 1411 837 1601">We focussed on these matters due to the magnitude of the adjustments and judgement and analysis applied by the Group in identifying and calculating the adjustments together with determining the appropriate periods in which the restatements were to be reflected.</p>	<p data-bbox="861 555 1476 649">In assessing the nature, quantum and timing of the restatements of the comparative financial statements, we performed the following procedures, amongst others:</p> <ul data-bbox="861 683 1540 1254" style="list-style-type: none"><li>• We assessed the Group's position papers and supporting documentation as well as researching the appropriate authoritative guidance to determine the nature of the change in policy and accounting errors identified.</li><li>• We obtained the key supporting documentation and calculations prepared by the Group to determine the appropriateness and quantum of each adjustment.</li><li>• We tested the calculation and appropriateness of the associated impacts of the financial statements for the years ended 30 June 2017, 30 June 2016 and 30 June 2015 by considering the relevant balance sheet positions of each year.</li><li>• We assessed the disclosures related to the restatements in light of the requirements of Australian Accounting Standards.</li></ul>



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### *Other information*

The directors are responsible for the other information. The other information comprises the Summary Financial Information, Corporate Directory, Director's report and Additional Stock Exchange Information included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.



## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 12 to 21 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Retail Food Group Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

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### *Responsibilities*

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.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Steven Bosiljevac*

Steven Bosiljevac  
Partner

Brisbane  
29 August 2017

# ADDITIONAL STOCK EXCHANGE INFORMATION

Number of holders of equity securities as at 18 August 2017

## Ordinary share capital

- 176,736,066 fully paid ordinary shares are held by 23,417 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	9,377	4,913,126	2.8%	-	-
1,001 - 5,000	10,270	25,986,475	14.7%	-	-
5,001 - 10,000	2,329	17,204,771	9.7%	-	-
10,001 - 100,000	1,382	28,881,213	16.3%	-	-
100,001 and over	59	99,750,481	56.5%	-	-
	23,417	176,736,066	100.0%	-	-

## Substantial shareholders

Ordinary shareholders	Fully paid		Partly paid	
	Number held	Percentage	Number held	Percentage
Mr Anthony (Tony) Alford	19,643,078	11.1%	-	-
UBS Group AG	9,177,642	5.4%	-	-
Invesco Australia Limited	8,937,405	5.2%	-	-

## Twenty largest holders of quoted equity instruments

Ordinary shareholders	Fully paid		Partly paid	
	Number	Percentage	Number	Percentage
HSBC Custody Nominees	28,423,935	16.2%	-	-
JP Morgan Nominees Australia	12,494,557	7.1%	-	-
Citicorp Nominees Pty Ltd	9,312,722	5.3%	-	-
CGFH C2 Pty Ltd	8,884,987	5.0%	-	-
Alford s Holdings (Old) Pty Ltd	6,637,309	3.8%	-	-
AXNA Pty Ltd	5,379,747	3.0%	-	-
BNP Paribas Noms Pty Ltd	2,364,160	1.3%	-	-
Antra Pty Ltd	2,338,717	1.3%	-	-
Brecot Pty Ltd	2,040,890	1.2%	-	-
BNP Paribas Nominees Pty Ltd	1,525,585	0.9%	-	-
AMA Holdings (Old) Pty Ltd	1,294,042	0.7%	-	-
National Nominees Limited	1,122,144	0.6%	-	-
CSF Investments (Old) Pty Ltd	969,556	0.5%	-	-
WSS Holdings (Aust) Pty Ltd	927,217	0.5%	-	-
Molves Pty Ltd	900,000	0.5%	-	-
Tea & Coffee Traders Pty Ltd	841,912	0.5%	-	-
Warbont Nominees Pty Ltd	833,780	0.5%	-	-
CS Third Nominees Pty Ltd	758,372	0.4%	-	-
Bexlie Holdings (QLD) Pty Ltd	737,365	0.4%	-	-
Ms Alicia Jayne Atkinson	714,441	0.4%	-	-
	88,501,438	50.1%	-	-