

# Retail Food Group Limited

**APPENDIX 4D (Rule 4.2A.3)**  
**PRELIMINARY FINAL REPORT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**  
**RESULTS FOR ANNOUNCEMENT TO THE MARKET**  
 (All comparisons to the period ended 31 December 2018)

			1H20 A\$'000	1H19 A\$'000
Revenue and other income from continuing operations	<i>Up</i>	2.5%	151,417	147,753
Revenue and other income from discontinued operations	<i>Down</i>	(36.5%)	28,071	44,220
<b>Total revenues and other income</b>	<b><i>Down</i></b>	<b>(6.5%)</b>	<b>179,488</b>	<b>191,973</b>
<b>Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b><i>Up</i></b>	<b>32.7%</b>	<b>31,724</b>	<b>23,911</b>
Business restructuring, impairment, provisioning and other expenses			(53,415)	(136,417)
Gain on debt forgiveness			71,754	-
<b>Reported earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b><i>Up</i></b>	<b>144.5%</b>	<b>50,063</b>	<b>(112,506)</b>
<b>Profit/(loss) from continuing operations before income tax</b>	<b><i>Up</i></b>	<b>144.7%</b>	<b>45,380</b>	<b>(101,596)</b>
Loss from discontinued operations before income tax			(14,453)	(27,249)
<b>Profit/(loss) before income tax</b>	<b><i>Up</i></b>	<b>124.0%</b>	<b>30,927</b>	<b>(128,845)</b>
<b>Income tax (expense)/benefit from continuing operations</b>			<b>(18,237)</b>	<b>12,632</b>
Income tax benefit from discontinued operations			1,598	5,079
<b>Profit/(loss) for the period attributable to members of the parent entity</b>	<b><i>Up</i></b>	<b>112.9%</b>	<b>14,288</b>	<b>(111,134)</b>
<b>Net Tangible Assets/(Liabilities) per security</b>			<b>1H20 (3.7) cents</b>	<b>FY19 (148.8) cents</b>

Dividends	Amount per security
Final dividend	
- Current year	- cents
- Previous corresponding period	- cents
Total dividend (interim and final):	
- Current year	- cents
- Previous corresponding period	- cents

For an explanation of the figures reported refer to commentary on the results.



# Retail Food Group Limited Consolidated Financial Report Half-Year Ended 31 December 2019

## INDEX

3	DIRECTORS' REPORT
11	AUDITOR'S INDEPENDENCE DECLARATION
12	INDEPENDENT AUDITOR'S REVIEW REPORT
14	DIRECTORS' DECLARATION
15	CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
16	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
17	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
18	CONSOLIDATED STATEMENT OF CASH FLOWS
19	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# DIRECTORS' REPORT

The Directors of Retail Food Group Limited (referred to hereafter as the Company or Group) submit herewith the Financial Report of the Company for the period ended 31 December 2019 in accordance with the provisions of the *Corporations Act 2001*.

## Directors

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

Name	Particulars
Mr Peter George	Executive Chairman
Mr David Grant	Independent Non-Executive Director
Ms Kerry Ryan	Independent Non-Executive Director
Ms Jessica Buchanan	Independent Non-Executive Director - Resigned 1 August 2019

## Corporate governance

The Company recognises the importance of good corporate governance both to RFG shareholders and also to the broader stakeholder community including franchisees, regulators and consumers. The Company's practice is to publish its Corporate Governance Statement via its website at [www.rfg.com.au](http://www.rfg.com.au).

## Principal activities

The Group's principal activities during the course of the half-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 and It's A Grind 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 and It's A Grind 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 Di Bella Coffee; and
- Development and management of the procurement, warehousing, manufacturing and distribution businesses under the Hudson Pacific Food Service (HPC), Dairy Country and Associated Food Service (AFS) trading names;

The procurement, warehousing and distribution businesses under HPC and AFS have been classified as discontinued operations in these interim financial statements on the basis the businesses are deemed non-core to the Group, and disposal of these businesses was completed on 3 January 2020. Prior period comparative financial information has been restated accordingly to reflect these discontinued operations.

In the 1H19 interim financial period the Group had progressed a potential sale process for the Donut King and QSR Division Brand Systems, and accordingly had classified those Brand Systems as discontinued operations in the 1H19 interim financial statements. The potential asset sales did not proceed, and no further sale activity is presently being undertaken with respect to the Donut King and QSR Division Brand Systems. Accordingly, these Brand Systems are classified within continuing operations in the 1H20 financial statements. In addition, the comparative financial information has been restated to include these brand systems as continuing operations in 1H19.

# DIRECTORS' REPORT

## Important Information

This review contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events and future financial prospects. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. Forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements, and the outcomes are not all within the control of RFG. Statements about past performance are not necessarily indicative of future performance.

Neither RFG nor any of its subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (the 'Relevant Persons') makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statement or any outcomes expressed or implied in any forward-looking statement. The forward-looking statements in this review reflect views held only at the date hereof and except as required by applicable law or the ASX Listing Rules. The Relevant Persons disclaim any obligation or undertaking to publicly update any forward-looking statements, or discussion of future financial prospects, whether as a result of new information or future events.

This review refers to RFG's financial results, including RFG's statutory performance and underlying performance. RFG's statutory performance contains a number of items that when excluded provide a different perspective on the financial and operational performance of the business. Consolidated Statement Of Profit Or Loss And Other Comprehensive Income amounts, presented on an underlying basis such as Underlying NPAT, are non-IFRS financial measures, and exclude the impact of these items consistent with the manner in which senior management reviews the financial and operating performance of the business. Each underlying measure disclosed has been adjusted to remove the impact of these items on a consistent basis. A reconciliation and description of the items that contribute to the difference between statutory performance and underlying performance is provided in the Group Operational Review within this report.

Certain other non-IFRS financial measures are also included in this review. These non-IFRS financial measures are used internally by management to assess the performance of RFG's business and make decisions on allocation of resources. Non-IFRS measures have not been subject to audit or review. Certain comparative amounts from the prior corresponding year have been re-presented to conform to the current year's presentation.

## Overview

The six months to 31 December 2019 saw significant progress on the turnaround journey of RFG. In particular, the capital restructure, completed in December, addressed the unsustainable debt burden which represented a major threat to the Group's future. The elimination of this existential threat was a critical milestone and has cleared the way for the Group to focus on its operational imperatives. These imperatives involve revitalising and supporting the profitability of the franchise network, exiting non-core business streams, driving efficiencies through the downstream coffee manufacturing business and structuring the corporate support functions to both reduce cost and to prioritise all activities toward support of the Group's customer facing businesses.

## 1H20 Results

The following table summarises the Group's results for the financial periods ending 31 December 2019 and 31 December 2018:

Item	1H20 <sup>(1)</sup>	1H19 <sup>(1)</sup>	Change
Revenue (including discontinued operations)	\$179.5m	\$192.0m	(\$12.5m)
NPAT	\$14.3m	(\$111.1m)	\$125.4m
NPAT (Underlying) <sup>(2)</sup>	\$9.3m	\$6.6m	\$2.7m
EBITDA	\$50.1m	(\$112.5m)	\$162.6m
EBITDA (Underlying) <sup>(2)</sup>	\$31.7m	\$23.9m	\$7.8m

(1) The company adopted the revised AASB16 for lease accounting for the first time in its 1H20 results. Comparatives for 1H19 have not been restated. Full details of the impacts appear in note 19.1 to the financial statements.

(2) These figures are not subject to audit.

Underlying EBITDA (which excludes restructuring costs, impairment charges, gain on debt forgiveness and the contribution of discontinuing businesses) was \$31.7 million, which was \$7.8 million above the prior corresponding period (PCP). Excluding the impact of adopting revised Accounting standards AASB 15 and 16 reduces Underlying EBITDA to \$21.5 million, which is on track in regards to the Group's full year FY20 Underlying EBITDA guidance of \$42-\$46 million (assuming full year contributions from all continuing business units but excluding the impact of AASB 15 and 16) provided during October 2019.

Additionally, Underlying NPAT of \$9.3 million excludes \$1.5 million in depreciation of discontinued operations and amortisation of acquired intangible assets.

# DIRECTORS' REPORT

## 1H20 Results (continued)

The Statutory EBITDA of \$50.1 million and Statutory NPAT of \$14.3 million were primarily attributable to the \$71.8 million gain arising from the debt forgiveness provided by the lenders as part of the debt restructuring, further discussed under the heading Recapitalisation, Debt and Financial Position of this report.

Statutory revenue from continuing operations for 1H20 was \$151.4 million, representing an increase of \$3.7 million on the prior corresponding period (PCP).

The increase in revenues is primarily attributable to the following factors:

- A \$10.1 million decrease in Brand System segment revenues:
  - o A \$12.8 million decrease in Brand System external and marketing revenues, consistent with the reduction in stores under the planned store closure program compared to PCP;
  - o A \$1.5 million decrease in revenues from trading of company stores; offset by
  - o A \$4.2 million increase in revenues on PCP attributable to AASB 15/AASB 16 related revenues;
- An \$8.0 million decrease in Di Bella Coffee revenue, primarily attributable to the loss of key customers in the independent contract roasting sector experienced in FY19, and exiting the wholesale capsule business in 1H19; offset by
- A \$21.8 million increase in Dairy Country revenue (within the Manufacturing and Distribution division), primarily attributable to a 19.9% increase in Dairy Country processing volumes on PCP.

Cash outflows from operating activities for 1H20 were \$2.6 million (1H19: \$7.6 million, cash inflow), with the decrease in net operating cash inflow on PCP attributable to a non-recurring refund of tax instalments received in 1H19. Operationally, net cash outflows increased relative to cash receipts, due to supplier payments related to the significant restructuring activity undertaken in the period, and payment of deferred payables in December 2019 subsequent to completion of the recapitalisation in December. Excluding restructuring costs, net cash inflows from operating activities were \$17.7 million for 1H20.

## Restructuring, Provisioning and Impairment costs

The Group recorded total non-cash provisioning, impairment charges and loss on asset disposals for the half-year of \$33.9 million, including \$7.4 million of loss on asset disposals, and \$10.6 million attributable to discontinued operations.

The half-year charge comprises the write down of property, plant and equipment and redundant corporate systems and wholesale coffee restructuring activities totalling \$15.5 million, with the balance comprised primarily of provisioning for onerous leases and contracts, related assistance provisioning for lease portfolio rationalisation, and legal and regulatory costs.

The provisioning and impairment charges of \$10.6 million on discontinued operations relate to the write-down of the Hudson Pacific Food Service and Associated Food Service disposal businesses to fair value less costs to sell and provisioning for legacy costs from closure of residual operations including onerous leases.

Restructuring costs for the year totalled \$20.3 million, including \$3.8 million from discontinued operations. Restructuring costs from continuing operations comprised \$8.4 million consulting and professional services costs associated with the recapitalisation of the Group, asset sale programs and regulatory response activities, \$3.7 million in salary and associated costs of functions and roles identified as redundant together with the one-off payments associated with their termination, consultants and the wholesale coffee business restructuring program.

# DIRECTORS' REPORT

## Recapitalisation, Debt and Financial Position

### *Capital raising*

On 26 November 2019 RFG completed a placement of 1,700 million shares at \$0.10 per share to institutional and other professional and sophisticated investors to raise gross proceeds of \$170 million (Placement). The Placement was fully underwritten by Petra Capital Pty Limited and Shaw and Partners Limited (each a Joint Lead Manager and together the Joint Lead Managers). Existing shareholders were offered a share purchase plan (SPP) pursuant to which existing shareholders on the Record Date (10 October 2019) had the opportunity to subscribe for up to \$30,000 worth of shares, subject to scale back. The SPP was offered to existing shareholders at the same price as the Placement, and was completed on 2 December 2019. The Company also agreed to make a 'top-up' placement to Invesco, following the SPP, to maintain its post-Placement holding at 19.9% of the Company. The top-up placement completed on 6 December 2019. The Placement, SPP and top-up placement capital raising offers were approved by the Company's shareholders respectively at a General Meeting convened 19 November 2019 and the Company's Annual General Meeting, convened 29 November 2019.

A total of \$193.5 million in new issued capital was raised before costs.

### *Debt restructure*

Aligned to the Placement, the Company entered into a binding commitment letter and term sheet with the Lenders in connection with a restructuring of the Company's then existing debt facilities (Debt restructure). The Debt restructure was completed on 26 November 2019, and included:

- \$118.5 million of net Placement proceeds being applied to the reduction of debt;
- Extinguishment of \$71.8 million of the Company's then existing debt; and
- The provision of a new \$75.5 million debt facility maturing in November 2022 to refinance remaining existing senior debt.

In addition, \$22.2 million of net proceeds from the SPP and 'top-up' placement was subsequently paid to Lenders as required, to further reduce the new \$75.5 million senior debt facility to \$53.3 million plus ancillary facilities at 31 December 2019.

A gain on debt forgiveness of \$71.8 million has been recognised in the Group's statutory profit before tax for 1H20. For income tax purposes, the Group's FY19 carried forward tax losses will be applied against this gain on debt forgiveness, however the gain is not otherwise assessable for income tax purposes.

Cash on hand as at 31 December 2019 was \$38.2 million (excluding restricted cash balances).

# DIRECTORS' REPORT

## Operational Progress

In parallel with the Group's recapitalisation, 1H20 also saw significant progress on the operational turnaround of RFG. Fundamental to the Group's ethos is that the health and profitability of the franchise network is key to RFG's future and all initiatives and activities have been prioritised accordingly. In particular, the Group has focussed on delivering a suite of new and innovative product offerings, supported by a targeted range of brand/product specific marketing activities which are already beginning to deliver positive results in terms of sales and foot-traffic. In addition to these "top line" initiatives, management have also taken significant steps to deliver cost savings to our franchisees. Most notably, the wholesale supply price of coffee to our franchisees was reduced by ~15-20% effective from July 2019. In addition, the Group has been proactive in negotiations with landlords to reduce rent costs or mitigate increases. Where necessary, the Group has also continued to close unviable stores as part of its evolution to a more profitable and sustainable franchise network.

The half also saw significant progress on "right-sizing" and reconfiguring RFG's head office administration and support functions. In addition to delivering material cost savings, this also resulted in significant realignment of resources to more directly support the customer facing franchise network.

- Undertaking a comprehensive review and subsequent restructure (ongoing) of the wholesale coffee business;
- Rationalising of corporate premises and assets and head office relocation; and
- Execution of a sale agreement for the non-core procurement, warehousing and distribution businesses and assets of Hudson Pacific Food Service (HPC) and Associated Food Service (AFS). (transaction completed on 3 January 2020).

In addition to the operational initiatives discussed above, there has also been substantial effort to improve systems and processes to support the long-term sustainability and profitability of the Group. In particular, the Group is working toward "best in class" processes around the "franchisee life-cycle" spanning franchisee selection, training, support and mentoring as well as creating opportunities for high performing franchisees to progress within the network to potentially become multi-site operators.

## Contingent Liabilities

The Group is the subject of a number of possible class action claims and regulatory investigations which are referred to below. Provisions for costs incurred but unpaid as at balance date have been raised in line with the Group's provisions accounting policy.

### *Possible Class Actions*

The legal firm, Corrs Chambers Westgarth has announced a potential class action against RFG and related parties by current and former Michel's Patisserie franchisees. In addition to the risk of a franchisee class action, one legal firm, Phi Finney McDonald, continues to advertise a potential shareholder class action claim against RFG.

At this time, no plaintiff law firm has contacted RFG in relation to the threatened class actions, and as far as RFG is aware, no franchisee or shareholder class action claim has been lodged against the Group.

It is currently not possible to determine whether such class actions or other proceedings will be commenced, and what the financial impact of such proceedings, if any, may be for the Group in the future. In the event legal proceedings are initiated, the Group intends to defend its position.

### *ACCC and ASIC Investigations*

The Australian Competition and Consumer Commission (ACCC) has issued notices (Notices) to the Company under section 155 of the Competition and Consumer Act (CCA), seeking information and documentation in connection with the ACCC's investigation of potential contraventions of the Australian Consumer Law. The Group has fully co-operated, and continues to co-operate, with the ACCC in respect of the requests for information and documents outlined in the Notices.

It is currently not possible to determine whether the investigations by the ACCC will result in legal proceedings being commenced against the Group or its current and former Directors and Officers, and if so, what the financial impact of such proceedings, if any, may be for the Group in the future. However, if the ACCC commences, and is successful in, any legal proceedings against the Group or its current or former directors and officers, this could result in the imposition of potentially significant civil penalties. Additionally, the ACCC could seek compensatory orders on behalf of franchisees or former franchisees. In the event legal proceedings are initiated, the Group intends to defend its position.

The Australian Securities and Investments Commission (ASIC) has also issued notices (ASIC Notices) to the Company under Section 30 of the Corporations Act 2001, in which ASIC has requested that RFG produce books, records and documentation in connection with ASIC's investigation of possible contraventions of the Corporations Act 2001 prior to 25 September 2018 (and in respect of a subsequent ASIC Notice, 9 July 2019). The Group has fully co-operated with ASIC in respect of the request for records and information outlined in the ASIC Notices.

# DIRECTORS' REPORT

## Contingent Liabilities (continued)

It is currently not possible to determine whether the investigation by ASIC will result in legal proceedings being commenced against the Group or its current or former Directors and Officers, and if so, what the financial impact of such proceedings, if any, may be for the Group in the future. If ASIC brings, and is successful in, proceedings against the Group or its current or former Directors and Officers in regard to the possible contraventions raised in the ASIC Notices, this could result in a range of remedies and orders, including the imposition of penalties for the Group and its current and former Directors and Officers. In the event legal proceedings are initiated, the Group intends to defend its position.

The Group has provided for all legal costs incurred to balance date in responding to and dealing with all the matters referred to above.

## Divisional Operating Review

The Group is managed through five major reportable segments under AASB 8, 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, Esquires, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating Wholesale Coffee operations); and
- Manufacturing & Distribution Division (incorporating procurement, warehousing, manufacturing and distribution operations).

All Brand System segments are referred to collectively by management as Franchise Operations.

## Franchise Operations

1H20 saw a step change in methodology and focus in respect of product innovation and marketing within the Brand Systems. There has been a significant increase in campaign activity, with 134 campaigns per annum targeted across the Brand System portfolio. 1H20 campaign activity has driven total estimated annualised network sales of c.\$13.8m to date.

Wholesale coffee price reductions to franchisees were implemented in July across all relevant Brand Systems.

Underlying Franchise Operations EBITDA for 1H20 was \$26.4 million, representing an increase of \$2.1 million on PCP.

Operationally, the weighted Same Store Sales (SSS) decline across all Brand Systems moderated to 2% during the 1H20, highly influenced by unique challenges within Michel's Patisserie where a number of strong indicators as to positive product and marketing campaign performance, together with the brand's award of Roy Morgan Coffee Shop of the Year, have not translated to consistent reported franchisee sales at this juncture. Excluding Michel's Patisserie performance, weighted SSS decline reduces to 1%, with Donut King a standout performer with +1.1% SSS growth during the period. SSS metrics for 1H20 exclude the contribution from stores closed pursuant to the ongoing domestic outlet network review.

1H20 outlet closures comprised 73 domestic traditional outlets, and 10 mobile vans, consistent with expectation. No new outlets were established domestically during the period. The Group continues to progress the closure of non-performing outlets, and is actively engaged in ongoing negotiations with landlords for improved rental outcomes for franchise partners, where possible, to minimise closures, and continues to work constructively with impacted stakeholders.

## Franchise operations - International

During 1H20, the Group granted 1 new international territory master license. There was a net reduction of 21 international territory licences as legacy and or non-performing arrangements, where development quotas had not been achieved or progressed, were brought to an end.

35 new outlets and 5 new vans were established within international licensed territories, offset by 60 outlet closures and 12 van closures reported by master franchise partners, influenced by the activity noted above.

As at 31 December 2019, international operations contemplated 667 outlets across 66 international territories licensed by the Group.

## Di Bella Coffee

Underlying Di Bella Coffee Operations EBITDA for 1H20 was \$2.2 million from wholesale coffee operations, representing an increase of \$0.3 million on PCP. Excluding \$0.7 million of EBITDA from AASB 15/16, EBITDA decreased \$0.4 million on PCP, reflecting the loss of key customers in the independent contract roasting sector experienced in FY19, decreased earnings on international roasting operations, offset by cost reduction benefits of the wholesale coffee restructuring program commenced in the period. The Group's 1H19 exit from the unprofitable coffee capsule operations resulted in a reduction of \$6.8 million revenue on PCP.

As previously discussed, the strategic review and detailed operational planning for the restructure of the wholesale coffee business commenced in 1H20 resulting in initial cost reduction activities, management restructure and write-down of surplus assets undertaken in the period. Broader implementation of restructuring plans will be carried out in 2H20.



# DIRECTORS' REPORT

## Manufacturing & Distribution

As at 30 June 2019, the entire Manufacturing and Distribution Division was classified as *Discontinued Operations*, as the Board had resolved this division was not a core operation of the Group and would dispose of its constituent businesses. Subsequently the Group advised the Dairy Country business would be retained in core operations.

As previously noted, an executed sale agreement for those business operations under the Hudson Pacific Food Service (HPC) and Associated Food Service (AFS) trading names was entered into in 1H20, and disposal of these operations was completed on 3 January 2020, with their results excluded from the underlying performance assessment of the Group. As advised in the FY19 financial report, the loss-making Bakery Fresh wholesale bakery business was closed in May 2019, with its results excluded from the underlying performance assessment of the Group.

During 1H20, the Dairy Country business increased revenues by \$21.8 million on PCP on a 19.9% increase in processing volumes, however, additional overhead costs on integrating new business volumes contributed to a \$0.2 million reduction in underlying EBITDA versus PCP.

Underlying divisional EBITDA (excluding discontinued operations) for 1H20 was a profit of \$2.4 million, representing an increase of \$0.7 million on PCP in the Dairy Country business. Excluding the impact of AASB 16 on earnings, EBITDA decreased \$0.2m on PCP.

The Group commenced a detailed operational and management review of Dairy Country in 2H20, to increase economic returns from current production volumes.

## Subsequent Events

Subsequent to 31 December 2019, the Group completed the sale transaction of the Hudson Pacific Food Services and Associated Food Service businesses on 3 January 2020.

There has not been any other matter or circumstance occurring, in the reasonable opinion of the Directors, that 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.

## Dividend

The Directors have resolved that no dividend will be declared or paid with respect to the 1H20 period.

# DIRECTORS' REPORT

## Auditor's independence declaration


The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 11 of the half-year financial report.

## Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

## RETAIL FOOD GROUP LIMITED

A handwritten signature in black ink, consisting of a large, stylized 'P' followed by a horizontal line and a small flourish at the end.

Mr Peter George  
Executive Chairman

Robina, 27 February 2020



## *Auditor's Independence Declaration*

As lead auditor for the review of Retail Food Group Limited for the half-year ended 31 December 2019, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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  
27 February 2020



## **Independent auditor's review report to the members of Retail Food Group Limited**

### ***Report on the half-year financial report***

We have reviewed the accompanying half-year financial report of Retail Food Group Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

### ***Directors' responsibility for the half-year financial report***

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

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Retail Food Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### ***Conclusion***

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

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)



1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers  
PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Steven Bosiljevac' with a long horizontal stroke extending to the right.

Steven Bosiljevac  
Partner

Brisbane  
27 February 2020

# DIRECTORS' DECLARATION

The Directors' declare that:

- (i) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (ii) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Directors

**RETAIL FOOD GROUP LIMITED**

A handwritten signature in black ink, consisting of a large, stylized 'P' followed by a horizontal line and a vertical stroke.

Mr Peter George  
Executive Chairman

Robina, 27 February 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Consolidated	Notes	1H20 \$'000	Restated <sup>(1)</sup> 1H19 \$'000
<b>Continuing operations</b>			
Revenue		145,025	145,822
Cost of sales	4	<u>(86,973)</u>	<u>(71,548)</u>
<b>Gross profit</b>		58,052	74,274
Other revenue		6,392	1,931
Other gains and losses	4	65,672	(689)
Selling expenses		(708)	(2,264)
Marketing expenses		(8,771)	(10,317)
Occupancy expenses	4	(7,193)	(7,636)
Administration expenses	4	(21,952)	(17,210)
Operating expenses		(17,342)	(24,373)
Finance costs		(6,635)	(9,708)
Other expenses	4	<u>(22,135)</u>	<u>(105,604)</u>
<b>Profit/(loss) before income tax</b>		<u>45,380</u>	<u>(101,596)</u>
Income tax (expense)/benefit		(18,237)	12,632
<b>Profit/(loss) for the period from continuing operations</b>	4	<u>27,143</u>	<u>(88,964)</u>
Loss from discontinued operations	17	<u>(12,855)</u>	<u>(22,170)</u>
<b>Profit/(loss) for the period</b>		<u>14,288</u>	<u>(111,134)</u>
<b>Other comprehensive (loss)/income, net of tax</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange difference on translation of foreign operations		(174)	350
Changes in the fair value of cashflow hedges		-	(129)
Income tax relating to these items		-	39
<b>Other comprehensive (loss)/income for the period, net of tax</b>		<u>(174)</u>	<u>260</u>
<b>Total comprehensive income/(loss) for the period</b>		<u>14,114</u>	<u>(110,874)</u>
<b>Total comprehensive income/(loss) is attributable to:</b>			
Equity holders of the parent		<u>14,114</u>	<u>(110,874)</u>
<b>Earnings per share</b>			
<b>From continuing operations:</b>			
Basic (cents per share)	16	5.0	(48.7)
Diluted (cents per share)	16	5.0	(48.7)
<b>Total:</b>			
Basic (cents per share)	16	2.6	(60.8)
Diluted (cents per share)	16	2.6	(60.8)

(1) Restated to remove discontinued operations from continuing operations revenue and expenses.

*The above 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 31 DECEMBER 2019

Consolidated	Notes	1H20 \$'000	FY19 \$'000
<b>Current assets</b>			
Cash and cash equivalents	6	44,164	12,317
Trade and other receivables	5	32,145	15,395
Finance lease receivables	9	30,217	-
Other financial assets		2,469	2,371
Inventories		16,393	6,878
Current tax assets		70	194
Other		3,812	5,042
Assets classified as held for sale	7	4,579	65,524
<b>Total current assets</b>		<b>133,849</b>	<b>107,721</b>
<b>Non-current assets</b>			
Trade and other receivables	5	21	21
Finance lease receivables	9	58,873	-
Other financial assets		2,640	2,317
Property, plant and equipment	8	48,758	23,101
Intangible assets	10	263,721	256,188
Deferred tax assets	11	77,880	55,874
Other		253	-
<b>Total non-current assets</b>		<b>452,146</b>	<b>337,501</b>
<b>Total assets</b>		<b>585,995</b>	<b>445,222</b>
<b>Current liabilities</b>			
Trade and other payables		56,351	14,666
Borrowings	12	208	264,056
Lease liabilities	9	41,321	-
Provisions	5	16,092	16,398
Other		9,728	11,492
Derivative financial instruments		2,279	3,063
Liabilities classified as held for sale	7	4,269	53,646
<b>Total current liabilities</b>		<b>130,248</b>	<b>363,321</b>
<b>Non-current liabilities</b>			
Trade and other payables		101	302
Borrowings	12	51,944	25
Lease liabilities	9	94,184	-
Deferred tax liabilities	11	91,565	55,874
Provisions	5	5,524	11,927
Other		27,554	29,437
<b>Total non-current liabilities</b>		<b>270,872</b>	<b>97,565</b>
<b>Total liabilities</b>		<b>401,120</b>	<b>460,886</b>
<b>Net assets</b>		<b>184,875</b>	<b>(15,664)</b>
<b>Equity</b>			
Issued capital	13	614,935	428,640
Reserves	14	5,771	5,105
Retained earnings	15	(435,831)	(449,409)
<b>Total equity</b>		<b>184,875</b>	<b>(15,664)</b>

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Consolidated	Notes	Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2018</b>		428,640	9	(270,610)	158,039
Opening adjustment for adoption of AASB 15		-	-	(25,848)	(25,848)
Transfer of opening balance of marketing fund surplus to reserves		-	3,915	(3,915)	-
De-recognition of hedging reserve		-	1,135	-	1,135
Transfer from equity-settled employee benefits reserves		-	(2,969)	-	(2,969)
Loss for the period		-	-	(111,134)	(111,134)
Transfer from retained earnings to marketing fund reserve		-	81	(81)	-
Other comprehensive income		-	260	-	260
<b>Total comprehensive income/(loss)</b>		-	2,422	(140,978)	(138,556)
Recognition of share-based payments		-	(7)	-	(7)
<b>Balance at 31 December 2018</b>		428,640	2,424	(411,588)	19,476
<b>Balance as at 1 July 2019</b>		428,640	5,105	(449,409)	(15,664)
Transfer from equity-settled employee benefits reserves	14, 15	-	(60)	60	-
Profit for the period	15	-	-	14,288	14,288
Transfer from retained earnings to marketing fund reserve	14, 15	-	845	(845)	-
Other comprehensive loss	14	-	(174)	-	(174)
<b>Total comprehensive income</b>		-	611	13,503	14,114
Opening adjustment for adoption of AASB 16	19	-	-	75	75
Issue of ordinary shares	13	193,525	-	-	193,525
Share issue costs	13	(10,328)	-	-	(10,328)
Related income tax	13	3,098	-	-	3,098
Recognition of share-based payments	14	-	55	-	55
<b>Balance at 31 December 2019</b>		614,935	5,771	(435,831)	184,875

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

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Consolidated	Notes	1H20 \$'000	1H19 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		175,721	246,555
Payments to suppliers and employees		(171,113)	(237,866)
Interest and other costs of finance paid		(7,167)	(8,049)
Income taxes received		-	6,984
<b>Net cash (used in)/provided by operating activities</b>		<b>(2,559)</b>	<b>7,624</b>
<b>Cash flows from investing activities</b>			
Interest received		77	217
Repayment of advances to other entities		483	683
Amounts advanced to other entities		-	(47)
Payments for property, plant and equipment		(483)	(1,739)
Proceeds from sale of property, plant and equipment		465	8,611
Payments for intangible assets		(245)	(436)
Payments for business (net of cash acquired)		(600)	(250)
<b>Net cash (used in)/provided by investing activities</b>		<b>(303)</b>	<b>7,039</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		193,525	-
Share issue costs		(11,771)	-
Lease payments		(6,292)	-
Proceeds from borrowings		3,000	-
Repayment of borrowings		(142,001)	(9,496)
Debt issue costs		(2,698)	-
<b>Net cash provided by/(used in) financing activities</b>		<b>33,763</b>	<b>(9,496)</b>
<b>Net increase in cash and cash equivalents</b>		<b>30,899</b>	<b>5,138</b>
Cash and cash equivalents at the beginning of the period		13,263	15,871
Effects of exchange rate changes on cash and cash equivalents		2	29
<b>Cash and cash equivalents at end of period</b>	6	<b>44,164</b>	<b>21,038</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Contents of the notes to the financial statements

		Page
1	General information	20
2	Segment information	21
3	Recapitalisation of the Company	23
4	Profit/(loss) for the period from continuing operations	26
5	Impairment & provisions	27
6	Cash and cash equivalents	28
7	Assets/liabilities classified as held for sale	28
8	Property, plant and equipment	29
9	Leases	30
10	Intangible assets	32
11	Deferred tax balances	36
12	Borrowings	38
13	Issued capital	39
14	Reserves	40
15	Retained earnings	40
16	Earnings per share	41
17	Discontinued operations	43
18	Events after the reporting period	44
19	Summary of significant accounting policies	45
20	Contingent Liabilities	51

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

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

Registered Office	Principal Administration Office
c/- KPMG, Level 11 2 Corporate Court Bundall QLD 4217	Level 4 35 Robina Town Centre Drive Robina QLD 4226

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

- Intellectual property ownership of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffees and It's A Grind 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 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 Di Bella Coffee business; and
- Development and management of the procurement, warehousing, manufacturing and distribution businesses under the Hudson Pacific Food Service (HPC), Dairy Country and Associated Food Service (AFS) trading names;

The procurement, warehousing and distribution businesses HPC and AFS, have been classified as discontinued operations in these interim financial statements on the basis the businesses are deemed non-core to the Group and are expected to be disposed of within twelve months. Disposal of these businesses was completed on 3 January 2020. Prior period comparative financial information has been restated accordingly to reflect these discontinued operations.

In the 1H19 interim financial period the Group had progressed a potential sale process for the Donut King and QSR Division Brand Systems, and accordingly had classified those Brand Systems as discontinued operations in the 1H19 interim financial statements. The potential asset sales did not proceed, and no further sale activity is presently being undertaken with respect to the Donut King and QSR Division Brand Systems. Accordingly, these Brand Systems are classified within continuing operations in the 1H20 financial statements. In addition, the comparative financial information has been restated to include these brand systems as continuing operations in 1H19.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Segment information

### 2.1 Description of segments and principal activities

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are reviewed regularly by the Chief Operating Decision Makers (CODMs), in order to allocate resources to the segments and to assess their performance.

For management purposes, the Group is organised into five major operating divisions. These divisions are the basis upon which the Group reports its primary segment information. 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, Esquires, bb's café, It's A Grind, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating wholesale coffee operations); and
- Manufacturing and Distribution (incorporating the Hudson Pacific Food Service, Dairy Country, and Associated Food Service businesses). The Bakery Fresh business was previously incorporated in this segment for the 1H19 period, and was subsequently closed in May 2019.

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

#### Segment Revenue

Revenue from external parties reported to the CODMs 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 and identified as Inter-segment revenue as presented in Note 2.3.

#### Segment EBITDA

The CODMs assess the performance of the operating segments based on segment EBITDA.

Discontinued operations have been included for the purpose of presenting segment revenue and EBITDA.

In the 1H19 interim financial period the Group had progressed a potential sale process for the Donut King and QSR Division Brand Systems, and accordingly had classified those Brand Systems as discontinued operations in the 1H19 interim financial statements. The potential assets sale did not proceed, and no further sale activity is presently being undertaken with respect to the Donut King and QSR Division Brand Systems. Accordingly, these Brand Systems are classified within continuing operations in the 1H20 financial statements. In addition, the comparative financial information has been restated to include these brand systems as continuing operations in 1H19.

As at 31 December 2019, the operations conducted under Hudson Pacific Food Service and Associated Food Service within the Manufacturing & Distribution division have been classified as discontinued operations, as the Board had resolved this division was not a core operation of the Group and would dispose of the constituent businesses. A sale agreement for the Hudson Pacific Food Service and Associated Food Service businesses was entered into during the 1H20 period, with disposal of these businesses completed on 3 January 2020. The Bakery Fresh operations (closed May 2019) results for the FY19 period have been included in discontinued operations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Segment information (continued)

### 2.3 Segment revenue

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

Segment	Bakery Cafe		OSR Systems		Coffee Retail Systems		Di Bella Coffee		Manufacturing and Distribution		Discontinued Operations <sup>(3)</sup>		Total Continuing Operations	
	1H20 \$'000	1H19 \$'000	1H20 \$'000	1H19 \$'000	1H20 \$'000	1H19 \$'000	1H20 \$'000	1H19 \$'000	1H20 \$'000	1H19 \$'000	1H20 \$'000	1H19 \$'000	1H20 \$'000	1H19 \$'000
External revenue	17,976	23,248	8,938	9,994	27,212	32,039	14,182	22,150	94,347	88,732	(28,071)	(44,220)	134,584	131,945
Impact of AASB 15	1,044	1,372	439	1,070	1,530	886	52	20	-	-	-	-	3,065	3,348
Impact of AASB 16 adoption <sup>(4)</sup>	3,070	-	-	-	1,425	-	-	-	-	-	-	-	4,495	-
External revenue - Marketing Funds	4,040	4,577	2,722	3,133	1,363	2,075	-	-	-	-	-	-	8,125	9,785
External revenue – Corporate stores	396	1,147	66	5	686	1,523	-	-	-	-	-	-	1,148	2,675
Inter-segment revenue	27	124	-	-	40	110	-	-	-	-	-	-	67	234
<b>Segment revenue <sup>(1)</sup></b>	<b>26,553</b>	<b>30,467</b>	<b>12,165</b>	<b>14,203</b>	<b>32,256</b>	<b>36,633</b>	<b>14,234</b>	<b>22,170</b>	<b>94,347</b>	<b>88,732</b>	<b>(28,071)</b>	<b>(44,220)</b>	<b>151,484</b>	<b>147,987</b>
Operating EBITDA	7,890	10,212	3,750	4,856	6,834	5,868	1,452	1,912	1,532	(2,285)	-	4,026	21,458	24,589
Impact of AASB 15	1,044	1,372	439	1,070	1,530	886	52	20	-	-	-	-	3,065	3,348
Impact of AASB 16 adoption <sup>(4)</sup>	3,234	-	44	-	1,632	-	681	-	1,610	-	(775)	-	6,426	-
<b>Underlying Segment EBITDA<sup>(2)</sup></b>	<b>12,168</b>	<b>11,584</b>	<b>4,233</b>	<b>5,926</b>	<b>9,996</b>	<b>6,754</b>	<b>2,185</b>	<b>1,932</b>	<b>3,142</b>	<b>(2,285)</b>	<b>(775)</b>	<b>4,026</b>	<b>30,949</b>	<b>27,937</b>
Marketing Funds reserve													845	81
Business restructuring costs													(24,576)	(10,292)
Impairment & provisions													(15,477)	(103,273)
Gain on debt forgiveness													71,754	-
Depreciation & amortisation													(11,480)	(6,341)
Finance costs													(6,635)	(9,708)
Profit/(loss) before tax from continuing operations													45,380	(101,596)
Income tax (expense)/benefit													(18,237)	12,632
<b>Profit/(loss) after tax for the year from continuing operations</b>													<b>27,143</b>	<b>(88,964)</b>

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

	1H20 \$'000	1H19 \$'000
Revenue for the year – Statutory	151,417	147,753
Inter-segment revenue: eliminated on consolidation	67	234
<b>Total segment revenue</b>	<b>151,484</b>	<b>147,987</b>

(2) Underlying Segment EBITDA relates to continuing and discontinuing operations as follows:

Continuing operations	30,949	27,937
Discontinuing operations	775	(4,026)
<b>Total segment EBITDA</b>	<b>31,724</b>	<b>23,911</b>

	1H20 \$'000	1H19 \$'000
Continuing operations	30,949	27,937
Discontinuing operations	775	(4,026)
<b>Total segment EBITDA</b>	<b>31,724</b>	<b>23,911</b>

(3) External revenue from discontinued operations represents external revenue from the Manufacturing & Distribution segment along with external revenue amounts that are also generated by the Manufacturing and Distribution business which are allocated to other segments of the Group. This allocation arises as the external customers are those of the relevant brand systems. Operating losses of discontinued operations are excluded from the Underlying Segment EBITDA, and are presented in business restructuring costs.

(4) Includes the impact of operating leases identified as part of the Group's lease implementation project.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Segment information (continued)

### 2.4 Geographical information

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

## 3. Recapitalisation of the Company

### 3.1 Capital raising

On Tuesday 15 October 2019, the Company announced that, subject to shareholder approval, it had successfully undertaken a placement of 1,700 million shares at \$0.10 per share to institutional and other professional and sophisticated investors to raise gross proceeds of approximately \$170 million (Placement). The Placement was fully underwritten by Petra Capital Pty Limited and Shaw and Partners Limited (each a Joint Lead Manager and together the Joint Lead Managers).

Existing shareholders were offered a share purchase plan (SPP) pursuant to which existing shareholders had the opportunity to subscribe for up to \$30,000 worth of shares, subject to scale back. The SPP was offered to existing shareholders on the Record Date (10 October 2019) at the same price as the Placement. The Company also agreed to make a 'top-up' placement to Invesco, following the SPP, to maintain its post-Placement holding at 19.9% of the Company. The Placement, SPP and top-up placement, capital raising offers were approved respectively at a General Meeting convened 19 November 2019 and the Company's Annual General Meeting, convened 29 November 2019.

The following issue of new shares and gross proceeds raised occurred as a result of the recapitalisation:

Capital raising	Date of issue	Fully paid ordinary shares issued No'000	Gross proceeds \$'000
Placement	26 November 2019	1,700,000	170,000
SPP	2 December 2019	188,435	18,844
Invesco top-up placement	6 December 2019	46,815	4,681
<b>Total</b>		<b>1,935,250</b>	<b>193,525</b>

Refer to note 13 Issued capital for further information on the capital raising.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. Recapitalisation of the Company (continued)

### 3.2 Debt restructure

On Friday, 11 October 2019, the Company announced that it had entered into a binding commitment letter and term sheet with its Lenders in connection with a restructuring of the Company's existing debt facilities (Debt restructure). The Debt restructure included:

- \$118.5 million of net Placement proceeds applied to the reduction of debt;
- Extinguishment & forgiveness of \$71.8 million of the Company's then existing debt;
- The provision of a new \$75.5 million debt facility maturing in November 2022 to refinance remaining senior debt; and
- Net proceeds from the SPP and 'top-up' placement to be applied to further reduce the new \$75.5 million debt facility.

On 26 November 2019, following the successful completion of the \$170 million Placement, extinguishment of the former debt facilities and the inception of the new \$75.5 million debt facilities took effect immediately.

A gain on debt forgiveness of \$71.8 million has been recognised in the Group's statutory profit before tax for 1H20.

Debt repayment	Date of repayment	\$'000
Placement proceeds	26 November 2019	118,500
SPP & Invesco top-up placement proceeds	9 December 2019	22,221
<b>Total debt repayments</b>		<b>140,721</b>

New debt facility reconciliation	Relevant dates	\$'000
Senior debt facility	26 November 2019	75,500
Debt repayment - SPP & Invesco top-up placement proceeds	9 December 2019	(22,221)
<b>Gross senior debt</b>		<b>53,279</b>

Refer to note 12 Borrowings for a summary of key terms of the new debt facility.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. Recapitalisation of the Company (continued)

### 3.3 Performance rights

On 29 November 2019, shareholders approved the grant of 15,000,000 Performance Rights (the 'Performance Rights' or 'Rights') to Mr Peter George, Executive Chairman of Retail Food Group Limited, as part of the broader recapitalisation plan for the Company. Should the Performance Rights vest, they will be exercised such that each Performance Right entitles the Executive Chairman to one fully paid ordinary share in the Company, subject to certain disposal restrictions.

These performance rights vest in three tranches, depending on the satisfaction of certain non-market performance conditions. There are no amounts payable for grant of the Rights. A summary of the three tranches and vesting conditions are outlined below:

The key features of the equity incentive plan are summarised below:

Aspect	Details
Number of Performance Rights	<p>A total of 15,000,000 Performance Rights - eligible to vest in 3 tranches as follows:</p> <ul style="list-style-type: none"> <li>• Tranche 1: 3,000,000 Performance Rights</li> <li>• Tranche 2: 5,000,000 Performance Rights</li> <li>• Tranche 3: 7,000,000 Performance Rights</li> </ul>
Measurement Period	<p>The measurement period in respect of each tranche of Performance Rights is as follows:</p> <ul style="list-style-type: none"> <li>• Tranche 1: The period to 30 June 2020;</li> <li>• Tranche 2: The period commencing 1 July 2020 and ending 30 June 2021;</li> <li>• Tranche 3: The period commencing 1 July 2021 and ending 30 June 2022.</li> </ul>
Vesting Conditions	<p>The criteria the Board (excluding Mr George) has identified for vesting includes:</p> <ul style="list-style-type: none"> <li>• (Metric 1) 40% to the achievement of certain underlying EBITDA performance criteria.</li> <li>• (Metric 2) 20% to the achievement of certain growth related criteria which include targets in relation to annual weighted Same Store Sales (SSS) growth, new franchise outlet additions, and improved margins extracted from the Company's business portfolio.<sup>1</sup></li> <li>• (Metric 3) 20% to the achievement of certain operational and organisational criteria, which reference the roadmap of key imperatives identified for the period through to 30 June 2022.</li> <li>• (Metric 4) 20% to the achievement of certain qualitative measures associated with improving the reputation of the Company.</li> </ul> <p>The Board (excluding Mr George) retains discretion to modify vesting in the case that the circumstances that prevailed over the relevant measurement period materially differed from those expected at the time the vesting scale/conditions were determined.</p> <p><sup>1</sup>Where appropriate, criteria which are subject to commercial sensitivity have been described in generic terms. Further details regarding the key features of the aforesaid Rights are detailed in the Company's Notice of Meeting in respect to its Annual General Meeting, released to the ASX on 29 October 2019.</p>
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.

The assessed fair value at grant date was \$0.10 per performance right. The fair value at grant date has been independently determined.

Total share-based payment expense during the period, arising from these performance rights, was \$55 thousand. At 31 December 2019 these performance rights remain unvested.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. Recapitalisation of the Company (continued)

### 3.4 Financing facilities

At 31 December 2019, the Group had unused facilities as detailed in the following table.

Consolidated	1H20 \$'000	FY19 \$'000
Secured bank loan facility:		
Amount used (before deducting debt issue costs)	53,279	262,754
Amount unused	-	5,100
	<u>53,279</u>	<u>267,854</u>
Secured ancillary bank facilities (guarantees):		
Amount used	3,149	2,824
Amount unused	851	1,176
	<u>4,000</u>	<u>4,000</u>

## 4. Profit/(loss) for the period from continuing operations

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

Consolidated	1H20 \$'000	Restated 1H19 \$'000
Cost of sales	86,973	71,548
Loss on disposal of assets <sup>(2)</sup>	6,082	689
Write-down of property, plant and equipment <sup>(1)</sup>	7,866	3,238
Write-down of assets held for sale to fair value less costs to sell <sup>(1)</sup>	-	482
Write-down of inventory to net realisable value <sup>(1)</sup>	378	246
Gain on debt forgiveness <sup>(2)</sup>	(71,754)	-
Impairment loss on intangible assets <sup>(1)</sup>	-	75,613
Impairment loss on trade receivables <sup>(1)</sup>	567	8,069
Impairment loss on loans carried at amortised cost <sup>(1)</sup>	(849)	5,696
Provisions for onerous leases and make good obligations <sup>(3)</sup>	99	6,235
Provisions for strategic review and business restructuring costs <sup>(4)</sup>	6,613	2,637
Business turnaround costs <sup>(5)</sup>	13,891	5,322
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment <sup>(1)</sup>	10,603	5,443
Amortisation - other <sup>(1)</sup>	877	897
Total depreciation and amortisation expense	<u>11,480</u>	<u>6,340</u>
Employee benefits expenses:		
Post-employment benefits (defined contribution plans)	1,703	2,307
Other employee benefits (wages and salaries)	26,417	34,022
Total employee benefits expense	<u>28,120</u>	<u>36,329</u>

- (1) Amounts are included in other expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
- (2) Amounts are included in other gains and losses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
- (3) Amount is included in occupancy expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
- (4) Amount is included in administration expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
- (5) Amount is included within operating expenses, administration expenses and occupancy expenses dependent on the nature of the transaction. Comprises professional services costs associated with the recapitalisation of the Group, asset sale programs, regulatory response activities, redundant roles, and ongoing business restructuring programs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. Impairment & provisions

The Group has performed an assessment for assets that may be impaired, in accordance with Australia Accounting Standards, which has resulted in the Group recognising a \$26.9 million expense during the period for impairment and provisions on continuing and discontinued operations as follows:

Consolidated	Impairment and provisions \$'000
Trade and other receivables	(4,232)
Inventory	(2,432)
Finance lease receivables	(1,099)
Other financial assets	849
Other assets	(25)
Property, plant & equipment	(9,901)
Trade and other payables	(448)
Provisions	(9,650)
<b>Pre-tax Total</b>	<b>(26,938)</b>
Current tax assets	796
Deferred tax assets	6,956
Deferred tax liabilities	330
<b>Post-tax Total</b>	<b>(18,856)</b>

### Trade and other receivables

A \$3.2 million provision has been recognised in respect of Discontinued Operations trade receivables where the Group has written these assets down to net realisable value in accordance with the asset sale agreement. A \$1.0 million provision has been recognised in respect of other revenue. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the estimated recoverable amount.

### Inventory

An amount of \$2.4 million has been expensed in respect of inventory write-downs. A \$1.9 million write-down was expensed in respect of Discontinued Operations inventory where the Group has written these assets down to net realisable value in accordance with the asset sale agreement, and \$0.5 million write-downs of slow moving and obsolete stock.

### Finance lease receivables

Lease contracts provisioned for highly probable closure, where the Group is head on lease and considered the lessor in the arrangement, is offset against the corresponding finance receivable asset for the amount of \$1.1 million.

### Other financial assets

A \$0.9 million write-back has been recognised in respect of individually impaired vendor finance loans receivable. The write-back recognised represents the difference between the carrying amount of these loan receivables and the present value of the estimated recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. Impairment & provisions (continued)

### Property, plant & equipment

An amount of \$7.8 million has been recognised in respect of write-downs of property, plant and equipment relating to redundant systems and assets, and assets to be sold or scrapped upon planned closure of corporate and manufacturing leasehold premises. A \$2.1 million write-down in respect of Discontinued Operations property, plant and equipment where the Group has written these assets down to net realisable value in accordance with the asset sale agreement.

### Provisions

An amount of \$9.7 million has been recognised in respect of provisions for the following:

- A provision for contracts considered onerous until their completion (\$4.4 million), including a \$2.6 million provision in respect of Discontinued Operations; and
- A provision for strategic business review related costs of \$5.2 million.

## 6. Cash and cash equivalents

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:

### 6.1 Reconciliation of cash and cash equivalents

Consolidated	1H20 \$'000	FY19 \$'000
Cash and bank balances	44,164	12,317
Cash and bank balances included in disposal group held for sale	-	946
	<u>44,164</u>	<u>13,263</u>
Less: Restricted cash	<u>(5,921)</u>	<u>(5,440)</u>
	<u>38,243</u>	<u>7,823</u>

### 6.2 Restricted cash

Restricted cash relates to cash reserved for marketing specific pursuits and unclaimed dividends. As at 31 December 2019, restricted cash balances totalled \$5.9 million (FY19: \$5.4 million).

## 7. Assets/liabilities classified as held for sale

Consolidated	1H20 \$'000	FY19 \$'000
<b>Assets classified as held for sale</b>		
Disposal groups <sup>(1)</sup>	<u>4,579</u>	<u>65,524</u>
	4,579	65,524
<b>Liabilities classified as held for sale</b>		
Disposal groups <sup>(1)</sup>	<u>(4,269)</u>	<u>(53,646)</u>
	<u>310</u>	<u>11,878</u>

- (1) Refer to Note 17 for information about assets and liabilities of disposal groups that were classified as held for sale as at 31 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. Property, plant and equipment

		Land & buildings at cost	Leasehold improvements at cost	Plant & equipment at cost	Motor vehicles at cost	Right-of-use assets	Total
Consolidated	Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross carrying amount</b>							
Balance as at 1 July 2018		4,236	3,303	101,593	2,934	-	112,066
Additions		-	-	2,905	107	-	3,012
Disposals		(4,236)	(609)	(14,535)	(719)	-	(20,099)
Reclassification of inventories		-	-	(2,100)	-	-	(2,100)
Assets classified as held for sale		-	(1,797)	(23,861)	(798)	-	(26,456)
Effect of movements in exchange rates		-	6	100	-	-	106
<b>Balance as at 1 July 2019</b>		-	903	64,102	1,524	-	66,529
<b>Add: FY19 Assets previously classified as held for sale</b>							
		-	1,797	23,861	798	-	26,456
Adjustment for adoption of AASB 16	19	-	-	-	-	38,052	38,052
Additions		-	6	335	102	1,349	1,792
Disposals <sup>(1)</sup>		-	(111)	(13,677)	(164)	-	(13,952)
Reclassification of inventories		-	(11)	(131)	-	-	(142)
Reclassification of right-of-use assets		-	-	-	-	(2,085)	(2,085)
Assets classified as held for sale	17	-	(458)	(2,345)	(550)	(2,089)	(5,442)
Effect of movements in exchange rates		-	(4)	(3)	-	-	(7)
<b>Balance as at 31 December 2019</b>		-	2,122	72,142	1,710	35,227	111,201
<b>Accumulated depreciation and impairment losses</b>							
Balance as at 1 July 2018		(4,236)	(944)	(41,254)	(1,006)	-	(47,440)
Reclassification of inventories		-	7	1,443	-	-	1,450
Disposals		4,236	640	13,913	296	-	19,085
Depreciation charge		-	(345)	(12,252)	(454)	-	(13,051)
Impairment losses		-	-	(11,968)	(64)	-	(12,032)
Assets classified as held for sale		-	491	7,275	794	-	8,560
<b>Balance as at 1 July 2019</b>		-	(151)	(42,843)	(434)	-	(43,428)
<b>Add: FY19 Assets previously classified as held for sale</b>							
		-	(491)	(7,275)	(794)	-	(8,560)
Disposals <sup>(1)</sup>		-	53	7,277	80	-	7,410
Reclassification of inventories		-	-	172	-	-	172
Depreciation charge		-	(223)	(4,531)	(151)	(6,461)	(11,366)
Impairment losses		-	-	(9,520)	(381)	-	(9,901)
Assets classified as held for sale	17	-	83	2,788	359	-	3,230
<b>Balance as at 31 December 2019</b>		-	(729)	(53,932)	(1,321)	(6,461)	(62,443)
<b>Net book value</b>							
As at 30 June 2019		-	752	21,259	1,090	-	23,101
As at 31 December 2019		-	1,393	18,210	389	28,766	48,758

(1) Disposals includes assets sold, scrapped or written-off for nil consideration.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. Leases

This note provides information for leases in which the Group is the lessee and the lessor.

### (a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position includes the following amounts related to leases:

Consolidated	Notes	31 December 2019 \$'000	1 July 2019 \$'000
<b>Finance lease receivables</b>			
Current		30,217	33,083
Non-current		58,873	74,089
	19	<u>89,090</u>	<u>107,172</u>
<b>Right-of-use (ROU) assets</b>			
Land & buildings		27,407	36,287
Vehicles & equipment		1,359	1,765
	8	<u>28,766</u>	<u>38,052</u>
<b>Lease liabilities</b>			
Current		41,321	49,329
Non-current		94,184	114,077
	19	<u>135,505</u>	<u>163,406</u>

The right-of-use (ROU) assets are presented in property, plant and equipment in the Group's consolidated statement of financial position. For adjustments recognised on adoption of AASB 16 on 1 July 2019, please refer to note 19.

Minimum lease payments receivable <sup>(1)</sup> on franchise store sub-leases for continuing operations are as follows:

	1H20 \$'000
Within 1 year	36,333
Between 1 and 2 years	28,710
Between 2 and 3 years	18,993
Between 3 and 4 years	10,826
Between 4 and 5 years	5,767
Later than 5 years	6,530
	<u>107,159</u>

(1) Lease payment receivable represents undiscounted expected cashflows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. Leases (continued)

### (b) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income

The consolidated statement of profit or loss and other comprehensive income includes the following amounts related to leases:

	1H20 \$'000
Operating lease income	4,495
Finance lease interest income	2,669
Interest expense (finance lease)	(2,669)
Interest expense (operating leases)	(1,349)
Depreciation expense of ROU assets - land & buildings	(6,055)
Depreciation expense of ROU assets - vehicles & equipment	(406)

The total cash outflow for leases during the half-year to 31 December 2019 was \$6.3 million.

### (c) Make-good provisions

The Group is required to restore the leased premises of its franchise stores and certain corporate leases, to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. There are two types of make-good provisions, those recognised prior to the adoption of AASB 16 on 1 July 2019, which continue to be recognised separately in the consolidated statement of profit or loss and other comprehensive income and those post 1 July 2019 which are capitalised into the ROU asset. The Group did not recognise any additional make-good provision after the adoption of AASB 16 on 1 July 2019 that related to any new or amended leases as a ROU asset. For leases entered into post adoption of AASB 16, these costs will be capitalised within ROU assets and amortised over the shorter of the term of the lease and the useful life of the assets. Refer to note 19.1 (I) for accounting policies for AASB 16.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets

### 10.1 Intangible assets

	Notes	Indefinite Life			Finite Life	Total
		Goodwill	Brand Networks	Intellectual Property Rights	Other	
Consolidated		\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross carrying amount</b>						
Balance as at 1 July 2018		273,007	429,467	5,337	15,605	723,416
Additions		-	40	-	672	712
Exchange differences		145	37	-	7	189
Assets classified as held for sale		(18,293)	-	-	(11,300)	(29,593)
<b>Balance as at 1 July 2019</b>		<b>254,859</b>	<b>429,544</b>	<b>5,337</b>	<b>4,984</b>	<b>694,724</b>
Add: FY19 Assets previously classified as held for sale		18,293	-	-	11,300	29,593
Additions		-	-	-	245	245
Exchange differences		14	58	(106)	10	(24)
<b>Balance as at 31 December 2019</b>		<b>273,166</b>	<b>429,602</b>	<b>5,231</b>	<b>16,539</b>	<b>724,538</b>
<b>Accumulated amortisation and impairment losses</b>						
Balance as at 1 July 2018		(128,256)	(226,312)	-	(4,785)	(359,353)
Amortisation expense		-	-	-	(1,877)	(1,877)
Impairment losses		(75,264)	(22,878)	-	(568)	(98,710)
Assets classified as held for sale		18,293	-	-	3,111	21,404
<b>Balance as at 1 July 2019</b>		<b>(185,227)</b>	<b>(249,190)</b>	<b>-</b>	<b>(4,119)</b>	<b>(438,536)</b>
Add: FY19 Assets previously classified as held for sale		(18,293)	-	-	(3,111)	(21,404)
Amortisation expense		-	-	-	(877)	(877)
<b>Balance as at 31 December 2019</b>		<b>(203,520)</b>	<b>(249,190)</b>	<b>-</b>	<b>(8,107)</b>	<b>(460,817)</b>
<b>Net book value</b>						
As at 30 June 2019		69,632	180,354	5,337	865	256,188
As at 31 December 2019		69,646	180,412	5,231	8,432	263,721



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets (continued)

### Overview

An intangible asset's recoverable value is the greater of its value in use and its fair value less costs of disposal.

For intangible assets with a finite life, if there are indicators that the intangible asset's recoverable value has fallen below its carrying value, an impairment test is performed, and a loss is recognised for the amount by which the carrying value exceeds the asset's recoverable value.

Intangible assets that have an indefinite useful life, such as brand systems, intellectual property rights and goodwill, are tested annually for impairment, or more frequently, where there is an indication that the carrying amount may not be recoverable.

In assessing the carrying value of RFG's intangible assets, the Directors have based their assessment and subsequent impairment position to reflect both the Group's expected FY20 sustainable earnings, and the present risk profile of the Group subsequent to its successful recapitalisation completed in December 2019 (refer to note 3 Recapitalisation of the Company).

### *Indefinite and finite intangible assets*

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 Group's coffee roasting business, and the tenth CGU attributable to the Group's Manufacturing & Distribution business.

### *Goodwill*

Goodwill is monitored by management at the level of the five operating segments identified in Note 2.1 and is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill.

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

A summary of the goodwill allocated to each operating segment is presented below:

Goodwill allocation	1H20 \$'000	FY19 \$'000
Bakery/Café Systems	37,168	37,168
OSR Systems	12,431	12,431
Coffee Retail Systems	17,238	17,239
Di Bella Coffee	2,809	2,794
Manufacturing & Distribution	-	-
	<u>69,646</u>	<u>69,632</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets (continued)

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

A summary of the indefinite life assets allocated to each operating segment is presented below:

Indefinite life intangibles allocation	1H20 \$'000	FY19 \$'000
Donut King Brand System	36,037	36,037
Brumby's Bakeries Brand System	24,552	24,552
Michel's Brand System	23,010	23,010
Crust Gourmet Pizza Bars Brand System (CGP)	41,932	41,932
Café2U Brand System	5,620	5,670
Gloria Jeans Brand System	44,842	44,840
Di Bella Coffee	9,650	9,650
	185,643	185,691

### 10.4 Impairment losses and recoverable amounts

During 1H20, there were no impairment losses recognised in respect of the Group's cash-generating units.

### 10.5 Key assumptions used for calculating recoverable amounts

#### *Goodwill*

The recoverable amount of each group of cash generating units (operating segments) to which goodwill is allocated has been determined by reference to a fair value less costs of disposal calculation. The valuation technique adopted was an income based approach by using a discounted cashflow model. Since the key assumptions and estimates are significant unobservable inputs, this is classified as a level 3 fair value. The discounted cashflow is based on the following key assumptions and estimates:

#### **Year 1 cashflows**

Year 1 cashflows are based on management's expectations of future performance, specifically incorporating the planned reduction in domestic franchise outlets previously referred to and the cashflows expected to be incurred associated with these closures.

#### **Annual cashflow growth**

The cashflows in year's two to five are based on management's expectation of cash-flows following the store closure program and the expected normalised, like for like growth in a reduced domestic store network.

#### **Terminal growth**

An indefinite terminal growth rate of 2% (FY19: 2%) has been applied to all cash-flows to extrapolate these beyond the five-year budget period. This rate is consistent with long term industry growth rates.

#### **Discount Rates**

The following pre-tax discount rates have been applied to reflect the specific risks within each operating segment.

Cash-generating unit	1H20 Discount rate	FY19 Discount rate
Bakery/Café Systems	15.71%	17.43%
QSR Systems	16.00%	17.43%
Coffee Retail Systems	16.00%	17.81%
Di Bella Coffee	16.57%	18.00%

The reduction in discount rates on those used in FY19 are attributable to: a) a decrease in the base cost of debt/risk free rate, and b) a reduced market risk premium applied to discount rates, as the present risk profile of the Group has reduced, subsequent to its successful recapitalisation completed in December 2019.

The expected costs of disposal for each segment are deducted from the recoverable amount to determine fair value less costs of disposal.

#### *Identifiable intangible assets*

The recoverable amount of each intangible asset with an indefinite useful life has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets (continued)

### 10.5 Key assumptions used for calculating recoverable amounts (continued)

#### Year 1 cashflows

Year 1 cashflows are based on management's expectations of future performance, specifically incorporating the planned reduction in domestic franchise outlets previously referred to and the cash-flows expected to be incurred associated with these closures.

#### Annual cashflow growth

The cashflows in year's two to five are based on management's expectation of cash-flows following the store closure program and the expected normalised, like for like growth in a reduced domestic store network.

#### Terminal growth

An indefinite terminal growth rate of 2% (FY19: 2%) has been applied to all cash-flows to extrapolate these beyond the five-year budget period. This rate is consistent with long term industry growth rates.

#### Discount Rates

The following pre-tax discount rates have been applied to reflect the specific risks within each operating segment.

Cash-generating unit	1H20 Discount rate	FY19 Discount rate
Donut King Brand System	15.71%	17.43%
Brumby's Bakeries Brand System	15.71%	17.43%
Michel's Patisserie Brand System	15.71%	17.43%
Crust Gourmet Pizza Bars Brand System	16.00%	17.43%
The Coffee Guy Brand System	16.00%	18.00%
Café 2U Brand System	16.00%	18.00%
Gloria Jeans Brand System	15.71%	17.43%
Di Bella Coffee	16.57%	18.00%

The reduction in discount rates on those used in FY19 are attributable to: a) a decrease in the base cost of debt/risk free rate, and b) a reduced market risk premium applied to discount rates, as the present risk profile of the Group has reduced, subsequent to its successful recapitalisation completed in December 2019.

#### Significant estimate: Impact of reasonably possible change in key assumptions

The recoverable amounts in respect of the Michel's Patisserie cash-generating unit continues to be highly sensitive to a range of assumptions, in particular the growth rates in the cash-flow forecasts.

The following table outlines the headroom, growth rates and sensitised growth rates which would trigger impairment in the following cash-generating units that are also sensitive to a reasonably possible movement in the growth rate:

Identifiable intangible asset	Headroom	Average growth rate years 2 - 5	Average growth rate years 2 - 5 to trigger impairment
<i>Brand System</i>			
Michel's Patisserie	\$0.8m	0.3%	(0.9%)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. Deferred tax balances

Consolidated 1H20	Opening balance	Impact of transition to AASB16 at 1 July 2019	Recognised in profit or loss	Reclass to held for sale	Recognised directly in equity	Recognised in other comprehensive income	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Temporary differences</b>							
Intangible assets	(55,772)	-	141	-	-	-	(55,631)
Unrealised exchange differences	(101)	-	127	-	-	-	26
Leases - ROU asset	-	(11,416)	2,159	-	-	-	(9,257)
Leases - receivable	-	(32,152)	5,425	-	-	-	(26,727)
Leases - liability	-	49,022	(7,090)	-	-	-	41,932
Fixed assets	1,315	-	2,463	-	-	-	3,778
Employee benefits	708	-	(204)	-	-	-	504
Provisions	8,395	(5,487)	2,012	-	-	-	4,920
Doubtful debts	12,373	-	(2,485)	-	-	-	9,888
Unearned income	12,000	-	(1,024)	-	-	-	10,976
Share issue costs	154	-	(342)	-	3,098	-	2,910
Other	1,729	-	1,267	-	-	-	2,996
	(19,199)	(33)	2,449	-	3,098	-	(13,685)
<b>Unused tax losses and credits</b>							
Tax losses/(credits) <sup>(1)</sup>	19,199	-	(19,199)	-	-	-	-
	19,199	-	(19,199)	-	-	-	-
	-	(33)	(16,750)	-	3,098	-	(13,685)

- (1) At 30 June 2019, the Group had unused tax losses for which no deferred tax asset had been recognised in the amount of \$17.8 million (FY18: Nil). The tax benefit of these tax losses at the corporate tax rate of 30%, equates to \$5.3 million. During the period ended 31 December 2019, the Group re-recognised a deferred tax asset of \$4.3 million on a portion of these tax losses. The Group applied these tax losses together with the recognised carry forward tax losses against the gain on loan forgiveness received from the syndicated lenders in the amount of \$71.8 million (refer to note 4). During the half-year to 31 December 2019, the Group generated further tax losses of \$33.9 million. At 31 December 2019, the Group had a total of \$44.0 million of tax losses for which no deferred tax asset has been recognised. The tax benefit of these tax losses at the corporate tax rate of 30%, equates to \$13.2 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. Deferred tax balances (continued)

Consolidated FY19	Opening balance	Impact of transition to AASB15 at 1 July 2018	Recognised in profit or loss	Reclass to held for sale	Recognised directly in equity	Recognised in other comprehensive income	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Temporary differences</b>							
Intangible assets	(63,288)	-	4,840	2,676	-	-	(55,772)
Unrealised exchange differences	(100)	-	(1)	-	-	-	(101)
Fixed assets	-	-	1,695	(380)	-	-	1,315
Employee benefits	1,405	-	(255)	(442)	-	-	708
Provisions	9,657	-	(144)	(1,118)	-	-	8,395
Doubtful debts	12,692	-	1,403	(1,722)	-	-	12,373
Unearned income	821	-	228	-	-	-	1,049
Unearned income per AASB15	-	13,219	(2,268)	-	-	-	10,951
Share issue costs	317	-	(163)	-	-	-	154
Other	706	-	1,554	(45)	(486)	-	1,729
	<u>(37,790)</u>	<u>13,219</u>	<u>6,889</u>	<u>(1,031)</u>	<u>(486)</u>	<u>-</u>	<u>(19,199)</u>
<b>Unused tax losses and credits</b>							
Tax losses/(credits)	5,858	-	13,341	-	-	-	19,199
	<u>5,858</u>	<u>-</u>	<u>13,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,199</u>
	<u>(31,932)</u>	<u>13,219</u>	<u>20,230</u>	<u>(1,031)</u>	<u>(486)</u>	<u>-</u>	<u>-</u>

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

Consolidated	1H20 \$'000	FY19 \$'000
Deferred tax assets	77,880	55,874
Deferred tax liabilities	(91,565)	(55,874)
	<u>(13,685)</u>	<u>-</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12. Borrowings

Consolidated	1H20 \$'000	FY19 \$'000
<b>Secured at amortised cost</b>		
<b>Current</b>		
Bank loans	-	262,754
Other facilities	208	1,489
Equipment loans	-	23
Borrowing costs (deferred)	-	(210)
	<u>208</u>	<u>264,056</u>
<b>Secured at amortised cost</b>		
<b>Non-current</b>		
Bank loans <sup>(1)</sup>	53,279	-
Finance lease liabilities	7	-
Equipment loans	-	25
Borrowing costs (deferred)	(1,342)	-
	<u>51,944</u>	<u>25</u>
	<u>52,152</u>	<u>264,081</u>

- (1) As at 31 December 2019, the Group's total gross debt decreased to \$53.3 million (2019: \$262.8 million), including ancillary facilities. The decrease in gross debt was attributable to the recapitalisation of the parent entity completed in December 2019. Refer to note 3 Recapitalisation of the Company for further information.

The lending covenants are presented in the following table:

Financial covenants and conditions	
Covenant testing	Quarterly on 31 March, 30 June, 30 September and 31 December
Covenants	- Operating Leverage (Secured Net Debt/EBITDA) - Interest Cover ratio (Total interest/EBITDA)
Interest rate	Interest rate calculated as BBSY plus margin on drawn balance (the margin is calculated based on the secured operating leverage ratio)
Tenor of facilities	Expiring November 2022

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. Issued capital

Consolidated	1H20 \$'000	FY19 \$'000
2,117,995,198 fully paid ordinary shares (FY19: 182,745,510)	614,935	428,640
	<u>614,935</u>	<u>428,640</u>

Consolidated	1H20 No. '000	1H20 \$'000	FY19 No. '000	FY19 \$'000
<b>Fully paid ordinary shares<sup>(1)</sup></b>				
Balance at beginning of period	182,745	428,640	182,745	428,640
Issue of ordinary shares	1,935,250	193,525	-	-
Share issue costs	-	(10,328)	-	-
Related income tax	-	3,098	-	-
Balance at end of period	<u>2,117,995</u>	<u>614,935</u>	<u>182,745</u>	<u>428,640</u>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. Reserves

Equity-settled employee benefits reserve	1H20 \$'000	FY19 \$'000
Balance at beginning of period	60	67
Transfers to retained earnings <sup>(1)</sup>	(60)	-
Recognition of share-based payments	55	(7)
Balance at end of period	55	60

Foreign currency translation reserve	1H20 \$'000	FY19 \$'000
Balance at beginning of period	1,350	987
Exchange difference on translation of foreign operations	(174)	363
Balance at end of period	1,176	1,350

Hedging reserve	1H20 \$'000	FY19 \$'000
Balance at beginning of period	-	(1,045)
Changes in the fair value of cashflow hedges	-	(129)
Amounts derecognised due to hedge ineffectiveness	-	1,135
Deferred tax	-	39
Balance at end of period	-	-

Marketing Fund surplus	1H20 \$'000	FY19 \$'000
Balance at beginning of period	3,695	-
Transfer from retained earnings	-	3,663
Surplus during the period transferred from retained earnings	845	32
Balance at end of period	4,540	3,695

Total Reserves	5,771	5,105
----------------	-------	-------

## 15. Retained earnings

Consolidated	1H20 \$'000	FY19 \$'000
Balance at beginning of period	(449,409)	(270,609)
Net profit/(loss) attributable to members of the parent entity	14,288	(149,257)
Opening adjustment for adoption of AASB 15	-	(25,848)
Opening adjustment for adoption of AASB 16	75	-
Transfer from equity-settled employee benefits reserves <sup>(1)</sup>	60	-
Net profit attributable to marketing funds reclassified to other reserves	(845)	(32)
Transfer of marketing fund surpluses to other reserves	-	(3,663)
Balance at end of period	(435,831)	(449,409)

(1) Represents equity-settled employee benefits reserves in respect of performance rights forfeited in prior financial years



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. Earnings per share

Consolidated	1H20 \$'000	Restated 1H19 \$'000
<b>Basic earnings per share</b>		
From continuing operations	5.0	(48.7)
From discontinued operation	(2.4)	(12.1)
Basic (cents per share)	<u>2.6</u>	<u>(60.8)</u>
<b>Diluted earnings per share</b>		
From continuing operations	5.0	(48.7)
From discontinued operation	(2.4)	(12.1)
Diluted (cents per share)	<u>2.6</u>	<u>(60.8)</u>

### 16.1 Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share (EPS) are as follows:

Consolidated	1H20 \$'000	Restated 1H19 \$'000
<b>Profit/(loss) for the period</b>		
From continuing operations	27,143	(88,964)
From discontinued operations	(12,855)	(22,170)
Earnings used in the calculation of basic EPS from continuing and discontinuing operations	<u>14,288</u>	<u>(111,134)</u>

Consolidated	1H20 No. '000	1H19 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	<u>542,175</u>	<u>182,745</u>

Calculation of weighted average number of fully paid ordinary shares		Fully paid ordinary shares issued	Weighted shares <sup>(1)</sup>	
1H20	Date of issue	No. '000	No '000	
		182,745	182,745	
	Issue of ordinary shares - Placement	26 November 2019	1,700,000	323,369
	Issue of ordinary shares - SPP	2 December 2019	188,435	29,699
	Issue of ordinary shares – top-up placement	6 December 2019	46,815	6,362
	<b>Total</b>		<u>2,117,995</u>	<u>542,175</u>

(1) Weighted shares based on days on issue in the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. Earnings per share (continued)

### 16.2 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	1H20 \$'000	Restated 1H19 \$'000
<b>Profit/(loss) for the period</b>		
From continuing operations	27,143	(88,964)
From discontinued operations	(12,855)	(22,170)
Earnings used in the calculation of basic EPS from continuing and discontinuing operations	14,288	(111,134)
Consolidated	1H20 No. '000	1H19 No. '000
Weighted average number of ordinary shares for the purpose of diluted EPS <sup>(1)</sup>	542,175	182,745

#### Performance rights:

Performance rights granted to employees under the Performance Rights Plan are considered to be potential ordinary shares. These have not been included in the calculation of diluted earnings per share because potential ordinary shares that would reduce a loss per share are not considered to be dilutive.

(1) Refer to note 16.1 for calculation of weighted average number of ordinary shares for the purpose of basic EPS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. Discontinued operations

As at 31 December 2019, the Manufacturing and Distribution Division (excluding Dairy Country) has been classified as held for sale and discontinued operations, as the Board has resolved businesses conducted under the Hudson Pacific Food Service (HPC) and Associated Food Service (AFS) trading names within this division, are not core operations of the Group, and will be disposed.

A sale agreement for the business and assets of HPC and AFS was entered into during the period, and disposal of these businesses was completed on 3 January 2020.

In classifying these businesses as held for sale in accordance with AASB 5, the Group has assessed a number of factors, based on the information presently available including whether the division is available for sale in its present condition and whether the sale is expected to complete within the next 12 months. With the sale agreement in place and disposal of these businesses completed on 3 January 2020, the Group is assured of its status as held for sale.

In measuring these businesses in accordance with AASB 5, the Group has considered the expected sales price to be achieved in the executed sale agreement, as subsequently completed on 3 January 2020.

An impairment loss of \$7.2 million has been recognised on tangible assets, where the Group has written these assets down to net realisable value in accordance with the asset sale agreement.

Financial information relating to the discontinued operations for the period to 31 December 2019, and the major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

Consolidated	1H20 \$'000
Trade and other receivables	1,342
Inventories	1,025
Property, plant and equipment	2,212
<b>Total assets classified as held for sale</b>	<b>4,579</b>
Lease liabilities	(4,269)
<b>Total liabilities classified as held for sale</b>	<b>(4,269)</b>
<b>Net assets of disposal group</b>	<b>310</b>

The results of the discontinued operations, which have been included in the profit for the period, were as follows:

Consolidated	1H20 \$'000	1H19 \$'000
Revenue	28,071	44,220
Expenses	(42,524)	(71,469)
Loss before income tax	(14,453)	(27,249)
Attributable tax benefit <sup>(1)</sup>	1,598	5,079
<b>Net loss attributable to discontinued operations</b>	<b>(12,855)</b>	<b>(22,170)</b>
<b>Earnings per share</b>		
From discontinuing operations:		
Basic (cents per share)	(2.4)	(12.1)
Diluted (cents per share)	(2.4)	(12.1)

(1) Excludes income tax benefits arising from taxable losses that are retained by the Tax Consolidated Group on divestment of the disposal group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. Discontinued operations (continued)

At 31 December 2018, the Donut King, Pizza Capers Gourmet Kitchen, and Crust Gourmet Pizza Bar Systems (DK/QSR operations) were subject to potential sale negotiations and were classified as held for sale and discontinued operations. Negotiations were terminated in April 2019 and a sale did not proceed. At 30 June 2019, the DK/QSR operations were reclassified as continued operations.

## 18. Events after the reporting period

Subsequent to 31 December 2019, the Group completed the sale transaction of the HPC and AFS businesses on 3 January 2020.

There has not been any other matter or circumstance occurring, in the reasonable opinion of the Directors, that 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.

### *Interim Dividend*

The Board of Directors has resolved that no interim dividend will be paid in FY20.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Summary of significant accounting policies

This note provides 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.

### 19.1 Basis of preparation

These financial statements have been prepared on the basis that RFG is a going concern, able to realise assets in the ordinary course of business and settle liabilities as and when they are due.

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This consolidated interim financial report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out in the following section.

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

##### Standards and Interpretations adopted in the current period

The Group has adopted 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.

##### AASB 16 Leases

This note explains the impact of the adoption of AASB 16 Leases ("AASB 16") on the Group's financial statements. The Group has implemented the new standard from 1 July 2019.

The Group has adopted AASB 16 using the modified retrospective approach, as permitted under the specific transitional provisions in the standard. This resulted in a cumulative adjustment through opening retained earnings at 1 July 2019, as opposed to a restatement of the 2019 comparative figures. The new accounting policy for AASB 16 is disclosed within this note and should be read in conjunction with note 9 as it provides further explanation for balances introduced under this standard, i.e. Right-of-use (ROU) assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Summary of significant accounting policies (continued)

### 19.1 Basis of preparation (continued)

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

##### Standards and Interpretations adopted in the current period (continued)

##### AASB 16 Leases (continued)

#### (a) Adjustments recognised on adoption of AASB 16

Due to the Group's significant lease portfolio, the implementation of AASB 16 had a material impact on the Group's financial statements.

On adoption of AASB 16, the Group was party to a number of lease arrangements, with the most significant portion of the Group's lease portfolio relating to franchise store leases.

As of 1 July 2019, the Group had a total of 671 franchise store leases where the Group was party to the head lease agreement, meaning that the arrangements fall within the scope of AASB 16. In a majority of these cases, the Group also has a corresponding back to back lease arrangement with the franchisee of the store, meaning that in these instances, RFG is both the lessee (under the head lease) and lessor (under the sub-lease).

On adoption of AASB 16, the Group has considered the impact of the head lease arrangement as the lessee and the sub-lease arrangement separately as an intermediate lessor.

Below is a summary of the Group's lease arrangements and the impact of adoption of AASB 16 as of 1 July 2019:

#	Lease arrangement	Impact of adoption of AASB 16
1	Head leases of Franchise stores	As lessee under the franchise store head lease, RFG recognised a lease liability and right of use ("ROU") asset for these leases. RFG did not utilise the expedient for short term leases on transition (where the remaining franchise store lease period is < 12 months).
2	Sub-leases of Franchise stores	As an intermediate lessor, where the franchise store sub-lease was assessed as an operating lease, RFG continued to recognise a ROU asset (arising from the head lease). Where the franchise store sub-lease was assessed as a finance lease, RFG recognised a finance lease receivable, replacing the ROU asset of the head lease.
3	Lease of Head-office premises and other facilities	RFG recognised a lease liability and ROU asset for these premises and other facilities. RFG did not utilise the expedient for short term leases on transition (where the remaining lease period is < 12 months).
4	Leases of vehicles, mainly motor vehicles and forklifts	RFG recognised a lease liability and ROU asset for leased vehicles. RFG did not utilise the expedient for short term leases on transition (where the remaining lease period is < 12 months).
5	Leases of office equipment	RFG recognised a lease liability and ROU asset for leases of office equipment. RFG did not utilise the expedient for short term leases on transition (where the remaining lease period is < 12 months).

All of the lease arrangements noted above had previously been classified as 'operating leases' under the principles of AASB 117 Leases ("AASB 117"). On adoption of AASB 16, the Group recognised lease liabilities in relation to leases previously classified as operating leases under AASB 117. These liabilities are measured at the present value of the remaining lease payments, discounted using the Group's Incremental Borrowing Rate (IBR) as of 1 July 2019. The incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.29% for leases with a remaining lease period of less than 5 years and 6.24% for leases with a remaining lease period greater than 5 years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Summary of significant accounting policies (continued)

### 19.1 Basis of preparation (continued)

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

##### Standards and Interpretations adopted in the current period (continued)

##### AASB 16 Leases (continued)

#### (b) Variable lease payments

The majority of the Group's lease agreements include fixed percentage increases at specific dates. Accordingly, the Group is not exposed to significant potential future increases in variable lease payments based on an index or rate.

#### (c) Extension and termination options at the date of adoption of AASB 16

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Critical judgements related to extension options are disclosed in (h) below.

At the date of adoption of AASB 16, the Group has elected the practical expedient to use hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

#### (d) Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The most significant judgement relates to renewal options of leases of franchise stores where management has concluded that due to the nature of the Group's lease arrangements, there is no basis to conclude with reasonable certainty whether renewal options will be exercised prior to entering into a contractual arrangement. Critical judgements related to extension options are further disclosed in (h) below.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current half year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities of \$2.3 million, ROU assets of \$1.4 million and lease receivables of \$0.9 million.

#### (e) Measurement of lease liabilities (reconciliation to Operating lease commitments note at 1 July 2019)

The reconciliation of the total value of operating lease commitments, as disclosed at 1 July 2019, to the total value of the lease liabilities measured on adoption of AASB 16 is as follows:

Operating lease commitments disclosed as at 30 June 2019	29,829
Less: Discounted using the lessee's incremental borrowing rate at the date of initial adoption	(4,336)
Add: Lease liabilities recognised as at 1 July 2019	137,913
Lease liabilities recognised as at 1 July 2019	163,406
Of which:	
Current lease liabilities	49,329
Non-current lease liabilities	114,077

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Summary of significant accounting policies (continued)

### 19.1 Basis of preparation (continued)

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

##### Standards and Interpretations adopted in the current period (continued)

##### AASB 16 Leases (continued)

#### (f) Right-of-use assets and finance lease receivable assets recognised as at 1 July 2019

##### *Right-of-use assets*

The measurement of the right-of-use (ROU) assets includes consideration of the abovementioned lease liability, payments made at or prior to commencement and lease incentives received. Initial direct costs are excluded based on materiality, however these will be included in future periods, if considered material. Additionally, ROU assets that relate to franchise stores also include the cost of removal and restoring those stores (make-good provisions). Any ROU assets, for which an onerous lease contract existed on 1 July 2019 have been adjusted to reflect these onerous provisions at the date of initial adoption.

The recognised ROU relate to the following types of assets:

	1 July 2019 \$'000
Land & buildings	36,287
Vehicles & equipment	1,765
Total ROU assets	<u>38,052</u>

##### *Finance lease receivable assets*

For those leases where the Group was an intermediate lessor on 1 July 2019, the Group re-assessed the arrangements to determine whether the sub-lease arrangements were an operating lease or a finance lease. Where these sub-leases were considered a finance lease under AASB 16, the Group recognised these franchise store leases as a finance lease receivable on transition rather than a ROU asset. The assessment of the type of lease was performed with reference to the related sub-lease arrangement and performance of the franchise store.

Finance lease receivables (back to back franchise store leases) recognised as at 1 July 2019 are \$107,172 (refer to note 9).

#### (g) Adjustments recognised in the Consolidated Statement of Financial Position on 1 July 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 July 2019:

	1 July 2019 \$'000
Increase in right-of-use assets	38,052
Increase in lease receivables	107,172
Increase in deferred tax assets	49,022
Increase in deferred tax liability	(49,055)
Increase in lease liabilities	(163,406)

The net impact on retained earnings on 1 July 2019 was an increase of \$75,076 (refer to note 15).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Summary of significant accounting policies (continued)

### 19.1 Basis of preparation (continued)

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

##### Standards and Interpretations adopted in the current period (continued)

##### AASB 16 Leases (continued)

###### (h) Extension and termination options

Extension and termination options are included in several of the Group's leasing arrangements. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

###### *Critical judgements in determining the lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

###### (i) Impact on segment disclosures and earnings per share

Adjusted EBITDA, for the period ended 31 December 2019 all increased as a result of the change in accounting policy.

The following segments were affected by the change in policy:

Consolidated	Increase in Segment EBITDA \$'000	Increase in Depreciation \$'000
Bakery Café Brand Systems	3,234	3,097
OSR Brand Systems	44	125
Coffee Retail Brand Systems	1,632	1,385
Di Bella Coffee	681	651
Manufacturing & Distribution	1,610	1,203
<b>Total</b>	<b>7,201</b>	<b>6,461</b>

Comparative segment information has not been restated. Consequently, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the comparative period.

Earnings per share decreased by 0.1c per share for the period ended 31 December 2019 as a result of the adoption of AASB 16.

###### (j) Practical expedients applied

During the initial adoption of AASB 16, the Group used the following practical expedients permitted by the standard:

- the use of a single discount rate to portfolios of leases with reasonably similar characteristics
- reliance on previous assessments of whether leases are onerous
- the exclusion of initial direct costs for the measurement of the ROU asset at the date of initial adoption, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract contains a lease at the date of initial adoption. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117 and IFRIC 4 Determining whether an Arrangement contains a Lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Summary of significant accounting policies (continued)

### 19.1 Basis of preparation (continued)

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

##### Standards and Interpretations adopted in the current period (continued)

##### AASB 16 Leases (continued)

##### (k) Finance lease receivables

The Group's finance lease receivables relate to franchise store leases where the Group is party to the head lease agreement and also has a corresponding back to back lease arrangement with the franchisee of the stores. In these instances, RFG is both the lessee (under the head lease) and lessor (under the sub-lease).

The Group accounts for the head lease and the sub-lease as two separate contracts and classifies the franchise stores sub-leases as finance or operating leases by reference to the right-of-use asset arising from the head lease. Because of this change, the Group has reclassified its sub-lease agreements as finance leases. Refer to note 9 for amounts receivable under finance leases.

##### (l) Accounting for leases

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for franchise store leases for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on a rate, initially measured using a rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under extension options are not included in the measurement of the liability as management believes that there is no basis to conclude with reasonable certainty whether renewal options will be exercised prior to entering into a contractual arrangement.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the Incremental Borrowing Rate (IBR), the Group:

- where possible, uses recent third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Amounts due from leases under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- make-good provisions

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Summary of significant accounting policies (continued)

### 19.2 Discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of profit or loss.

## 20. Contingent Liabilities

The Group is the subject of a number of possible class action claims and regulatory investigations which are referred to below. Provisions for costs incurred but unpaid as at balance date have been raised in line with the Group's provisions accounting policy.

### *Possible Class Actions*

The legal firm, Corrs Chambers Westgarth has announced a potential class action against RFG and related parties by current and former Michel's Patisserie franchisees. In addition to the risk of a franchisee class action, one legal firm, Phi Finney McDonald, continues to advertise a potential shareholder class action claim against RFG.

At this time, no plaintiff law firm has contacted RFG in relation to the threatened class actions, and as far as RFG is aware, no franchisee or shareholder class action claim has been lodged against the Group.

It is currently not possible to determine whether such class actions or other proceedings will be commenced, and what the financial impact of such proceedings, if any, may be for the Group in the future. In the event legal proceedings are initiated, the Group intends to defend its position.

### *ACCC and ASIC Investigations*

The Australian Competition and Consumer Commission (ACCC) has issued notices (Notices) to the Company under section 155 of the Competition and Consumer Act (CCA), seeking information and documentation in connection with the ACCC's investigation of potential contraventions of the Australian Consumer Law. The Group has fully co-operated, and continues to co-operate, with the ACCC in respect of the requests for information and documents outlined in the Notices.

It is currently not possible to determine whether the investigations by the ACCC will result in legal proceedings being commenced against the Group or its current and former Directors and Officers, and if so, what the financial impact of such proceedings, if any, may be for the Group in the future. However, if the ACCC commences, and is successful in, any legal proceedings against the Group or its current or former directors and officers, this could result in the imposition of potentially significant civil penalties. Additionally, the ACCC could seek compensatory orders on behalf of franchisees or former franchisees. In the event legal proceedings are initiated, the Group intends to defend its position.

The Australian Securities and Investments Commission (ASIC) has also issued notices (ASIC Notices) to the Company under Section 30 of the Corporations Act 2001, in which ASIC has requested that RFG produce books, records and documentation in connection with ASIC's investigation of possible contraventions of the Corporations Act 2001 prior to 25 September 2018 (and in respect of a subsequent ASIC Notice, 9 July 2019). The Group has fully co-operated with ASIC in respect of the request for records and information outlined in the ASIC Notices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. Contingent Liabilities (continued)

It is currently not possible to determine whether the investigation by ASIC will result in legal proceedings being commenced against the Group or its current or former Directors and Officers, and if so, what the financial impact of such proceedings, if any, may be for the Group in the future. If ASIC brings, and is successful in, proceedings against the Group or its current or former Directors and Officers in regard to the possible contraventions raised in the ASIC Notices, this could result in a range of remedies and orders, including the imposition of penalties for the Group and its current and former Directors and Officers. In the event legal proceedings are initiated, the Group intends to defend its position.

The Group has provided for all legal costs incurred to balance date in responding to and dealing with all the matters referred to above.



Company Secretary	Registered Office	Principal Administration Office	Share Registry
Mr Anthony Mark Connors Level 4 35 Robina Town Centre Drive Robina QLD 4226	c/- KPMG, Level 11 2 Corporate Court Bundall QLD 4217	Level 4 35 Robina Town Centre Drive Robina QLD 4226	Computershare Investor Services Level 1 200 Mary Street Brisbane QLD 4000