Retail Food Group Limited

APPENDIX 4E (Rule 4.3A)
PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020
RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to the year ended 30 June 2019)

				FY20 A$'000	Restated FY19 A$'000
Revenue and other income from continuing operations	*Down*	*(12.9%)*	*to*	236,392	271,359
Revenue and other income from discontinued operations	*Down*	*(64.5%)*	*to*	27,557	77,675
Total revenues and other income	***Down***	***(24.4%)***	***to***	**263,949**	**349,034**
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	***Down***	***(19.3%)***	***to***	**35,542**	**44,025**
AASB 15 & AASB 16 (EBITDA)				15,627	5,972
Business restructuring, impairment, provisioning and other expenses				(90,660)	(179,994)
Gain on debt forgiveness				71,754	-
Reported earnings before interest, tax, depreciation and amortisation (EBITDA)	***Up***	***124.8%***	***to***	**32,263**	**(129,997)**
Profit/(loss) from continuing operations before income tax	***Up***	***113.9%***	***to***	**15,704**	**(113,072)**
Loss from discontinued operations before income tax				(15,286)	(51,508)
Profit/(loss) before income tax	***Up***	***100.3%***	***to***	**418**	**(164,580)**
Income tax (expense)/benefit from continuing operations				**(1,423)**	**19,697**
Income tax (expense)/benefit from discontinued operations				(2,985)	2,346
Profit/(loss) for the period attributable to members of the parent entity	***Up***	***97.2%***	***to***	**(3,990)**	**(142,537)**
				FY20	**FY19**
Net Tangible Assets/(Liabilities) per security				(2.9) cents	(143.8) cents

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

Annual financial report
Financial year ended - 30 June 2020

Contents

CORPORATE DIRECTORY

Directors	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
Company Secretary	Mr Anthony Mark Connors LLB
Registered office	c/- KPMG, Level 11 2 Corporate Court Bundall QLD 4217
Principal place of business	Level 4 35 Robina Town Centre Drive Robina QLD 4226
Share register	Computershare Investor Services Level 1 200 Mary Street Brisbane QLD 4000
Solicitors	Baker McKenzie Lawyers Level 8, 175 Eagle Street Brisbane QLD 4000 Arnold Bloch Leibler Level 21, 333 Collins Street Melbourne VIC 3000 Herbert Smith Freehills Level 34, 161 Castlereagh Street Sydney NSW 2000
Auditors	PricewaterhouseCoopers Level 23, 480 Queen St Brisbane QLD 4000
Bankers	National Australia Bank Limited Level 20, 100 Creek Street Brisbane QLD 4000 Westpac Banking Corporation Level 7, 260 Queen Street Brisbane QLD 4000
Stock exchange listings	Retail Food Group Limited (ASX: RFG) shares are listed on the Australian Securities Exchange
Website Address	www.rfg.com.au

DIRECTORS' REPORT

The Directors of Retail Food Group Limited (referred to hereafter as the Company) submit herewith the Annual Report of the Company for the financial year ended 30 June 2020 in accordance with the provisions of the *Corporations Act 2001*.

Information about the Directors

Name	Particulars
Mr Peter George	Executive Chairman, Bachelor of Commerce/Bachelor of Laws. Mr George joined the Board of RFG as a non-executive Director on 25 September 2018. He was appointed Executive Chairman on 7 November 2018, and subsequently assumed CEO responsibilities on 3 December 2018. Mr George has had a successful 30-year career as a senior executive and non-executive Director, including extensive professional experience of corporate turnarounds. Mr George was recruited to the Board as a turnaround specialist and has previously led the restructuring and merger of PMP Limited as Managing Director from 2012-2017 and was Executive Chairman of Nylex Limited from 2004-2008. He was also a non-executive Director and Chair of the Audit and Risk Committee of Asciano Limited from 2007 – 2016, and non-executive Director of Optus Communications from 1994 - 1998.
Mr David Grant	Independent Non-Executive Director, Bachelor of Commerce (Accounting, Finance & Systems), Graduate of the Australian Institute of Company Directors, Chartered Accountants Australia & New Zealand. Mr Grant was appointed a non-executive Director on 25 September 2018. He is an experienced public company director with a broad financial and commercial resume. He is currently a non-executive Director of Event Hospitality and Entertainment Limited, The Reject Shop Limited and A2B Australia Limited. Former directorships include iiNet Limited, Consolidated Rutile Limited and Murray Goulburn Cooperative Limited (including its associated listed unit trust). Mr Grant has a deep experience chairing key board subcommittees, especially in relation to audit and risk, and assumed Chairmanship of RFG's Audit & Risk Management Committee contemporaneously with his appointment to the Board. He is also Chairman of RFG's Nominations & Remuneration Committee. Mr Grant's executive career included extensive food industry experience through a range of accounting, finance and commercial roles with Goodman Fielder Limited, including the position of Group M&A Director. He was also Chief Financial Officer of Iluka Resources Limited.
Ms Kerry Ryan	Independent Non-Executive Director, Bachelor of Laws, Bachelor of Arts, Fellow of the Australian Institute of Company Directors, Fellow of the Governance Institute of Australia. Ms Ryan was appointed to the Board on 27 August 2015. She is an experienced non-executive director across a range of industries, including professional services, sport, health and fitness, and education. Ms Ryan's professional background is in commercial law. She is a former partner at international law firm, Norton Rose Fulbright, where she worked predominantly in the consumer markets area. She has substantial international experience, including on-the-ground experience in Asia, and has worked with many well-known retail, food and beverage brands in relation to their international business dealings. Ms Ryan is currently on the board of the Richmond Football Club and Aligned Leisure, which runs the Club's health and fitness business and its education arm, the Richmond Institute of Sports Leadership (in conjunction with Swinburne University of Technology). In the not-for-profit sector, she serves on the boards of Mental Health First Aid International and Kids First Australia.
Ms Jessica Buchanan	Independent Non-Executive Director. Ms Buchanan resigned from the Board on 1 August 2019. Ms Buchanan had joined the Board on 29 May 2012. Ms Buchanan has circa 20 years' experience in branding, marketing and advertising, having commenced her career in the advertising industry and working with a number of leading multi-national agencies. Ms Buchanan also managed campaigns for various blue chip companies including Ericsson, Tabcorp, Du Pont and Cadbury Schweppes. Ms Buchanan then went on to become Brand Director at Boost Juice, helping that business grow from 20 to 120 outlets. Subsequently, Ms Buchanan established and then sold a brand agency and digital research business that worked predominantly with retail and franchised groups, including Woolworths, Cotton On Group and Katies, Ms Buchanan continued to provide consulting services to the Company following her resignation as a Director, and on 1 December 2020, re-joined RFG in an executive capacity with the role of Head of Retail.

DIRECTORS' REPORT

Directorships of other listed companies

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

Name	Company	Period of Directorship
Mr Peter George	PMP Limited (now called Ovato Limited)	19 December 2012 to 30 November 2017
Mr David Grant	Event Hospitality and Entertainment Limited	25 July 2013 to present
	The Reject Shop Limited	1 May 2020 to present
	A2B Australia Limited	2 June 2020 to present
	MG Unit Trust (special purpose funding vehicle for the Murray Goulburn Cooperative Limited - de-listed 3 July 2020)	27 October 2017 to 26 June 2020

Directors' shareholdings

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

Directors	Fully paid ordinary shares Number
Mr Peter George [(1)]	-
Mr David Grant	550,000
Ms Kerry Ryan	210,000

(1) Contemporaneously with the date of this report, the Board (excluding Peter George) approved the vesting of 2,100,000 performance rights previously granted to Peter George. On vesting each performance right will convert to one fully paid ordinary share in the Company. Those shares will remain subject to the disposal restrictions detailed in the remuneration report of this Directors report.

Remuneration of Directors and Key Management Personnel

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

Share options granted to Directors and senior executive management

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

Performance rights granted to Directors and senior executive management

During the financial year performance rights were granted to Peter George and Jessica Buchanan respectively as part of their remuneration, as set out in the Remuneration Report of this Directors' Report.

No other performance rights were granted to Directors or senior executive management of the Company during and subsequent to the end of the financial year as part of their remuneration.

Directors' meetings

The following table sets out the number of Directors' meetings, including meetings of standing Committees of Directors, held during the financial year and the number of meetings attended by each Director, while they were a Director or Committee member. During the financial year, 23 Board meetings, 10 Audit and Risk Management Committee meetings, 1 Remuneration Committee meeting, 0 Nominations Committee meetings and 2 Nomination & Remuneration Committee meetings were held. On 3 October 2019, the Remuneration Committee and Nominations Committee were merged to form the Nominations & Remuneration Committee.

Directors	Board of Directors		Audit Committee		Remuneration Committee		Nominations Committee		Nominations & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Peter George	23	23	10	10	1	1	-	-	2	2
Mr David Grant	23	23	10	10	1	1	-	-	2	2
Ms Kerry Ryan	23	23	10	10	1	1	-	-	2	2
Ms Jessica Buchanan	1	1	1	1	-	-	-	-	-	-

Directors' meetings (continued)

Company Secretary

The Company Secretary is Mr Anthony Mark Connors. Mr Connors was appointed Company Secretary on 26 April 2006, having prior to that time acted as the Company's Legal Counsel. Mr Connors also holds the role of Director of Corporate Services.

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 when releasing its Annual Report.

Principal activities

The Group's principal activities during the course of the 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 or 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 coffee roasting facilities, and the wholesale supply of coffee and allied products to the Group's Brand Systems and third-party accounts, under the Di Bella Coffee brand; and
- Development and management of the procurement, warehousing, processing 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 operated under HPC and AFS have been classified as discontinued operations in these financial statements on the basis those businesses are deemed non-core to the Group, and disposal of them was completed on 3 January 2020.

In the financial year ending 30 June 2019, the Group had classified the entire manufacturing and distribution division as discontinued operations, which included businesses under the Hudson Pacific Food Service (HPC), Dairy Country, Bakery Fresh and Associated Food Service (AFS) trading names. The Bakery Fresh business was closed in May 2019. Subsequent to the end of FY19, the Company determined the Dairy Country business would be retained in the near term as a continuing operation. Accordingly, the Dairy Country business is classified within continuing operations in the FY20 financial statements. In addition, the comparative financial information has been restated to include Dairy Country as a continuing operation in FY19.

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 EBITDA, 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 presentation.

Important Information (continued)

Impact of coronavirus (COVID-19)

The COVID-19 pandemic and the measures undertaken to contain it have materially changed the global economic outlook, causing large-scale economic disruption in all markets the Group operates in. The economic disruption is expected to lead to rising levels of unemployment, and elevated levels of credit losses from business insolvencies and ongoing disruption to trading conditions. In an attempt to mitigate the economic effect of the COVID-19 pandemic, governments, regulators and central banks have offered significant fiscal and regulatory support to allow businesses to remain liquid and solvent, and to support employees and the unemployed. The extent to which these efforts will reduce the adverse financial effects of the COVID-19 pandemic remains uncertain.

Overview

During the financial year ending 30 June 2020, the Company made significant progress in connection with the various turnaround initiatives implemented to stabilise business performance and establish a firm platform for a return to future profitability and growth.

Divestiture of non-core business units has resulted in a less complex business model which has enabled a greater focus on the Group's core retail food franchising and coffee businesses. A wide range of initiatives spanning organisational structure, process and culture have been implemented to eliminate bureaucracy, facilitate more agile decision making and ensure a closer connection to franchisees and end consumers. Activities and allocation of resources are prioritised according to the imperative of providing direct support to the performance of the franchise network.

RFG's capital restructure, completed in December 2019, simultaneously addressed the Group's debt burden, provided the Company with a sustainable debt facility, and established a liquidity buffer that facilitated business stability together with additional scope and capacity to execute on operational imperatives.

These changes represent the key building blocks for the Company's turnaround and, prior to the COVID-19 pandemic, the business was showing positive signs of improvement which supported increasing confidence in the Company's outlook.

That confidence underpinned the Group's maintenance of original FY20 guidance, of $42-$46 million underlying EBITDA, when releasing its 1H20 results in late February 2020.

In the weeks subsequent to that event, the World Health Organisation declared the novel coronavirus, COVID-19, a pandemic.

The significant uncertainty which arose in relation to the duration and impact of COVID-19 necessitated a reassessment of likely FY20 performance. Following close observation of the impact coronavirus, and the various measures implemented by governments throughout the world to reduce its spread, was having on market conditions, and the performance of the Company's business units, the Company withdrew FY20 guidance.

Despite this decision, the initiatives implemented by the Group as part of its turnaround plan had established a much stronger foundation for the Company to take decisive and necessary action.

Whilst staff, franchisee and customer health and safety remained the priority for the Group, there was also a range of operational and financial initiatives implemented by the Group to support its franchisee community and respond to COVID-19.

These included:

- Targeted franchisee support measures, including implementation of operational modifications at store level, waiver or reduction of certain fixed and percentage-based fees, supply chain management, deferment of repayments otherwise due in relation to outstanding debt and RFG provided finance, the waiver of interest on deferred amounts, assistance with landlord negotiations to secure rental support (including abatements and deferrals), and assisting franchise partners to interpret, implement and comply with governmental trading restrictions and health authority advice;
- Deferral of non-essential capital expenditure and projects;
- A recruitment freeze;
- Cessation of non-essential travel;
- Realignment of promotional activity to maximise campaign success and return on investment, including deferral of promotional activity where appropriate;
- Workforce planning initiatives to reduce payroll expense, including a reduction in total working hours across the Group and the temporary stand down of certain employees; and
- Subsequently applying for and receiving funding via the Commonwealth JobKeeper assistance program and other governmental support initiatives.

In addition, the Non-Executive Directors and Executive Chairman elected to take a 20% temporary reduction in base remuneration effective from 26 March 2020. That reduction continues to apply as at the date of this report and, whilst Non-Executive Directors have elected to maintain this initiative until further notice, normal remuneration levels for the Executive Chairman will be reinstated effective 31 August 2020 in recognition of the additional workload associated with navigating the Company's path during these uncertain times.

Overview (continued)

As the impact of COVID-19 grew throughout March and April 2020, trading conditions experienced by a large proportion of the Company's franchise network rapidly deteriorated in direct correlation with the escalation of social distancing and other measures imposed across the jurisdictions in which the Group operates.

That deterioration was particularly evident amongst the Donut King, Gloria Jean's and Michel's Patisserie Brand Systems whose stores are predominantly situated within the shopping centre environment. Domestically, customer count amongst these Brand Systems had reduced by c.50% versus the Previous Corresponding Period (PCP) by early April 2020 as customers withdrew from public spaces and observed government requirements.

Conversely, the Brumby's Bakery and QSR Division (Crust and Pizza Capers) Brand Systems enjoyed improved operational outcomes following increased customer demand for bread and bakery products, and in-home delivery services.

During this period, temporary closures of domestic outlets peaked at c.100 stores. However, the vast majority of these subsequently recommenced trading, particularly once government social distancing measures began to ease during May 2020.

As noted above, one element of the various support measures rolled out in support of domestic franchisees has been the negotiation of rental relief for COVID-19 impacted outlets, and by the end of FY20, landlord concessions had been procured in respect of c.415 outlets. Negotiations regarding relief arrangements remain ongoing, and the Company anticipates the need for rent relief to remain in place for the duration of the pandemic and a reasonable recovery period thereafter.

The Group's international network was also significantly impacted by the COVID-19 pandemic, with c.480 stores amongst international licensed territories temporarily closing, a further c.140 outlets limiting their operations to take-away only, and the balance persevering under increasingly challenging trading conditions.

Di Bella Coffee (DBC) wholesale operations were also impacted as independent cafe and hospitality customers either closed or reduced their orders in response to lower customer foot traffic, particularly within CBD locations as work-from-home directives took effect. A significant reduction in demand for coffee products amongst the Group's domestic and international franchise network also impacted roasting volumes and operational outcomes.

These conditions, whilst improving in recent months, continue to weigh on DBC performance but have been partially offset by increased demand amongst online ordering and grocery division segments.

Despite the challenges posed by COVID-19, the 2H20 completion of DBC's restructure, including the consolidation of all domestic coffee roasting operations within the Company's state-of-the-art Sydney roasting facility, realised annualised cost savings of c.$6m per annum whilst also better positioning DBC to respond to the disruption experienced amongst its café and hospitality customer segments attributable to COVID-19.

A similar experience to DBC was observed in Dairy Country, where new contracts in the grocery channel, complemented by increased supermarket customer demand for cheese products following the onset of COVID-19 restrictions, has resulted in 'at capacity' production levels throughout the pandemic.

By the end of May 2020, retail trading conditions experienced by the Company's domestic franchise network were gradually improving as Australian governments eased some of the measures employed to slow the spread of COVID-19. The majority of those domestic outlets which had temporarily closed due to the impact of COVID-19 restrictions in March and April had reopened for trade by this time.

Internationally, whilst 126 mobile units had recommenced operations within the United Kingdom and New Zealand markets, c.350 traditional outlets remained closed, and a further 157 were restricted to takeout only.

Further improvement was observed during June 2020, albeit trading conditions remained challenging and customer count amongst those Brand Systems with high exposure to shopping centre environments remained well below pre-pandemic levels.

By 30 June 2020, temporary outlet closures amongst the Group's international network had also reduced considerably as local government COVID-19 restrictions eased. As at the end of the financial year, c.138 international outlets remained closed and 30 of those closures are considered permanent. In addition, c.150 stores had transitioned to limited 'dine-in' operations and a further c.230 were trading on a take-away only basis. The entirety of the Group's international mobile units had recommenced trade.

As 30 June 2020 drew close and the impact of the unprecedented events of the 2H20 on full year performance had become more apparent, the Group provided revised FY20 underlying EBITDA guidance of c.$35 million, including the impacts of COVID-19 on revenue and expenses of the Group, and JobKeeper assistance received (in total $2.4 million of government assistance including the JobKeeper program was recorded in profit before tax by the Group during FY20, with $2.1 million received in cash by 30 June 2020).

Pleasingly, that guidance has since been exceeded.

Clearly the impact of the COVID-19 pandemic, both during the year and in the outbreaks witnessed subsequent to year end, demonstrate the ongoing uncertainty that will likely prevail for some time. Notwithstanding this uncertainty, significant progress on the turnaround of RFG has been made. Whilst there remains much work to do, your Directors approach the future with confidence.

FY20 Results

Item	FY20 (1)	FY19 (4)	Change
Revenue (including discontinued operations)	$264.0m	$349.0m	($85.0m)
NPAT	($4.0m)	($142.5m)	$138.5m
NPAT (Underlying)(2)	$14.1m	$10.7m	$3.4m
EBITDA	$32.3m	($130.0m)	$162.3m
EBITDA (Underlying – market guidance basis)(2)(3)	$35.5m	$44.0m	($8.5m)

(1) The Company adopted the revised AASB 16 for lease accounting for the first time in its FY20 results, however prior corresponding period results have not been restated for AASB 16 adoption. Refer to note 35 to the financial statements.
(2) These figures are not subject to audit.
(3) Underlying EBITDA for guidance purposes excludes the impact of restructuring costs, impairment charges, gain on debt forgiveness, AASB 15 and 16 EBITDA and discontinued operations in FY20. FY19 underlying EBITDA for guidance prepared on the same basis, however included Hudson Pacific discontinued operations.
(4) Comparatives for FY19 where relevant have been restated for Discontinued Operations, and AASB 15 accounting. Refer to note 34 to the financial statements.

Underlying EBITDA for market guidance was $35.5 million, which is above the Group's most recent full year FY20 Underlying EBITDA guidance of c.$35 million provided on 26 June 2020. The result which was $8.5 million below the prior year, includes the trading impact of COVID-19 on the Group's FY20 result.

Statutory revenue from continuing operations for FY20 was $236.4 million, representing a decrease of $35.0 million on PCP.

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

- A $36.5 million decrease in Brand System segment revenues, excluding AASB 15/AASB 16:
  - A $34.1 million decrease in Brand System external and marketing revenues, consistent with the reduction in stores under Group's programmed store closure program and the impact of COVID-19 on Brand System network sales, compared to PCP; and
  - A $2.4 million decrease in revenues from trading of company stores.
- A $12.8 million decrease in Di Bella Coffee revenue, primarily attributable to the impact of COVID-19 on domestic and international coffee customers and cycling of the loss of FY19 key customers, and exit from wholesale capsule operations in FY19; partially offset by
- A $3.4 million increase in Dairy Country revenue excluding AASB 15/AASB 16 (within the Manufacturing and Distribution Division), primarily attributable to an increase in Dairy Country processing volumes on PCP; and
- A $10.9 million increase in revenues on PCP attributable to AASB 15/AASB 16 related revenues.

Cash outflows from operating activities for FY20 were $3.9 million (FY19: $8.5 million, cash outflow). Operationally, net cash outflows were attributable to supplier payments related to the significant restructuring activity undertaken in the year, disposal of discontinued operations, and payment of deferred payables in December 2019 subsequent to completion of the Company's 1H20 recapitalisation.

Restructuring, Provisioning and Impairment cost

The Group recorded total non-cash provisioning, impairment charges and loss on asset disposals for FY20 of $59.0 million, including $24.7 million of intangible asset impairment, and $10.7 million attributable to discontinued operations (Hudson Pacific Food Service and Associated Foodservice).

The full year charge comprises the write down of property, plant and equipment and redundant corporate systems, and wholesale coffee restructuring activities, totalling $20.9 million, with the balance comprised primarily of provisioning for franchisee lease exit and assistance provisions primarily attributable to COVID-19 related pressures, onerous contracts, and legal and regulatory costs.

The provisioning and impairment charges of $10.7 million on discontinued operations relate to the write-down of the Hudson Pacific Food Service (HPC) and Associated Food Service (AFS) businesses to fair value less costs to sell, and provisioning for legacy costs from closure of residual operations including redundant property lease costs.

Restructuring costs for the year totalled $33.5 million, including $6.6 million from discontinued operations. Restructuring costs from continuing operations comprised $26.9 million and include $8.7m consulting and professional services costs associated with the 1H20 recapitalisation of the Group, asset sale programs and regulatory response activities, $9.2 million in salary and associated costs of functions and roles identified as redundant, together with the one-off payments associated with their termination, consultants' fees and the wholesale coffee business restructuring program.

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 & Partners Limited (each a Joint Lead Manager and together the Joint Lead Managers).

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 at the same price as the Placement, and was completed on 2 December 2019, raising gross proceeds of c.$18.8m.

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, raising gross proceeds of $4.7m.

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 its senior debt lenders, the National Australia Bank and Westpac Bank, in connection with a restructuring of the Company's then existing debt facilities (Debt restructure). The Debt restructure was completed 26 November 2019, and included:

- $118.5 million of net Placement proceeds being applied to the repayment 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 30 June 2020.

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

Cash on hand as at 30 June 2020 was $33.9 million (excluding restricted cash balances).

Net debt as at 30 June 2020 was $20.8 million (excluding restricted cash balances and lease liabilities).

Operational Progress

As noted above, FY20 also saw significant progress in connection with the operational turnaround of RFG, particularly in the first 9 months of the year. Activity was necessarily curtailed in March 2020 by the Group's response to the declaration of the COVID-19 pandemic and government restrictions imposed as a consequence of it.

Fundamental to the Group's ethos is that the health and profitability of the Group's franchise network is key to RFG's future success, and all initiatives and activities have been prioritised accordingly.

Prior to the emergence of COVID-19, the Group focused on delivering a suite of new and innovative product offerings, supported by a targeted range of brand and product specific marketing activities, which delivered observable positive impacts on network sales and customer foot-traffic. In addition to these "top line" initiatives, management have also taken significant steps in delivering cost savings for the Group's domestic franchisee community, most notably via the reduction of wholesale supply prices for coffee which was reduced by ~15-20% (dependent upon brand system), effective from July 2019.

Where necessary, the Group has also continued to close unviable stores as part of its transition to a more profitable and sustainable franchise network, including exiting non-trading leases, in a number of cases attributable to the impact of COVID-19.

FY20 also saw significant progress on "right-sizing" and reconfiguring RFG's head office administration and support functions, refocusing the Group on its core retail food franchise and coffee supply operations, and divesting non-core underperforming business units.

In addition to delivering material cost savings for the Group and its franchisees, this activity delivered considerable change via restructure of the Group's franchise operations, premised on the following core deliverables:

- Establishment of a new retail management team, possessed of strong industry experience and a whole-hearted commitment to driving positive franchisee outcomes;
- Development of best practice systemisation to drive consistent quality improvement and efficiency; and
- Building a new brand management structure that focused on improving franchise partner relationships and ensures key decision makers are closer to franchisees and end consumers.

Consistent with this blueprint, all franchise facing functions were consolidated under a dedicated Retail Division more recently redefined as "Iconic Co" to reflect RFG's new approach to franchise network management and RFG's brands' widely-recognised standing in consumer markets.

- Appointment of a new leadership team with significant retail and franchising expertise across some of the world's best known franchise brands, including;
    - Jessica Buchanan (Head of Retail): A multi-site franchisee with her family for a large portion of her early career before establishing herself as head strategist within multi-national advertising agencies to build global brands including BMW's Mini Cooper, Tabcorp, The Australian Defence Force and many of Cadbury Schweppes' brands. Jessica then combined her experience and a focus on driving turnarounds to accelerate the growth of some of the country's most well-known retail and franchise brands, including Boost Juice, Hairhouse Warehouse, Healthy Habits, Banjo's Bakery, Narellan Pools, Miller's Fashion, Katies and others.
    - Damian Zammit (Head of Operations): Over 30 years' operational experience with McDonald's, starting as a crew member at age 15 and going on to work at McDonald's Australia and the USA, before leaving as VP Operations for McDonald's Korea. Damian was part of the turnaround team tasked with moving McDonald's Korea into growth, and has a passion for customer experience, growing franchisee sales and using simple, robust systems and processes to drive bottom line profits at the retail level.
    - Matthew Marshall (Head of Growth): Over 15 years' experience across a variety of major brands and organisations including Cadbury Schweppes, Asahi, RFG, and more recently, Sanofi Consumer Healthcare. Matt has held a number of senior commercial roles including Head of Sales, Head of Trade Marketing, Managing Director - Brumby's Bakery, and General Manager Commercial Partnerships and Planning.
- Implementation of a flat level management structure which eliminates middle management and ensures key decision makers have a closer rapport with franchisees and end consumers, ensuring a more efficient and agile operating model, regular and accurate updates in connection with network sentiment and performance, and quicker response times;
- Redefinition, and strategic review, of the future direction of the Group's Brand System portfolio, with a focus on driving growth at franchisee level and promotion of a 'franchisee-first' mindset and culture committed to building value for RFG's franchisee community. This review is already delivering tangible outcomes, including:
    - The successful trial of a new value model for the Group's QSR Division Brand systems, targeted at driving franchisee revenue and customer count, facilitate new store growth opportunity and increased market share, and shift the brand proposition to 'premium quality pizza at affordable prices'. Those outlets which participated in the trial experienced strong Average Weekly Sales growth, and broader rollout and launch of this key initiative is scheduled for the 1H21;

Operational Progress (continued)

    - The pending trial of a new Gloria Jean's concept incorporating a fresh baked food range and 'first to market' brand proposition, coupled with ongoing promotion of the brand's 'Flavour Famous' messaging; and
    - Leveraging the highly successful Gloria Jean's Drive Thru model, which enjoyed c.20% Average Weekly Sales growth YOY throughout COVID-19 restrictions.
- Redesign and upskill of the Group's field service support structure model and team, to be implemented 1H21, that contemplates establishment of specialised business coaches across 'front of house', 'back of house', 'coffee excellence', 'product quality', 'business improvement' and 'local store marketing', complemented by a comprehensive training program and tasked with the objectives of driving more revenue at store level, training franchise partners to become better retailers, building brand equity by improving customer experience, and helping maximise franchisee return on investment;
- Additional focus and support in connection with the Group's multi-store franchise partner complement, who represent c.24% of domestic network population but c.27% of network sales, and who have been identified as a key pillar upon which future network growth will be pursued; and
- Developing best practice systemisation that reaches across all divisional functions to drive efficiencies, improve quality and further de-risk RFG's multiple Brand System franchise business model. These systems reach across marketing, product development, supplier negotiation, operational performance, franchisee recruitment and expansion, network communications, financial reporting, site selection and lease negotiation, store design and construction.

FY20 turnaround activity has also contemplated:

- Disposal of the non-core procurement, warehousing and distribution businesses and assets of Hudson Pacific Food Service (HPC) and Associated Food Service (AFS), completed on 3 January 2020;
- Successful completion of the restructure of the Group's wholesale coffee business, Di Bella Coffee, realising annualised cost savings of c.$6.0 million per annum; and
- Rationalisation of corporate premises and assets, and head office relocation.

Once the COVID-19 pandemic was declared, the Group's operational focus shifted significantly to implement the previously discussed various short-term strategies to reflect the trading climate which had developed and to respond to emerging issues within the Group's network.

Considerable focus was also given to implementing a range of operational measures to ensure the Group's dairy processing operations and supply chain were sustained, and to effect the Di Bella Coffee restructure noted above.

Contingent Liabilities

The Group is or has been 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

On 13 June 2019 the legal firm Corrs Chambers Westgarth announced a possible class action against RFG and related parties on behalf of current and former Michel's Patisserie franchisees. Additionally, one legal firm, Phi Finney McDonald, continues to advertise a possible shareholder class action claim (first announced 10 May 2018) against RFG.

At this time, no plaintiff law firm has contacted RFG in relation to either threatened class action, and the Group is not aware of any developments concerning either possible class action, and notes that no franchisee or shareholder class action claim has been lodged against the Group to date.

It is currently not possible to determine whether either class action or any 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 vigorously 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.

Contingent Liabilities (continued)

As previously noted, the Australian Securities and Investments Commission (ASIC) had issued notices (ASIC Notices) to the Company under Section 30 of the *Australian Securities and Investments Commission Act 2001 (Cth)*, in connection with ASIC's investigation of possible contraventions of the *Corporations Act 2001 (Cth)* prior to 25 September 2018 (and in respect of a subsequent ASIC Notice, 9 July 2019). The Group fully co-operated with ASIC in respect of the request for records and information outlined in the ASIC Notices. The Group was advised by ASIC in late June 2020 that ASIC had concluded its investigations and had decided that it would not take enforcement action following its investigation.

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 the Michel's Patisserie, Donut King, and Brumby's Bakery Brand Systems);
- QSR Division (incorporating the Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Coffee Retail Division (incorporating the Gloria Jean's, Esquires, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating Wholesale Coffee operations); and
- Manufacturing & Distribution Division (incorporating manufacturing and distribution operations).

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

Franchise Operations

In addition to the activity already discussed above, FY20 saw a further step change in methodology and focus in respect of product innovation, marketing and franchise network support amongst the Group's Brand Systems.

This included a significant increase in marketing campaign activity during the year.

Approximately 100 campaigns were launched across the Group's bakery and coffee brands, marginally down on target as a consequence of the necessary realignment of promotional activity and deferment of campaign launches attributable to COVID-19 and the redirection of resources towards direct financial and operational support for the Group's franchisee community. Those campaigns which were launched during the year drove total estimated annualised network sales of c.$30m during the year, and achieved c.164m social media reach, ensuring the Group's brands remained top-of-mind for consumers.

Underlying Franchise Operations segment EBITDA for FY20 was $39.7 million and included $10.2 million of EBITDA contribution from AASB 15 and 16.

EBITDA from underlying operations (excluding AASB 15 and 16) was $29.5 million, representing a decrease of $12.3 million on PCP attributable to the reduction of store numbers under the Group's planned store closure program and the 2H20 impact of COVID-19 on trading results.

Operationally, weighted Same Store Sales (SSS) for the 9-month pre-COVID-19 period compared to PCP represented a decline of 0.7% across all Brand Systems (ex-Michel's Patisserie), and a decline of 1.6% including Michel's Patisserie. For the 9-month pre-COVID-19 period, Donut King was a standout performer with +2.1% SSS growth.

Factoring the unavoidable 2H20 impact of COVID-19, weighted Same Store Sales (SSS) for FY20 compared to PCP resulted in a decline of 3.8% across all Brand Systems (ex-Michel's Patisserie), and a decline of 5.1% including Michel's Patisserie. This result was principally impacted by significant customer count declines amongst those Brand Systems predominantly exposed to shopping centre environments and most impacted by COVID-19 measures. Conversely, Brumby's Bakery and the QSR Division recorded positive SSS for FY20 of +1.2% and +0.2% respectively, having benefited from the COVID-19 period as Brumby's staple bread offer appealed to consumers and QSR's delivery orders increased.

SSS metrics for FY20 exclude the contribution from stores closed pursuant to the ongoing domestic outlet network review, and are discussed inclusive/exclusive of Michel's Patisserie in recognition of unique challenges within that Brand System, where a number of strong indicators of positive product and marketing campaign performance, together with the brand's award of 2019 Roy Morgan Coffee Shop of the Year, have not translated to consistent reported franchisee sales for the 9-month pre-COVID-19 period compared to PCP.

FY20 outlet closures comprised 130 domestic traditional outlets, and 25 mobile vans, including exiting non-trading leases. As at 30 June 2020, domestic franchise trading outlets totalled 905. 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 afford COVID-19 support, and continues to work constructively with impacted stakeholders.

Whilst no new outlets were established domestically during the year, the Group continued to progress initiatives to support a return to new outlet growth in the future, including the development of best practice systemisation in connection with franchisee life-cycle, aggressive focus on securing new sites for proliferation of the Gloria Jean's Drive Thru model, and enhancing focus, support and incentivisation measures in connection with the Company's multi-store franchise partner complement which has been identified as a key pillar upon which future network growth will be pursued.

Franchise operations - International

During FY20, the Group granted 2 new international territory master licenses, for the territories of Gloria Jean's Hungary and Gloria Jean's Vietnam. A further 3 existing licences were renewed during the year, resulting in a net reduction of 26 international territory licences as legacy and or non-performing arrangements, where development quotas had either not been achieved or it was considered that the relevant territory was not viable long-term, were brought to an end.

Master Franchise Partners reported 50 new outlets, and 5 new vans, within international territories, offsetting the reported closure of 102 outlets and 21 vans, 40 of which were attributable to the impact of COVID-19, principally within China.

As at 30 June 2020, international operations comprised 61 international territory licenses across 47 countries, and a network population of 631 units.

Di Bella Coffee

Di Bella Coffee's reputation for high quality coffee products was again recognised during FY20, with the brand achieving 22 medals across wholesale and franchise blends at the 2019 Golden Bean Awards.

Notwithstanding the practical challenges attributable to COVID-19 in the 2H20, restructure of the Di Bella Coffee wholesale coffee business was completed as programmed, realising annualised cost savings of c.$6.0 million per annum and centralising domestic roasting operations within the Company's state-of-the-art Sydney facility. In order to ensure that centralisation did not compromise blend quality and taste profiles, relevant coffee blends were independently verified and graded against industry standards, and continue to be rated high quality.

The foregoing restructure also included significant change to the organisational structure of the business, including new management, relocation of the brand's Brisbane based headquarters to more suitable premises, write-down of surplus assets and lease exit costs of redundant properties undertaken in the year.

As noted above, the emergence of COVID-19 and the measures imposed by government in response contributed to reduced sales revenues as a large number of independent food service and contract roasting customers temporarily closed their businesses, restricted trading to take away service, or suffered customer traffic declines that impacted ordering volumes. These impacts were partially offset by increased demand amongst online ordering and grocery division segments.

COVID-19 also posed a number of practical challenges given high demand for distribution services as consumers gravitated to online retail models. Despite those demands, Di Bella Coffee has continued to maintain a high DIFOT (Delivered In Full On Time) rate exceeding 98.5% throughout 2020, and when coupled with its high quality coffee products, continues to demonstrate its commitment to customer support and satisfaction.

Ultimately, underlying Di Bella Coffee Operations segment EBITDA for FY20 was $2.1 million from wholesale coffee operations, reflecting decreased earnings on independent food service sales impacted by reduced trading attributable to local COVID-19 measures, and a cycling of FY19 customer decline in the competitive independent contract roasting sector, offset by cost reduction benefits of the wholesale coffee restructuring program undertaken in the year. The Group's FY19 exit from the unprofitable coffee capsule operations also resulted in a reduction of $6.8 million revenue on PCP.

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 the near term as a continuing operation.

In FY20 Dairy Country experienced a net increase in production volumes, with the onboarding of a significant new customer and increased orders from existing key customers, offsetting a terminating customer supply contract. At end of FY20, the customer base of Dairy Country is predominantly represented by 3 major customers in the supermarket supply category.

Dairy Country has operated at full capacity from commencement of the COVID-19 pandemic to the end of FY20, as supermarket customers increased demand for product during this time.

FY20 operating revenues increased by $3.4 million on PCP on an increase in processing volumes, offset by additional overhead costs on integrating new business volumes, resulting in a $0.4 million increase in underlying EBITDA versus PCP.

Underlying divisional segment EBITDA (excluding discontinued operations) for FY20 was a profit of $3.9 million, representing an increase of $0.4 million on PCP in the Dairy Country business as previously discussed.

The Group commenced a detailed operational and management review of Dairy Country in 2H20, to increase economic returns from current customers' production volumes. Management renewal and scoping of production efficiencies was completed prior to the COVID-19 pandemic declaration, whereby further activity was temporarily suspended whilst COVID-19 operating conditions prevailed. Since this time Dairy Country has operated at full production capacity, save for the brief closure of one facility in July 2020, attributable to COVID-19.

As previously noted, those business operations under the Hudson Pacific Food Service (HPC) and Associated Food Service (AFS) trading names were sold during the year. Disposal of these operations was completed on 3 January 2020, with their results excluded from the underlying performance assessment of the Group.

Subsequent Events

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn occasioned by it, and the speed of economic recovery. In accordance with AASB 110 Events after the Reporting Date, the Group considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lockdowns implemented across Victoria, the closure of state borders, and the extension of further government support measures. The Group did not identify any subsequent events arising from COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the fluid nature of the current situation, the Group will continue to regularly review forward looking assumptions and forecast economic scenarios.

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.

Group liquidity and outlook

The financial statements have been prepared on the basis that the Group will continue as a going concern. The Group has a net current liability position of $9.0 million at 30 June 2020, which is due to the implementation of AASB 16, which has increased the net current liability position at 30 June 2020 by $14.6 million. Refer to notes 14 and 35.1 (g), which outline the impact AASB 16 has had on adoption, and the financial position at 30 June 2020.

As reported at 30 June 2020, the Group had $33.9 million in unrestricted cash and senior debt and borrowings of $54.8 million, resulting in a sustainable net debt position of $20.8 million. RFG's capital restructure, completed in December 2019, has provided the Group with a sustainable debt facility, and established a liquidity buffer that has facilitated business stability together with additional scope and capacity to both execute on operational imperatives and to respond to the unique set of challenges that subsequently arose during the 2H20, whilst remaining compliant with all lending covenants for at least 12 months from the date of this report.

Dividend

The Directors have resolved that no dividend will be declared or paid with respect to the FY20 year.

Environmental regulations

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

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

Indemnification of Officers and Auditors

During the financial year, the Company entered into a contract insuring the Directors of the Company, the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as a Director, Secretary or executive officer to the extent permitted by the *Corporations Act 2001 (Cth)*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has also entered into a Deed indemnifying the Directors, officers and certain other parties in respect of certain claims that may be raised against them relative to the operations of the Company, its former and current subsidiaries.

To the maximum extent permitted by the *Corporations Act 2001 (Cth)*, the Deed indemnifies those persons from liabilities incurred as a consequence of the acts of those persons.

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 33 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the FY20, by the auditor, or by another person or firm on the auditor's behalf, is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001 (Cth)*.

The Directors are of the opinion that the services, as disclosed in Note 33 to the financial statements, do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

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

Auditor's independence declaration

The auditor's independence declaration is included on page 32 of the financial report.

Rounding off of amounts

The Company is a company of the kind referred to in *ASIC Corporations Instrument 2016/191* and, in accordance with that Class Order, amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

DIRECTORS' REPORT

Remuneration report

The Directors present the Retail Food Group Limited 2020 remuneration report, outlining key aspects of the Company's remuneration policy and framework, and remuneration awarded during FY20.

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and its senior executive management (together KMP) for the financial year ended 30 June 2020.

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

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

1. Key Management Personnel

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

Executive and Non-executive Directors	Position
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

Senior executive management	Position
Mr Anthony Mark Connors	Company Secretary, Director Corporate Services
Mr Peter McGettigan	Chief Financial Officer
Ms Jessica Buchanan	Head of Retail - Appointed 1 December 2019
Mr Damian Zammit	Head of Operations - Appointed 1 December 2019
Mr Matthew Marshall	Head of Growth - Appointed 17 January 2020

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

Remuneration Policy

Overview

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

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

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

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

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

Remuneration report (continued)

Remuneration Policy (continued)

Historically remuneration packages for senior executive personnel included a mix of fixed and variable compensation, including short-term and long-term performance based incentives. This mix of these components was based on the role that the individual performed.

During FY19 the Board reassessed the Group's remuneration policy in light of RFG's then financial position and performance, and the implementation of a turnaround plan to stabilise the business during that year. In light of those factors the Board resolved at that time to suspend short and long term incentive plans previously put in place and to undertake a further review of the Group's remuneration practices once the business had been stabilised from both an operational and funding perspective. During this period the Group provided certain minor non-cash benefits and contributed to post-employment superannuation plans on their behalf, in accordance with statutory obligations.

In view of the Company's 1H20 recapitalisation which cleared the way for the Group to focus on operational imperatives, including revitalising and supporting the profitability of RFG's franchise network, during FY20 the Board resolved to reintroduce incentive compensation amongst certain senior executives in order to retain, reward, motivate and more comprehensively align them with the roadmap of key initiatives and deliverables the Board has established in connection with the turnaround of RFG.

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

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

- The need to attract, retain and motivate appropriately qualified and experienced Directors with diverse backgrounds and experiences to ensure the Board is comprised of a range of skills necessary to properly govern under the business environment in which the Group operates;
- The scope and complexity of the responsibilities assumed by such Directors in connection with the oversight and leadership of the Group;
- Comparative market practices;
- Assessment of individual performance.

The Board reassessed remuneration practices following the emergence of COVID-19 and as part of various short-term strategies implemented in response thereto, and introduced a number of initiatives to reduce payroll expense.

These initiatives included the Non-Executive Directors and Executive Chairman electing to take a 20% temporary reduction in base remuneration effective from 26 March 2020. That reduction continues to apply as at the date of this report and, whilst Non-Executive Directors have elected to maintain this initiative until further notice, normal remuneration levels for the Executive Chairman will be reinstated effective 31 August 2020 in recognition of the additional workload associated with navigating the Company's path during these uncertain times.

Role of Nominations & Remuneration Committee:

Historically the responsibility for overseeing the remuneration policy and strategy of the Group lied with the Remuneration Committee, including:

- Reviewing and making recommendations to the Board on remuneration strategy and policies for Group employees,
- Annually reviewing and making recommendations to the Board on the executive directors' and senior executive management's remuneration and performance, and
- Making recommendations to the Board regarding Directors' compensation.

On 3 October 2019 the Board resolved to merge the Remuneration Committee with the Company's Nominations Committee. The resultant Nominations & Remuneration Committee now discharges the foregoing responsibilities.

At present the full Board sits as the Nominations & Remuneration Committee. Executive directors do not participate in discussions relating to their own remuneration arrangements.

Fixed Compensation

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

Performance-linked Compensation

Performance linked compensation includes both short-term and long-term incentives designed to retain, or to motivate or reward executives for meeting or exceeding their defined role objectives.

Remuneration report (continued)

Remuneration Policy (continued)

Short-term Incentive Bonus

Short-term bonuses were paid to certain senior executives during FY20 to reward them for meeting or exceeding defined role objectives and in recognition that during FY19 the Company had suspended its long-term equity incentive plan.

Long-term Incentive Bonus

Performance Rights Plan

In August 2015 the Directors approved and adopted the Original Performance Rights Plan. The Plan was designed to focus executives on delivering long-term shareholder returns. Under the plan, participants were only granted shares if performance conditions pertaining to the earnings per share (EPS) growth and relative total shareholder return (TSR) were met and the employee was still employed at the end of the vesting period.

Under this plan, performance rights were granted to certain executives on 14 July 2016 with respect to the FY16, FY17, FY18 and FY19 performance periods. Performance conditions for the FY16, FY17 and FY18 rights performance periods were not met, and accordingly, the performance rights associated with these performance periods were not eligible for vesting. Executives with Performance Rights with respect to the FY19 performance period elected to forfeit those rights in the FY19 year. In August 2019, the Directors confirmed that all performance rights relating to the plan had either lapsed or been forfeited.

As noted above, during FY20 the Board resolved to reintroduce incentive compensation amongst certain senior executives in order to retain, reward, motivate and more comprehensively align them with the roadmap of key initiatives and deliverables the Board has established in connection with the turnaround of RFG.

Long-term incentive compensation subsequently provided during FY20 was the form of Performance Rights issued in accordance with the Retail Food Group Limited Rights Plan (RFGLP). The RFGLP provides the Board with discretion to set the terms and conditions on which it will offer Performance Rights under the RFGLP, including vesting conditions and modification of the terms and conditions as appropriate to ensure the plan operates as intended. All Performance Rights are subject to vesting conditions intended to be challenging and linked to the Company's stabilisation and ultimate return to sustainable shareholder value creation. The terms and conditions of the RFGLP include those aspects legally required as well as a method for calculating the appropriate number of Performance Rights to vest in the circumstances of a change of control, a major return of capital to shareholders and the treatment of Performance Rights in the circumstances of various forms of termination.

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

Executive Share Option Plan

There are no options issued under the Group's Executive Share Option Plan during the year to and as at 30 June 2020 (2019: nil). There are also no options issued and exercisable under this plan at 30 June 2020.

Remuneration report (continued)

Remuneration Policy (continued)

Performance Rights Plan

At the Company's 2019 Annual General Meeting held 29 November 2019, shareholders approved the grant to Mr Peter George, Executive Chairman, of 15,000,000 Performance Rights (the 'Performance Rights' or 'Rights') under the Retail Food Group Limited Rights Plan (RFGRP). These Rights were subsequently granted to Mr George on 6 December 2019.

Ms Jessica Buchanan, Head of Retail, was also granted 9,000,000 Performance Rights under the RFGRP on 1 April 2020.

Should the above Performance Rights vest, they will be exercised such that each Performance Right entitles the holder thereof to one fully paid ordinary share in the Company, subject to certain disposal restrictions.

The Performance Rights are eligible to vest in three tranches, linked to discrete measurement periods. Vesting is dependent on the satisfaction of certain vesting conditions. There are no amounts payable for grant of the Rights.

Details on Rights that were granted as compensation to the Executive Chairman and Head of Retail during the reporting period are as follows:

Key Management Personnel	Number of rights granted during FY20	Financial years in which rights vest (1)	Vesting conditions	Grant Date	Fair value at grant date
Peter George	3,000,000	30 June 2021	EBITDA, franchise growth and health-related objectives	6 December 2019	$0.10
	5,000,000	30 June 2022	Operational and organisational criteria	6 December 2019	$0.10
	7,000,000	30 June 2023	Quantitative measurements relating to company reputation improvement	6 December 2019	$0.10
Jessica Buchanan	3,000,000	30 June 2022	Group Normalised EBITDA and Top Line Growth	1 April 2020	$0.04
	3,000,000	30 June 2023	Critical operational systems and processes and USA / Gloria Jeans International	1 April 2020	$0.04
	3,000,000	30 June 2024	Managerial Effectiveness and Development	1 April 2020	$0.04

(1) The number of Rights which may vest will be determined by the Board as soon as practical following release of audited accounts in respect to the financial year in which the relevant measurement period falls.

Remuneration report (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

The key features of the RFGRP for Mr Peter George are summarised below:

Aspect	Details
Number of Performance Rights	A total of 15,000,000 Performance Rights - eligible to vest in three tranches as follows: • Tranche 1: 3,000,000 Performance Rights; • Tranche 2: 5,000,000 Performance Rights; and • Tranche 3: 7,000,000 Performance Rights.
Measurement Period	The measurement period in respect of each tranche of Performance Rights is as follows: • Tranche 1: The period from grant on 6 December 2019 to 30 June 2020; • Tranche 2: The period commencing 1 July 2020 and ending 30 June 2021; and • Tranche 3: The period commencing 1 July 2021 and ending 30 June 2022.
Vesting Conditions	The criteria for vesting is structured to reflect both financial outcomes and qualitative indicators which pertain to sustainable improvements in the Company's business. These criteria are directly referable to the roadmap of key initiatives and deliverables the Board has established in connection with the turnaround of RFG over the period of Mr Georges' anticipated tenure through to 30 June 2022. The criteria the Board (excluding Mr George) has identified for vesting of the performance rights includes: • (Metric 1) 40% to the achievement of certain underlying EBITDA performance criteria. • (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.[1] • (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. • (Metric 4) 20% to the achievement of certain qualitative measures associated with improving the reputation of the Company. 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. *[1] 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 2019 Annual General Meeting, released to the ASX on 29 October 2019.*
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.
Termination of Employment	In the case of dismissal for cause, or in other circumstances classified as "Bad Leaver" by the Board in its discretion, unvested Performance Rights will be forfeited. In other cases, on termination of employment a portion of Performance Rights whose Measurement Period falls within the financial year in which the termination occurs will be forfeited. The proportion is that which the remainder of the financial year following the termination represents of the full financial year. This provision recognises that grants of Performance Rights are part of the remuneration for the year of grant and that if part of the year is not served then some of the Performance Rights will not have been earned. Continued service during the period between 30 June and the assessment of Vesting Conditions achievement, following the completion of the financial year in which the grant is made, is not a requirement in order for Performance Rights to vest.

Remuneration report (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

Aspect	Details
Disposal Restrictions	Shares acquired on exercise of vested Performance Rights will be subject to disposal restrictions until all of the following cease to restrict disposals: a) The Company's share trading policy; b) The insider trading provisions of the Corporations Act 2001 (Cth) c) The Specified Disposal Restrictions. The Specified Disposal Restrictions attaching to the shares acquired on exercise of Performance Rights are that those shares may not be sold or otherwise disposed of until 30 September 2022, regardless of whether Mr George remains an employee of the Company or not.

The assessed fair value at grant date of the Performance Rights granted to Mr George 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 the Performance Rights granted to Mr George, was $415 thousand.

Remuneration report (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

The key features of the RFGRP for Ms Jessica Buchanan are summarised below:

Aspect	Details
Number of Performance Rights	A total of 9,000,000 Performance Rights - eligible to vest in three tranches as follows: • Tranche 1: 3,000,000 Performance Rights; • Tranche 2: 3,000,000 Performance Rights; and • Tranche 3: 3,000,000 Performance Rights.
Measurement Period	The measurement period in respect of each tranche of Performance Rights is as follows: • Tranche 1: The period commencing 1 April 2020 and ending 30 June 2021; • Tranche 2: The period commencing 1 July 2021 and ending 30 June 2022; and • Tranche 3: The period commencing 1 July 2022 and ending 30 June 2023.
Vesting Conditions	The criteria for vesting is structured to reflect both financial outcomes and qualitative indicators which pertain to sustainable improvements in the Company's business. The criteria the Board has identified for vesting of the performance rights includes:[1] • (Metric 1) 35% to the achievement of certain underlying Group Normalised EBITDA performance criteria. • (Metric 2) 25% to the achievement of certain top line growth related criteria which includes targets in relation to Same Store Sales (SSS) growth and Domestic Franchise Network growth. • (Metric 3) 20% to the achievement of criteria associated with critical operational systems and processes, which include targets in relation to Franchise Life-Cycle, Property, and Product Quality Assurance systems, processes and metrics. • (Metric 4) 10% to the achievement of growth metrics relating to the Group's USA and Gloria Jean's Coffees International operations. • (Metric 5) 10% to the achievement of managerial effectiveness and development metrics. The Board 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. *[1] 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 Appendix 3G released to the ASX on 2 April 2020.*
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.
Termination of Employment	In the case of dismissal for cause, or in other circumstances classified as "Bad Leaver" by the Board in its discretion, unvested Performance Rights will be forfeited. In other cases, on termination of employment a portion of Performance Rights whose Measurement Period falls within the financial year in which the termination occurs will be forfeited. The proportion is that which the remainder of the financial year following the termination represents of the full financial year. This provision recognises that grants of Performance Rights are part of the remuneration for the year of grant and that if part of the year is not served then some of the Performance Rights will not have been earned. Continued service during the period between 30 June and the assessment of Vesting Conditions achievement, following the completion of the financial year in which the grant is made, is not a requirement in order for Performance Rights to vest.

Remuneration report (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

Aspect	Details
Disposal Restrictions	Shares acquired on exercise of vested Performance Rights will be subject to disposal restrictions until all of the following cease to restrict disposals: a) The Company's share trading policy; b) The insider trading provisions of the Corporations Act 2001 (Cth); c) The Specified Disposal Restrictions. The Specified Disposal Restrictions attaching to the shares acquired on exercise of Performance Rights are as follows: a) Tranche 1 Rights which convert to shares may not be sold or otherwise disposed of until 30 September 2022, regardless of whether Ms Buchanan remains an employee of the Company or not; b) Tranche 2 and 3 Rights which convert to shares may not be sold or otherwise disposed of until 30 September 2023, regardless of whether Ms Buchanan remains an employee of the Company or not.

The assessed fair value at grant date of the Performance Rights granted to Ms Buchanan was $0.04 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 $29 thousand.

Details of performance rights affecting current and future remuneration

Details of vesting profiles and the Rights held by each key management personnel of the Company are detailed below.

	Instrument		Grant date	% vested in year	% forfeited in year	Financial years in which grants vest	Maximum value yet to vest [1]
Peter George	Rights	3,000,000	6 December 2019	70%	30%	FY21	-
	Rights	5,000,000	6 December 2019	0%	0%	FY22	$189,468
	Rights	7,000,000	6 December 2019	0%	0%	FY23	$325,152
Jessica Buchanan	Rights	3,000,000	1 April 2020	0%	0%	FY22	$57,552
	Rights	3,000,000	1 April 2020	0%	0%	FY23	$66,888
	Rights	3,000,000	1 April 2020	0%	0%	FY24	$69,444

(1) The maximum value of the rights yet to vest has been determined as the amount of the grant date fair value of the rights that is yet to be expensed. The minimum value of rights yet to vest is nil, as the rights will be forfeited if the vesting conditions are not met.

Remuneration report (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

Performance Rights Plan

Under the Retail Food Group Limited Rights Plan (RFGRP), Rights will only vest if certain performance and service conditions are met (i.e. the duration of the measurement period for each tranche and whether the Rights holder was employed for the entirety of that measurement period).

Directors suspended the RFGRP in FY19 prior to restructuring of the Group, and executives elected to forfeit all remaining Rights on issue at that time. All Performance Rights issued under the RFGRP prior to FY20 have either lapsed or been forfeited as at 30 June 2020. The RFGRP was reinstated in the FY20 year, with new Rights issued to executives for the FY20 and future periods.

The tables below show a reconciliation of performance rights held by each Key Management Personnel for the FY20 year, including the movement during the reporting period, by number of Rights over ordinary shares in the Company, held directly, indirectly or beneficially, by each key management person.

FY20 Executive	Grant Date	Balance at the start of the year	Number of rights granted during FY20	Number of Rights Vested	Vested %	Number of Rights Forfeited or Lapsed	Forfeited or Lapsed %	Balance of unvested rights at the end of the year
Peter George	6 December 2019	-	15,000,000	-	0%	-	-	15,000,000
Jessica Buchanan	1 April 2020	-	9,000,000	-	0%	-	-	9,000,000

Relationship between Remuneration Policy and Group Performance

The following summary information in relation to the Group's earnings and movements in shareholder wealth for the five years to 30 June 2020 is provided in accordance with the requirements of the Corporations Act as follows:

Metrics	FY16	FY17	FY18	FY19	FY20
Share price at start of financial year	$5.43	$5.53	$4.70	$0.54	$0.13
Share price at end of financial year	$5.53	$4.70	$0.54	$0.13	$0.07
Interim dividend	13.00 cps	14.75 cps	-	-	-
Final dividend	14.50 cps	15.00 cps	-	-	-
Basic EPS (Underlying)	40.5 cps	43.7 cps	18.4 cps	5.9 cps	1.1 cps
Basic EPS(1)	37.4 cps	35.7 cps	(169.5 cps)	(81.7 cps)	(0.3 cps)
Diluted EPS(1)	37.4 cps	35.7 cps	(169.5 cps)	(81.7 cps)	(0.3 cps)

(1) EPS figures are as historically reported.

Remuneration report (continued)

2. Remuneration of Directors and Senior Executive Management

The following tables show details of the remuneration expense recognised for the Group's Directors and Senior Executive Management for the current and previous financial year measured in accordance with the requirements of the accounting standards.

FY20	Short-term Benefits			Long-term Benefits				
Name	Salary & fees (1)	Bonus	Other	Super-annuation	Performance Rights	Other (2)	Termination Benefits	Total
	$	$	$	$	$	$	$	$
Non-Executive Directors								
Ms Kerry Ryan	103,688	-	-	9,850	-	-	-	113,538
Mr David Grant	120,381	-	-	11,436	-	-	-	131,817
Former								
Ms Jessica Buchanan (3)	10,116	-	-	961	-	-	-	11,077
Executive Director								
Mr Peter George	536,741	300,000	33,083	21,003	415,365	-	-	1,306,192
Senior Executive Management								
Mr Peter McGettigan	421,003	50,000	1,814	21,003	-	8,252	-	502,072
Mr Anthony Mark Connors	294,568	50,000	1,814	21,003	-	5,505	-	372,890
Ms Jessica Buchanan (3)	304,662	-	1,052	14,970	28,536	-	-	349,220
Mr Damian Zammit (4)	134,612	-	-	12,788	-	-	-	147,400
Mr Matthew Marshall (5)	97,524	-	27,290	5,251	-	-	-	130,065
	2,023,295	400,000	65,053	118,265	443,901	13,757	-	3,064,271

Key Management Personnel were granted cash bonuses totalling $400,000 during the year ended 30 June 2020 upon successful completion of RFG's capital restructure. The bonuses were approved by the Board.

(1) Salary and fees include Short-term benefits as per Corporations Regulation 2M.3.03(1) Item 6 comprising of cash salary and annual leave entitlements.

(2) Other long-term benefits as per Corporations Regulation 2M.3.03(1) Item 8. The amounts disclosed in this column represent the movements in the associated long service leave provisions.

(3) Jessica Buchanan resigned as Non-Executive Director on 1 August 2019. On 1 December 2019 Jessica Buchanan was appointed as Head of Retail.

(4) On 1 December 2019 Damian Zammit was appointed as Head of Operations and as a result of this appointment, is now considered to be a KMP from this date.

(5) On 17 January 2020 Matthew Marshall was appointed as Head of Growth and as a result of this appointment, is now considered to be a KMP from this date.

Remuneration report (continued)

2. Remuneration of Directors and Senior Executive Management (continued)

FY19	Short-term Benefits			Long-term Benefits				
Name	Salary & fees [1]	Bonus	Other	Super-annuation	Performance Rights	Other [2]	Termination Benefits	Total
	$	$	$	$	$	$	$	$
Non-Executive Directors								
Ms Kerry Ryan	109,589	-	-	10,411	-	-	-	120,000
Mr David Grant [3]	90,868	-	-	8,632	-	-	-	99,500
Former								
Mr Colin Archer [4]	54,242	-	-	5,153	-	-	-	59,395
Mr Stephen Lonie [5]	47,699	-	-	4,531	-	-	-	52,230
Mr Russell Shields [6]	36,670	-	-	3,484	-	-	-	40,154
Ms Jessica Buchanan	109,589	-	-	10,411	-	-	-	120,000
Executive Director								
Mr Peter George [3]	324,598	-	1,163	15,399	-	-	-	341,160
Senior Executive Management								
Mr Peter McGettigan	429,469	-	1,800	20,531	6,687	7,360	-	465,847
Mr Anthony Mark Connors	289,469	-	1,800	20,531	3,912	4,897	-	320,609
Former								
Mr Richard Hinson [7]	272,616	-	762	10,266	-	-	297,500	581,144
Mr Darren Dench [8]	203,587	-	831	10,266	-	-	-	214,684
Mr Michael Gilbert [9]	90,815	-	367	5,133	-	-	-	96,315
	2,059,211	-	6,723	124,748	10,599	12,257	297,500	2,511,038

(1) Salary and fees include Short-term benefits as per Corporations Regulation 2M.3.03(1) Item 6 comprising of cash salary and annual leave entitlements.
(2) Other long-term benefits as per Corporations Regulation 2M.3.03(1) Item 8. The amounts disclosed in this column represent the movements in the associated long service leave provisions.
(3) Appointed on 25 September 2018.
(4) Resigned on 25 September 2018.
(5) Resigned on 25 October 2018.
(6) Resigned on 26 October 2018.
(7) Ceased employment on 3 December 2018.
(8) Ceased employment on 14 December 2018.
(9) Ceased employment on 12 September 2018.

Remuneration report (continued)

2. Remuneration of Directors and Senior Executive Management (continued)

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

	Fixed		Short-term Incentive		Long-term Incentive	
	FY20 %	FY19 %	FY20 %	FY19 %	FY20 %	FY19 %
Non-Executive Directors						
Ms Kerry Ryan	100.0	100.0	-	-	-	-
Mr David Grant	100.0	100.0	-	-	-	-
Former						
Ms Jessica Buchanan	100.0	100.0	-	-	-	-
Mr Colin Archer	-	100.0	-	-	-	-
Mr Stephen Lonie	-	100.0	-	-	-	-
Mr Russell Shields	-	100.0	-	-	-	-
Executive Director						
Mr Peter George	45.2	100.0	23.0	-	31.8	-
Senior Executive Management						
Mr Peter McGettigan	90.0	98.6	10.0	-	-	1.4
Mr Anthony Mark Connors	86.6	98.8	13.4	-	-	1.2
Ms Jessica Buchanan	91.8	-	-	-	8.2	-
Mr Damian Zammit (1)	100.0	-	-	-	-	-
Mr Matthew Marshall (2)	100.0	-	-	-	-	-
Former						
Mr Richard Hinson	-	100.0	-	-	-	-
Mr Darren Dench	-	100.0	-	-	-	-
Mr Michael Gilbert	-	100.0	-	-	-	-

(1) On 1 December 2019 Damian Zammit was appointed as Head of Operations and as a result of this appointment, is now considered to be a KMP from this date.

(2) On 17 January 2020 Matthew Marshall was appointed as Head of Growth and as a result of this appointment, is now considered to be a KMP from this date.

3. Key Management Personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY20	Balance 1 July 2019	Granted as Compensation	Received on Vesting of Rights	Net Other Change	Balance 30 June 2020	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Mr David Grant	-	-	-	550,000	550,000	-
Ms Kerry Ryan	10,000	-	-	200,000	210,000	-
Former						
Ms Jessica Buchanan (1)	11,628	-	-	(11,628)	-	-
Executive Director						
Mr Peter George	-	-	-	-	-	-
Senior Executive Management						
Mr Peter McGettigan	36,542	-	-	150,000	186,542	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Ms Jessica Buchanan (1)	-	-	-	11,628	11,628	-
Mr Damian Zammit (2)	-	-	-	-	-	-
Mr Matthew Marshall (3)	-	-	-	-	-	-
	253,737	-	-	900,000	1,153,737	-

(1) Resigned from the Board on 1 August 2019. Was appointed the position of Head of Retail effective 1 December 2019.

(2) On 1 December 2019 Damian Zammit was appointed as Head of Operations and as a result of this appointment, is now considered to be a KMP from this date.

(3) On 17 January 2020 Matthew Marshall was appointed as Head of Growth and as a result of this appointment, is now considered to be a KMP from this date.

Details of the Performance Rights Plan are contained in Note 24.

Remuneration report (continued)

3. Key Management Personnel equity holdings (continued)

FY19	Balance 1 July 2018	Granted as Compensation	Received on Vesting of Rights	Net Other Change	Balance 30 June 2019	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Mr David Grant	-	-	-	-	-	-
Ms Kerry Ryan	10,000	-	-	-	10,000	-
Former						
Mr Colin Archer (1)	391,084	-	-	(391,084)	-	-
Mr Stephen Lonie (1)	54,195	-	-	(54,195)	-	-
Ms Jessica Buchanan	11,628	-	-	-	11,628	-
Mr Russell Shields (1)	7,752	-	-	(7,752)	-	-
Executive Director						
Mr Peter George	-	-	-	-	-	-
Senior Executive Management						
Mr Peter McGettigan	36,542	-	-	-	36,542	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Former						
Mr Richard Hinson (2)	-	-	-	-	-	-
Mr Darren Dench (2)	-	-	-	-	-	-
Mr Michael Gilbert (2)	1,948	-	-	(1,948)	-	-
	708,716	-	-	(454,979)	253,737	-

(1) Individual was not a Director as at 30 June 2019.
(2) Individual was not a KMP as at 30 June 2019.

Remuneration report (continued)

4. Key terms of employment contracts

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. Non-Executive Director remuneration takes the form of a set fee plus superannuation entitlements and may comprise other benefits or rewards in certain circumstances. (3)

Annualised fees for the Non-executive Directors were as follows:

Role	FY20	FY19
Chairman (1)	-	$210,000
Non-executive Director (2)	$110,000	$110,000
Audit & Risk Management Committee Chairman	$20,000	$20,000
Nomination & Remuneration Committee Chairman (2)	$17,500	-
Committee Member*	$10,000	$10,000

* Excluding the Chairman or Committee Chairman (as case may be).

(1) Non-executive Chairman fees were paid up until 7 November 2018, after which Mr George was remunerated as an Executive.

(2) On 3 October 2019, the Board resolved to reinstate the fees due to the Chair of the Nominations & Remuneration Committee following recapitalisation of the Company.

(3) On 26 March 2020, the Board resolved to temporarily reduce Director fees by 20% in response to COVID-19.

As noted above, in light of the emergence of COVID-19 and its impact on the Group, its franchisees and customers, the Non-Executive Directors and Executive Chairman elected to take a 20% temporary reduction in base remuneration effective from 26 March 2020. That reduction continues to apply as at the date of this report and, whilst non-executive Directors have elected to maintain this initiative until further notice, normal remuneration levels for the Executive Chairman will be reinstated effective 31 August 2020 in recognition of the additional workload associated with navigating the Company's path during these uncertain times.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. The maximum amount which has been approved by the Company's shareholders for payment to Non-Executive Directors is $1.1 million. Fees for Non-Executive Directors are not linked to the performance of the Group.

Remuneration report (continued)

4. Key terms of employment contracts (continued)

To align Non-Executive Directors' interests with shareholder interests, the Non-Executive Directors are (subject to legal and policy constraints) encouraged to hold shares in the Company.

The employment specifics of the key Executive Directors and Senior Executive Management are as follows:

Name	Particulars
Mr Peter George	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of six (6) months' notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months' notice or payment of equivalent salary of the required notice in lieu.
Mr Peter McGettigan	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of six (6) months' notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months' notice or payment of equivalent salary of the required notice in lieu.
Mr Anthony Mark Connors	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of six (6) months' notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months' notice or payment of equivalent salary of the required notice in lieu.
Ms Jessica Buchanan	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of six (6) months' notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months' notice or payment of equivalent salary of the required notice in lieu.
Mr Damian Zammit	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of one (1) month's notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least one (1) month's notice or payment of equivalent salary of the required notice in lieu.
Mr Matthew Marshall	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months' notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least three (3) months' notice or payment of equivalent salary of the required notice in lieu.

The Directors consider that the compensation for each Executive is appropriate for the duties allocated to them, the size of the Group's business and the industries in which the Group operates. The service contracts outline the components of compensation paid to the Executives, including Executive Directors. Compensation levels are generally reviewed each year to take into account cost-of-living changes, any changes in the scope of the role performed by the Executive and any changes required to meet the principles of the Remuneration Policy.

5. Loans to Key Management Personnel

There were no loans outstanding at the end of the financial year (FY19: $nil) to Directors or Senior Executive Management or their related parties.

6. Other transactions with Key Management Personnel and the Directors of the Group

Profit for the year includes the following items of expense that resulted from transactions, other than compensation, loans or equity holdings, with Key Management Personnel or their related entities:

Consolidated	FY20 $	FY19 $
Consolidated loss includes the following expenses arising from transactions with key management personnel of the Group or their related parties:		
Consulting services	277,971	296,000
	277,971	296,000

During FY20, the Group engaged the services of marketing consulting firm, Brands R People 2 Pty Ltd, being related parties of Ms Jessica Buchanan. $261,676 was billed to the Group during FY20 (FY19: $296,000) and there was no balance payable as at 30 June 2020 (FY19: $44,000).

During FY20, the Group engaged the services of production agency, Light up Gold Pty Ltd, being related parties of Mr Peter George. $16,295 was billed to the Group during FY20 (FY19: nil) and there was no balance payable as at 30 June 2020 (FY19: nil).

DIRECTORS' REPORT

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

RETAIL FOOD GROUP LIMITED

Mr Peter George
Executive Chairman

Robina
28 August 2020

Auditor's Independence Declaration

As lead auditor for the audit of Retail Food Group Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
28 August 2020

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

Consolidated	Notes	FY20 $'000	Restated [1] FY19 $'000
Continuing operations			
Revenue from contracts with customers	2	224,774	266,886
Cost of sales	5	(124,137)	(136,241)
Gross profit		100,637	130,645
Other revenue	2	11,618	4,473
Other gains and losses	5	66,609	(1,203)
Selling expenses		(1,423)	(3,437)
Marketing expenses		(12,079)	(19,664)
Occupancy expenses		(9,058)	(14,781)
Administration expenses		(36,420)	(37,507)
Operating expenses		(29,321)	(40,227)
Finance costs	3	(9,188)	(19,654)
Other expenses	5	(65,671)	(111,717)
Profit/(loss) before income tax		15,704	(113,072)
Income tax (expense)/benefit	4	(1,423)	19,697
Profit/(loss) for the year from continuing operations	5	14,281	(93,375)
Loss from discontinued operations	28	(18,271)	(49,162)
Loss for the year		(3,990)	(142,537)
Other comprehensive (loss)/income, net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations	21	(233)	363
Changes in the fair value of cashflow hedges	21	-	(129)
Income tax relating to these items	21	-	39
Other comprehensive loss for the year, net of tax		(233)	273
Total comprehensive loss for the year		(4,223)	(142,264)
Total comprehensive loss is attributable to:			
Equity holders of the parent		(4,223)	(142,264)
Earnings per share			
From continuing operations:			
Basic (cents per share)	6	1.1	(51.1)
Diluted (cents per share)	6	1.1	(51.1)
Total:			
Basic (cents per share)	6	(0.3)	(78.0)
Diluted (cents per share)	6	(0.3)	(78.0)

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

(1) Refer to Note 34.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

Consolidated	Notes	FY20 $'000	Restated FY19 $'000
Current assets			
Cash and cash equivalents	7	40,248	12,317
Trade and other receivables	8	20,084	15,395
Finance lease receivables	14	28,348	-
Other financial assets	9	2,523	2,371
Inventories	10	10,951	6,878
Current tax assets	4	26	194
Other	11	9,064	5,042
Assets classified as held for sale	12	-	65,524
Total current assets		111,244	107,721
Non-current assets			
Trade and other receivables	8	22	21
Finance lease receivables	14	52,040	-
Other financial assets	9	1,534	2,317
Property, plant and equipment	13	39,045	23,101
Intangible assets	15	238,088	256,188
Deferred tax assets	4	81,960	55,874
Other	11	39	-
Total non-current assets		412,728	337,501
Total assets		523,972	445,222
Current liabilities			
Trade and other payables	16	43,806	14,666
Borrowings	19	8,482	264,056
Lease liabilities	14	43,003	-
Provisions	17	16,274	16,398
Derivative financial instruments	25	1,892	3,063
Unearned income	18.1	6,190	10,580
Other	18.2	608	502
Liabilities classified as held for sale	12	-	53,646
Total current liabilities		120,255	362,911
Non-current liabilities			
Trade and other payables	16	-	302
Borrowings	19	45,127	25
Lease liabilities	14	81,052	-
Deferred tax liabilities	4	81,960	55,874
Provisions	17	3,982	11,927
Unearned income	18.1	15,423	20,603
Other	18.2	88	86
Total non-current liabilities		227,632	88,817
Total liabilities		347,887	451,728
Net assets/(liabilities)		176,085	(6,506)
Equity			
Issued capital	20	614,935	428,640
Reserves	21	6,863	5,105
Retained earnings	22	(445,713)	(440,251)
Total equity		176,085	(6,506)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

Consolidated		Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
		$'000	$'000	$'000	$'000
Balance as at 1 July 2018 (Reported)		428,640	9	(296,457)	132,192
Impact of restatement [(1)]		-	-	2,438	2,438
Balance as at 1 July 2018 (Restated)		428,640	9	(294,019)	134,630
Loss for the year (restated) [(1)]		-	-	(142,537)	(142,537)
Transfer of opening balance of marketing fund surplus to reserves		-	3,663	(3,663)	-
Transfer from retained earnings to marketing fund reserve		-	32	(32)	-
Other comprehensive income		-	273	-	273
Total comprehensive (loss)/income		-	3,968	(146,232)	(142,264)
De-recognition of hedging reserve		-	1,135	-	1,135
Recognition of share-based payments		-	(7)	-	(7)
Balance at 30 June 2019 (Restated)		428,640	5,105	(440,251)	(6,506)
Balance at 1 July 2019 (Restated)		428,640	5,105	(440,251)	(6,506)
Transfer from equity-settled employee benefits reserves	21, 22	-	(60)	60	-
Loss for the year	22	-	-	(3,990)	(3,990)
Transfer from retained earnings to marketing fund reserve	21, 22	-	1,607	(1,607)	-
Other comprehensive loss	21	-	(233)	-	(233)
Total comprehensive (loss)/income		-	1,314	(5,537)	(4,223)
Opening adjustment for adoption of AASB 16		-	-	75	75
Issue of ordinary shares	20	193,525	-	-	193,525
Share issue costs	20	(10,328)	-	-	(10,328)
Recognition of share-based payments	21	-	444	-	444
Related income tax	20	3,098	-	-	3,098
Balance at 30 June 2020		614,935	6,863	(445,713)	176,085

(1) Refer to Note 34.

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

Consolidated	Notes	FY20 $'000	FY19 $'000
Cash flows from operating activities			
Receipts from customers		319,564	468,043
Payments to suppliers and employees		(314,091)	(465,920)
Interest and other costs of finance paid		(9,417)	(17,903)
Income taxes received		-	7,290
Net cash used in operating activities	7	(3,944)	(8,490)
Cash flows from investing activities			
Interest received		116	383
Repayment of advances to other entities		782	1,868
Amounts advanced to other entities		-	(47)
Disposal of discontinued operations		1,475	-
Payments for property, plant and equipment		(1,681)	(3,037)
Proceeds from sale of property, plant and equipment		31	9,095
Payments for intangible assets		(286)	(711)
Payments for business (net of cash acquired)		(600)	(250)
Net cash provided by investing activities		(163)	7,301
Cash flows from financing activities			
Proceeds from issue of equity securities		193,525	-
Share issue costs		(11,771)	-
Lease payments		(10,201)	-
Proceeds from borrowings		5,012	5,489
Repayment of borrowings		(142,775)	(10,016)
Debt issue costs		(2,698)	-
Net cash provided/(used in) by financing activities		31,092	(4,527)
Net increase/(decrease) in cash and cash equivalents		26,993	(5,776)
Effects of exchange rate changes on cash and cash equivalents		(8)	60
Cash and cash equivalents at the beginning of the year		13,263	18,979
Cash and cash equivalents at end of year	7	40,248	13,263

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

NOTES TO THE FINANCIAL STATEMENTS

Contents of the notes to the financial statements

Significant changes in the reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

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). 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 30 June 2020.

A gain on debt forgiveness of $71.8 million has been recognised in the Group's statutory profit before tax for FY20. 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.

Sale of discontinued operations

The disposal of procurement, warehousing and distribution businesses under Hudson Pacific Food Service and Associated Food Service trading names was completed on 3 January 2020. Refer note 28.1.

Discontinued operations

The financial results of businesses reclassified as discontinued operations are excluded from the results of the continuing operations and are presented as a single line item in the consolidated statement of profit or loss and other comprehensive income.

The consolidated statement of profit or loss and other comprehensive income for the comparative period is also restated to exclude the results of the Dairy Country business from discontinued operations.

In FY19 the Group had classified the entire manufacturing and distribution division as discontinued operations, which included businesses under the Hudson Pacific Food Service (HPC), Dairy Country, Bakery Fresh and Associated Food Service (AFS) trading names. The Bakery Fresh business was closed in May 2019. Subsequent to the end of FY19, the Company determined the Dairy Country business would be retained in the near term as a continuing operation. Accordingly, the Dairy Country business is classified within continuing operations in the FY20 financial statements. In addition, the comparative financial information has been restated to include Dairy Country as a continuing operation in FY19.

Significant changes in the reporting period (continued)

Impact of coronavirus (COVID-19)

The COVID-19 pandemic and the measures undertaken to contain it have materially changed the global economic outlook, causing large-scale economic disruption in all markets the Group operates in. The economic disruption is expected to lead to rising levels of unemployment, and elevated levels of credit losses from business insolvencies and ongoing disruption to trading conditions. In an attempt to mitigate the economic effect of the COVID-19 pandemic, governments, regulators and central banks have offered significant fiscal and regulatory support to allow businesses to remain liquid and solvent, and to support employees and the unemployed. The extent to which these efforts will reduce the adverse financial effects of the COVID-19 pandemic remains uncertain.

The Group has carefully considered the impact of COVID-19 and ongoing restructuring activity in preparing its financial statements for the year ended 30 June 2020. The key impacts on the financial statements, including the application of critical estimates and judgements, are as follows:

Receivables and other financial assets

The Group has applied the simplified approach to measuring expected credit losses within AASB 9 which uses a lifetime expected loss allowance for all trade and other receivables and has assessed the impact of COVID-19 on the recognition of expected credit losses. In addition, the Group has introduced a number of support measures for franchisees and customers impacted by COVID-19, which include vendor loan and payment plan repayment deferrals to impacted franchise partners.

The Group has recognised a provision for credit losses against > 98% of receivables and other financial assets that are + 30 days past due. Refer to Notes 8 and 9.

Assessment of impairment of non-financial assets

The Group tested goodwill and indefinite life intangible assets for impairment, updating the assumptions, and cash flow forecasts, where relevant, to reflect the potential impact of COVID-19, including referring to Deloitte Access Economics long-term forecasts for the markets in which the Group operates. Impairment losses of $24.7 million before tax were recognised for the year on certain indefinite life intangible assets and goodwill. Refer to Note 15.

The Group assessed right-of-use assets and lease receivable assets for indicators of impairment. The ongoing lease portfolio review and rationalisation program, and additionally the severe disruption to the retail food and beverage sector caused by Government imposed COVID-19 restrictions, were deemed indicators of impairment, and therefore required lease related assets held by the Group attributable to back-to-back leasing arrangements with franchise partners to be tested for impairment. A total impairment loss of $5.8 million was recognised with respect to these assets, where the leases were close to expiry, or where the franchised outlets were considered a risk of becoming non-viable due to current trading performance and the uncertain duration of COVID-19. Refer to Notes 13 and 14.

The Group assessed property, plant and equipment, for indicators of impairment. The Group has undertaken significant restructuring activities in FY20, including downsizing corporate facilities and operations, and restructuring the wholesale coffee division. Redundant corporate and manufacturing facilities have been exited or identified for closure in future periods. Severe disruption to the retail food and beverage sector caused by Government imposed restrictions was deemed an indicator of impairment, and therefore required lease related assets held by the Group attributable to back-to-back leasing arrangements with franchise partners to be tested for impairment. An amount of $6.2 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. Refer to Note 13.

Provisions for costs

The Group has considered the impact of COVID-19 and its restructuring activity, and recognised provisions for the $10.6 million in onerous contracts, restructuring and franchisee support costs, and $3.8 million on inventories. Refer to Note 5.

Restatement of prior periods

The Group has restated the Group's performance and financial position for prior periods as a result of retaining the Dairy Country business as a continuing operation, and reassessment of accounting for adoption of AASB 15 *Revenue from contracts with customers*. Refer to Note 34.

Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. The Group has a net current liability position of $9.0 million at 30 June 2020, which is due to the implementation of AASB 16, which has increased the net current liability position at 30 June 2020 by $14.6 million. Refer to notes 14 and 35.1 (g), which outline the impact AASB 16 has had on adoption, and the financial position at 30 June 2020.

As reported at 30 June 2020, the Group had $33.9 million in unrestricted cash and senior debt and borrowings of $54.8 million, resulting in a sustainable net debt position of $20.8 million. RFG's capital restructure, completed in December 2019, has provided the Group with a sustainable debt facility, and established a liquidity buffer that has facilitated business stability together with additional scope and capacity to both execute on operational imperatives and to respond to the unique set of challenges that subsequently arose during the 2H20, whilst remaining compliant with all lending covenants for at least 12 months from the date of this report. The directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business.

Significant changes in the reporting period (continued)

Events subsequent to reporting date

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In accordance with AASB 110 Events after the Reporting Date, the Group considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lockdowns implemented across Victoria, the closure of state borders, and the extension of further government support measures. The Group did not identify any subsequent events arising from COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the fluid nature of the current situation, the Group will continue to regularly review forward looking assumptions and forecast economic scenarios.

For a detailed discussion about the Group's performance and financial position please refer to our FY20 Results on pages 7 to 13.

Results for the year

1. Segment information

1.1 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 & Distribution (incorporating procurement, warehousing, manufacturing and distribution operations).

1.2 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 segment note. 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 1.3.

Segment EBITDA

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

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

The procurement, warehousing and distribution businesses operated under HPC and AFS have been classified as discontinued operations in these financial statements on the basis those businesses are deemed non-core to the Group, and disposal of them was completed on 3 January 2020.

In the financial year ending 30 June 2019, the Group had classified the entire manufacturing and distribution division as discontinued operations, which included businesses under the Hudson Pacific Food Service (HPC), Dairy Country, Bakery Fresh and Associated Food Service (AFS) trading names. The Bakery Fresh business was closed in May 2019. Subsequent to the end of FY19, the Company determined the Dairy Country business would be retained in the near term as a continuing operation. Accordingly, the Dairy Country business is classified within continuing operations in the FY20 financial statements. In addition, the comparative financial information has been restated to include Dairy Country as a continuing operation in FY19.

NOTES TO THE FINANCIAL STATEMENTS

1. Segment information (continued)

1.3 Segment revenue

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

Segment	Bakery Cafe		QSR Systems		Coffee Retail Systems		Di Bella Coffee		Manufacturing and Distribution		Discontinued Operations [3]		Total Continuing Operations	
	FY20 $'000	FY19 $'000	FY20 $'000	FY19 $'000	FY20 $'000	FY19 $'000	FY20 $'000	FY19 $'000	FY20 $'000	FY19 $'000	FY20 $'000	FY19 $'000	FY20 $'000	(Restated) FY19 $'000
External revenue	28,381	42,372	14,891	19,020	45,259	58,593	22,888	35,805	120,861	165,814	(28,280)	(77,675)	204,000	243,929
Impact of AASB 15	3,732	1,438	1,415	1,607	3,639	2,855	104	72	-	-	-	-	8,890	5,972
Impact of AASB 16 adoption [5]	4,669	-	(195)	-	2,793	-	1	-	2	-	723	-	7,993	-
External revenue - Marketing Funds	6,094	8,487	5,345	5,741	2,118	3,021	-	-	-	-	-	-	13,557	17,249
External revenue – Corporate stores	664	1,896	65	142	1,121	2,171	102	-	-	-	-	-	1,952	4,209
Inter-segment revenue	42	206	-	-	175	154	(102)	-	-	-	-		115	360
Segment revenue [1]	43,582	54,399	21,521	26,510	55,105	66,794	22,993	35,877	120,863	165,814	(27,557)	(77,675)	236,507	271,719
Operating EBITDA	12,762	19,386	7,232	9,809	9,557	12,633	2,121	3,428	3,870	(1,231)	-	4,733	35,542	48,758
Impact of AASB 15	3,732	1,438	1,415	1,607	3,639	2,855	104	72	-	-	-	-	8,890	5,972
Impact of AASB 16 adoption [4]	(15)	-	251	-	1,151	-	1,268	-	4,082	-	(3,415)	-	3,322	-
Underlying Segment EBITDA [2]	16,479	20,824	8,898	11,416	14,347	15,488	3,493	3,500	7,952	(1,231)	(3,415)	4,733	47,754	54,730
Marketing Funds EBITDA													1,837	246
Business restructuring costs													(26,912)	(27,256)
Impairment & provisions													(48,340)	(108,210)
Gain on debt forgiveness													71,754	-
Depreciation & amortisation													(21,201)	(12,928)
Finance costs													(9,188)	(19,654)
Profit/(loss) before tax from continuing operations													15,704	(113,072)
Income tax (expense)/benefit													(1,423)	19,697
Profit/(loss) after tax for the year from continuing operations													14,281	(93,375)

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

	FY20 $'000	FY19 $'000
Revenue for the year – Statutory	236,392	271,359
Inter-segment revenue: eliminated on consolidation	115	360
Total segment revenue	236,507	271,719

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

	FY20 $'000	FY19 $'000
Continuing operations	47,754	54,730
Discontinuing operations	3,415	(4,733)
Total segment EBITDA	51,169	49,997

(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 all expenses associated with the adoptions of AASB 16. During FY20, EBITDA was monitored on a pre and post AASB 16 basis.

(5) Refer to note 35.1(g).

1. Segment information (continued)

1.4 Geographical information

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

2. Revenue and other revenue

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

Consolidated	FY20 $'000	Restated FY19 $'000
Revenue from the sale of goods	157,780	186,139
Revenue from franchise agreements	61,660	71,347
Revenue from the sale of distribution rights	5,334	9,400
	224,774	266,886
Other revenue	11,618	4,473
	236,392	271,359

The Group's primary revenue streams include revenue from the sales of goods, revenue from the sale of franchise agreements and revenue from the sale of distribution rights across the following operating divisions:

FY20	Bakery/Cafe	QSR	Coffee Retail	Di Bella Coffee	Manufacturing & Distribution	Discontinued Operations	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from the sale of goods	9,516	3,166	30,531	22,106	120,769	(28,308)	157,780
Revenue from the sale of franchise agreements	26,090	15,839	19,732	(1)	-	-	61,660
Revenue from the sale of distribution rights	3,386	1,154	446	331	(11)	28	5,334
Other revenue	4,548	1,362	4,221	659	105	723	11,618
TOTAL	43,540	21,521	54,930	23,095	120,863	(27,557)	236,392

Assets and liabilities related to contracts with customers
The Group has recognised trade receivables, against which an allowance for impairment has been recognised. Further information can be found in note 8.1 and note 5.

The Group has recognised unearned income in relation to contracts with customers arising from initial fees on entering into franchise and master franchise agreements. Further information can be found in note 18.1.

Significant changes in relation to contract liabilities
Unearned revenue has decreased during the year as a result of the reduction in highly probable amounts expected to be received. Refer to note 18.1 for further information.

Revenue recognised in relation to contract liabilities
Revenue in the current period includes $8.9 million in relation to amounts that were included in the unearned income balance at the beginning of the period or entered into during the year.

Unsatisfied performance obligations
The aggregate amount of the transaction price allocated to initial fees (for which revenue is deferred) is $21.6 million (2019: $31.2 million).

Management expects that $6.2 million of the transaction price allocated to unsatisfied performance obligations as of 30 June 2020 will be recognised as revenue during the next reporting period. The remaining amounts will be recognised from 2022 onwards.

Significant judgements
In determining unearned revenue, the Group makes an assessment of amounts that are highly probable to be received under each revenue contract that the Group is party to. The highly probable amount under contracts may change in the future as individual contract circumstances change.

3. Finance costs

Consolidated	FY20 $'000	Restated FY19 $'000
Finance lease interest	7,165	101
Bank interest	7,901	16,009
Interest expense from continuing operations	15,066	16,110
Finance lease interest income	(5,114)	-
Other finance costs [(1)]	(764)	3,544
Finance costs from continuing operations	9,188	19,654

(1) Other finance costs include (gain)/loss on valuation of derivative financial instruments ($1.2 million) (FY19: $2.9 million).

4. Income taxes

4.1 Income tax recognised in profit or loss

Consolidated	FY20 $'000	FY19 $'000
Current tax:		
In respect of prior year	311	298
	311	298
Deferred tax:		
In respect of the current year	1,112	(19,995)
	1,112	(19,995)
Total Income tax expense/(benefit) recognised in the current year relating to continuing operations	1,423	(19,697)

4. Income taxes (continued)

4.1 Income tax recognised in profit or loss (continued)

The income tax expense/(benefit) for the year can be reconciled to the accounting profit/(loss) as follows:

Consolidated	FY20 $'000	Restated FY19 $'000
Profit/(loss) from continuing operations before income tax expense/(benefit)	15,704	(113,072)
Income tax expense/(benefit) calculated at 30% (FY19: 30%)	4,711	(33,922)
Effect of:		
Expenses that are not deductible in determining taxable (loss)	(28)	72
Non-deductible impairment of goodwill	810	17,186
Loan forgiveness - syndicated lenders, not assessable [1]	(21,526)	-
Reduction in brought forward losses associated with loan forgiveness [1]	21,526	-
Capital loss on disposal	-	2,600
Capital loss on loan forgiveness with New Zealand subsidiary [2]	4,356	-
Non-assessable gain associated with New Zealand entity loan forgiveness [2]	(4,404)	-
Non-assessable income	(667)	(64)
Tax adjustments in respect of prior year	311	298
Tax adjustments in respect of prior periods - deferred tax	-	(3,546)
De-recognition of carried forward tax losses	3,854	5,342
Tax losses attributable to discontinued operations	(7,569)	(7,613)
Other	49	(50)
Income tax expense/(benefit) recognised in profit or loss (relating to continuing operations)	1,423	(19,697)

(1) Under Australian tax legislation the gain of the loan forgiveness by the syndicated lenders is non-assessable, however any carry-forward tax losses available to the Group are forfeited to the extent of the gain.

(2) These adjustments relate to a loss sustained by the Australian consolidated tax group on forgiveness of a loan to a New Zealand subsidiary offset by a non-assessable gain for tax purposes on the inter-company debt forgiveness under New Zealand tax laws.

The tax rate used for the FY20 reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

4.2 Income tax recognised directly in equity

Consolidated	Notes	FY20 $'000	FY19 $'000
Hedging		-	(486)
Share issue costs	20	3,098	-
Total income tax recognised directly in equity		3,098	(486)

4.3 Current tax assets

Consolidated	FY20 $'000	FY19 $'000
Current tax assets	26	194

4. Income taxes (continued)

4.4 Deferred tax balances

Consolidated FY20	Opening balance	Impact of transition to AASB 16 at 1 July 2019	Recognised in profit or loss	Reinstate Assets Held for Sale (Sold during Year)	Recognised directly in equity	Closing balance
	$'000	$'000	$'000	$'000	$'000	$'000
Temporary differences						
Intangible assets	(55,772)	-	7,286	(2,676)	-	(51,162)
Unrealised exchange differences	(101)	-	424	-	-	323
Leases - ROU asset	-	(11,416)	4,410	-	-	(7,006)
Leases - receivable	-	(32,152)	8,035	-	-	(24,117)
Leases - liability	-	49,022	(11,806)	-	-	37,216
Fixed assets	1,315	-	245	380	-	1,940
Employee benefits	708	-	(133)	442	-	1,017
Provisions	8,395	(5,487)	1,847	1,118	-	5,873
Doubtful debts	12,373	-	(8,837)	1,722	-	5,258
Unearned income	9,253	-	(2,769)	-	-	6,484
Share issue costs	154	-	(684)	-	3,098	2,568
Other	1,728	-	951	45	-	2,724
	(21,947)	(33)	(1,031)	1,031	3,098	(18,882)
Unused tax losses and credits						
Tax losses/(credits) [1]	21,947	-	(3,065)	-	-	18,882
	21,947	-	(3,065)	-	-	18,882
	-	(33)	(4,096)	1,031	3,098	-

(1) **Unused tax losses reconciliation**

	Unused tax losses	Tax benefit at 30%
	$'000	$'000
Balance at 1 July 2019 - recognised	73,156	21,947
Balance at 1 July 2019 - unrecognised	8,648	2,594
Reduction in brought forward losses associated with debt forgiveness	(71,753)	(21,526)
Losses generated in the year ended 30 June 2020	74,450	22,335
Total unused losses at 30 June 2020	84,501	25,350
Balance at 30 June 2020 - recognised	62,941	18,882
Balance at 30 June 2020 - unrecognised	21,560	6,468

(1) At 30 June 2019, the Group had unused tax losses for which no deferred tax asset had been recognised in the amount of $8.6 million (FY18: nil). The tax benefit of these tax losses at the corporate tax rate of 30%, equates to $2.6 million. 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 7.6).

During the year to 30 June 2020, the Group generated further tax losses of $74.5 million. At 30 June 2020, the Group has unused tax losses for which no deferred tax asset has been recognised in the amount of $21.6 million. The potential tax benefit of these tax losses at the corporate tax rate of 30% equates to $6.5 million. These tax losses can be carried forward indefinitely until such time as the Group generates taxable profits against which these losses can be offset.

4. Income taxes (continued)

4.4 Deferred tax balances (continued)

Consolidated FY19	Opening balance (restated)	Impact of transition to AASB 15 at 1 July 2018 (restated)	Recognised in profit or loss	Reclass to held for sale	Recognise directly in equity	Closing balance (restated)
	$'000	$'000	$'000	$'000	$'000	$'000
Temporary differences						
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	-	11,067	(2,863)	-	-	8,204
Share issue costs	317	-	(163)	-	-	154
Other	706	(34)	1,587	(45)	(486)	1,728
	(37,790)	11,033	6,327	(1,031)	(486)	(21,947)
Unused tax losses and credits						
Tax losses/(credits)	5,858	-	16,089	-	-	21,947
	5,858	-	16,089	-	-	21,947
	(31,932)	11,033	22,416	(1,031)	(486)	-

4. Income taxes (continued)

4.4 Deferred tax balances (continued)

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

Consolidated	FY20 $'000	Restated FY19 $'000
Deferred tax assets	81,960	55,874
Deferred tax liabilities	(81,960)	(55,874)
	-	-

4.5 Tax consolidation

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The head entity within the tax-consolidated group is Retail Food Group Limited. Tax benefit/expense, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand-alone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets, and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company, as head entity in the tax-consolidation group.

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

Nature of tax funding arrangements and tax sharing arrangements

Entities within the tax-consolidated group have entered into both a tax funding agreement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Retail Food Group Limited and each of the entities in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. No amounts have been recognised in the financial statements in respect of this agreement and payment of any such amounts under the tax sharing agreement is considered remote.

4.6 Uncertain Tax Position

The Australian Taxation Office (ATO) has conducted a review of the Group's consolidated tax returns for the financial years 2015 to 2018. An alternate view has been taken by the ATO with respect to the deductibility of lease surrender payments claimed by the Group in those years. The Group and it's advisors have submitted a legal position paper supporting the Group's view which is currently being considered by the ATO. Certainty around this tax position is expected within the 2021 financial year.

5. Loss for the year from continuing operations

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

Consolidated	FY20 $'000	Restated FY19 $'000
Cost of sales	124,137	136,241
Gain on debt forgiveness [2]	(71,754)	-
Gain on lease termination [2]	(1,677)	-
Loss on disposal of assets [2]	6,822	1,188
Change in fair value of derivative financial instruments	(1,250)	2,938
Inventory related write-downs and provisioning [1]	1,766	944
Impairment loss on trade and vendor finance receivables [1]	5,027	15,325
Write-down of property, plant and equipment to fair value less costs to sell [1]	10,613	-
Impairment loss on intangible assets [1]	24,700	-
Provision for finance lease receivables and make good obligations [4]	(355)	9,538
Business restructuring costs [3]	26,461	18,053
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment [1]	19,498	11,051
Amortisation - other [1]	1,703	1,877
Total depreciation and amortisation expense	21,201	12,928
Employee benefits expenses:		
Equity settled share based payments	444	-
Government wage subsidies	(2,112)	-
Post-employment benefits (defined contribution plans)	3,165	4,220
Other employee benefits (wages and salaries)	50,321	61,277
Total employee benefits expense	51,818	65,497

(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 within operating expenses, administration expenses and occupancy expenses dependent on the nature of the underlying transaction.
(4) Amount is included in other expenses and occupancy expenses in the consolidated statement and other comprehensive income.

6. Earnings per share

Consolidated	FY20 $'000	Restated FY19 $'000
Basic earnings per share		
From continuing operations	1.1	(51.1)
From discontinued operations	(1.4)	(26.9)
Basic (cents per share)	(0.3)	(78.0)
Diluted earnings per share (1)		
From continuing operations	1.1	(51.1)
From discontinued operations	(1.4)	(26.9)
Diluted (cents per share)	(0.3)	(78.0)

(1) Diluted EPS has been determined to be the same as basic EPS and on the basis that potential ordinary shares cannot be anti-dilutive.

6.2 Basic earnings per share

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

Consolidated	FY20 $'000	Restated FY19 $'000
Profit/(loss) for the year		
From continuing operations	14,281	(93,375)
From discontinued operations	(18,271)	(49,162)
Earnings used in the calculation of basic EPS from continuing and discontinued operations	(3,990)	(142,537)

Consolidated	2020 No. '000	2019 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	1,325,778	182,745

Calculation of weighted average number of fully paid ordinary shares		Fully paid ordinary shares issued	Weighted shares(1)
FY20	Date of issue	No. '000	No '000
Balance at beginning of period		182,745	182,745
Issue of ordinary shares - Placement	26 November 2019	1,700,000	1,007,923
Issue of ordinary shares - SPP	2 December 2019	188,435	108,633
Issue of ordinary shares – top-up placement	6 December 2019	46,815	26,477
Total		2,117,995	1,325,778

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

6. Earnings per share (continued)

6.3 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	FY20 $'000	Restated FY19 $'000
Profit/(loss) for the year		
From continuing operations	14,281	(93,375)
From discontinued operations	(18,271)	(49,162)
Earnings used in the calculation of diluted EPS from continuing and discontinued operations	(3,990)	(142,537)

Consolidated	2020 No. '000	2019 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS [1]	1,325,778	182,745
Adjustments for calculation of diluted EPS – Performance rights	2,626	-
Weighted average number of ordinary shares for the purpose of diluted EPS	1,328,404	182,745

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

Operations

Assets and liabilities

7. Cash and cash equivalents

7.1 Reconciliation to Consolidated Statement of Cash Flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting year as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

Consolidated	FY20 $'000	FY19 $'000
Cash and bank balances	40,248	12,317
Cash and bank balances included in disposal group held for sale	-	946
	40,248	13,263
Less: Restricted cash	(6,326)	(5,440)
	33,922	7,823

7.2 Restricted cash

Restricted cash relates to cash reserved for marketing specific pursuits and unclaimed dividends.

7.3 Financing facilities

At 30 June 2020, the Group had unused facilities as detailed in the following table. Further details can be found in Notes 19 and 25.

Consolidated	FY20 $'000	FY19 $'000
Secured bank loan facility:		
Amount used (before deducting debt issue costs)	53,279	262,754
Amount unused	-	5,100
	53,279	267,854
Secured ancillary bank facilities (guarantees):		
Amount used	2,897	2,824
Amount unused	1,103	1,176
	4,000	4,000
Secured ancillary bank facilities (asset finance):		
Amount used	-	64
Amount unused	-	2,436
	-	2,500
Secured ancillary bank facilities (other):		
Amount used	-	-
Amount unused	1,000	2,000
	1,000	2,000
Other finance facilities:		
Amount used	-	1,488
Amount unused	-	-
	-	1,488

7. Cash and cash equivalents (continued)

7.4 Reconciliation of loss for the year to net cash flows from operating activities

Consolidated	FY20 $'000	Restated FY19 $'000
Loss for the year	(3,990)	(142,537)
Depreciation of non-current assets	20,602	13,051
Amortisation	1,703	1,877
Impairment loss on loans carried at amortised cost	(669)	7,590
Write-down inventory to net realisable value	3,052	1,365
Write-down of property, plant and equipment	13,647	12,032
Impairment loss on intangible assets	24,700	98,710
Impairment loss on other assets	-	982
Non-cash employee benefits expense share based payments	444	(7)
Net foreign exchange gain	(92)	57
Interest income	(5,233)	(384)
Non-cash operating lease income	(7,270)	-
(Gain)/Loss on disposal of PPE	6,949	297
Other	(330)	(136)
Non cash interest expense	7,263	1,718
Debt forgiveness	(71,754)	-
Contingent consideration deemed remuneration	600	494
Increase/(decrease) in Current tax liability	168	7,144
Increase/(decrease) in Deferred tax balances	4,098	(22,135)
Movements in working capital:		
(Increase)/decrease in Trade and other receivables	14,711	18,927
(Increase)/decrease in Inventories	1,590	11,122
(Increase)/decrease in Other assets	1,780	1,497
Increase/(decrease) in Trade and other payables	(10,520)	(7,782)
Increase/(decrease) in Provisions	5,463	1,396
Increase/(decrease) in Other liabilities	(10,856)	(13,768)
Net cash generated by operating activities	(3,944)	(8,490)

7.5 Non-cash investing and financing activities

Acquisition of property, plant and equipment by means of finance leases was nil (FY19: nil).

7.6 Debt reconciliation

Changes in liabilities for which cash flows are classified as financing activities in the statement of cash flows:

Consolidated	Current bank loans $'000	Current borrowing costs $'000	Non-current bank loans $'000	Non-current borrowing costs $'000	Leases $'000
Balance at 1 July 2019	264,242	(207)	-	-	-
Adoption of AASB 16 Leases	-	-	-	-	163,406
Repayment of borrowings	(120,553)	-	(22,221)	-	(47,524)
Proceeds from borrowings	5,012	-	68,000	-	-
Debt forgiveness	(71,754)	-	-	-	-
Debt issue costs	-	(743)	-	(652)	-
Amortisation of deferred borrowing costs	-	485	-	-	-
Reclassification of debt	(68,000)	-	-	-	-
Lease liability additions	-	-	-	-	15,710
Lease liability terminations	-	-	-	-	(7,537)
Balance at 30 June 2020	8,947	(465)	45,779	(652)	124,055

8. Trade and other receivables

8.1 Trade receivables

Consolidated	FY20 $'000	FY19 $'000
Current		
Trade receivables	28,866	33,158
Allowance for impairment	(13,045)	(25,215)
	15,821	7,943
Accrued income	3,104	4,860
Sundry debtors	694	1,612
Other	465	980
	20,084	15,395
Non-current		
Sundry debtors	22	21
	20,106	15,416

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

The average credit period on sales of goods and rendering of services is 30 days and no interest is charged. The Group holds collateral over the majority of domestic franchise balances.

Trade receivables under formal or contractual payment arrangements are recognised as other financial assets.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, all trade receivables of the Group are considered to share the same risk profile. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience along with current and forward-looking economic factors which are expected to significantly affect the ability of the customers to settle the receivables.

The Group holds collateral over the majority of domestic franchise related receivable balances that are deemed recoverable, in the form of the franchised outlets.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recoverability includes, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

8. Trade and other receivables (continued)

8.1 Trade receivables (continued)

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group considers that the risk profile of trade receivables of its different customer groups is not dissimilar, the provision for loss allowance based on past due status is not further disaggregated.

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
30 June 2020					
Expected loss rate	3%	93%	97%	99%	
Gross carrying amount - trade receivables	16,129	798	1,550	10,389	28,866
Loss allowance	476	745	1,507	10,317	13,045
30 June 2019					
Expected loss rate	24%	79%	84%	98%	
Gross carrying amount - trade receivables	9,376	882	1,791	21,109	33,158
Loss allowance	2,234	698	1,511	20,772	25,215

The following table shows the movement in lifetime expected credit loss that has been recognised for trade receivables in accordance with the simplified approach set out in AASB 9.

Consolidated	FY20 $'000	FY19 $'000
Balance at the beginning of the year	25,215	32,939
Reclassification to 'Other' receivables	(841)	-
Increase in loss allowance recognised in profit or loss during the year	8,214	18,442
Receivables written-off during the year as uncollectible	(20,163)	(20,421)
Reclassification (to)/from 'Assets classified as held for sale'	620	(5,745)
Balance at the end of the year	13,045	25,215

9. Other financial assets

Consolidated	FY20 $'000	FY19 $'000
Current		
Loans and receivables carried at amortised cost		
Vendor finance (1)	573	924
Other (2)	1,950	1,447
	2,523	2,371
Non-current		
Loans and receivables carried at amortised cost		
Vendor finance (1)	-	1,180
Other (2)	1,534	1,137
	1,534	2,317
	4,057	4,688

(1) Vendor finance represents funding provided to franchisees for the purpose of acquiring a franchised outlet or undertaking refurbishment, and are primarily secured by the franchised outlet, including the business and shop fittings, with guarantors as co-signatories to the loan agreement. These loan receivables are undertaken at arm's length and can be interest bearing. Recoverability of these loan receivables are assessed on the same basis as trade receivables (Note 8). These balances include individually impaired loan receivables amounting to a $3.2 million (FY19 impairment: $15.8 million). The impairment recognised represents the difference between the carrying amount of these loan receivables and the present value of the estimated recoverable amount. During the year $12.6 million of vendor finance receivables that were impaired in prior periods were written-off as uncollectable.

(2) Other represents all trade receivables under formal or contractual payment arrangements. Recoverability of these other receivables are assessed on the same basis as trade receivables (Note 8).

10. Inventories

Consolidated	FY20 $'000	FY19 $'000
Stock held for wholesale supply	10,846	6,728
Equipment held for resale	95	121
Stores held for resale	10	29
	10,951	6,878

The cost of inventories recognised as an expense during the year in respect of continuing operations was $124.1 million (FY19 restated: $136.2 million).

11. Other assets

Consolidated	FY20 $'000	FY19 $'000
Current		
Prepayments	3,589	5,042
Inventory held on behalf of third party [1]	5,475	-
	9,064	5,042
Non-current		
Prepayments	39	-
	39	-
	9,103	5,042

(1) Inventory held on behalf of third party represents inventory processed or manufactured on behalf of a third party.

12. Assets classified as held for sale

Consolidated	FY20 $'000	FY19 $'000
Assets classified as held for sale		
Disposal groups	-	65,524
	-	65,524
Liabilities classified as held for sale		
Disposal groups	-	(53,646)
	-	(53,646)
	-	11,878

13. Property, plant and equipment

Consolidated	Notes	Land & buildings at cost	Leasehold improvements at cost	Plant & equipment at cost	Motor vehicles at cost	Right-of-use assets	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount							
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
Balance as at 1 July 2019		-	903	64,102	1,524	-	66,529
Add: FY19 Assets previously classified as held for sale		-	1,797	23,861	798	-	26,456
Adjustment for adoption of AASB 16	35	-	-	-	-	38,052	38,052
Additions		-	6	1,535	92	16,699	18,332
Disposals		-	(1,207)	(26,046)	(1,170)	(6,736)	(35,159)
Reclassification of inventories		-	-	(1,123)	-	-	(1,123)
Reclassification of right-of-use assets (1)		-	-	-	-	(8,693)	(8,693)
Effect of movements in exchange rates		-	(6)	29	-	-	23
Balance as at 30 June 2020		-	1,493	62,358	1,244	39,322	104,417
Accumulated depreciation							
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
Balance as at 1 July 2019		-	(151)	(42,843)	(434)	-	(43,428)
Add: FY19 Assets previously classified as held for sale		-	(491)	(7,275)	(794)	-	(8,560)
Reclassification of inventories		-	-	151	-	-	151
Reclassification of right-of-use assets		-	-	-	-	1,546	1,546
Disposals		-	815	14,683	941	2,729	19,168
Depreciation charge		-	(296)	(7,155)	(245)	(12,906)	(20,602)
Impairment losses		-	(127)	(5,679)	(419)	(7,422)	(13,647)
Balance as at 30 June 2020		-	(250)	(48,118)	(951)	(16,053)	(65,372)
Net book value							
As at 30 June 2019		-	752	21,259	1,090	-	23,101
As at 30 June 2020		-	1,243	14,240	293	23,269	39,045

(1) Relates to right-of-use assets reclassified to finance lease receivables.

14. Leases

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

14.1 Amounts recognised in the consolidated statement of financial position

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

Consolidated	Notes	30 June 2020 $'000	1 July 2019 $'000
Finance lease receivables			
Current		28,348	33,083
Non-current		52,040	74,089
	35	80,388	107,172
Right-of-use (ROU) assets			
Land & buildings		22,283	36,287
Vehicles & equipment		986	1,765
	13	23,269	38,052
Lease liabilities			
Current		43,003	49,329
Non-current		81,052	114,077
	35	124,055	163,406

In the previous year, the Group applied AASB 117 Leases, with no finance leases being identified. Consequently, no lease assets and liabilities were recognised in the previous year.

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 35.

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

	FY20 $'000
Within 1 year	37,238
Between 1 and 2 years	27,177
Between 2 and 3 years	17,236
Between 3 and 4 years	9,609
Between 4 and 5 years	4,926
Later than 5 years	5,818
	102,004

(1) Lease payment receivable represents undiscounted expected cashflows.

14. Leases (continued)

14.2 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:

	FY20 $'000	FY19 $'000
Operating lease income	7,270	-
Finance lease interest income	5,114	-
Interest expense (finance lease)	(5,114)	-
Interest expense (operating leases)	(2,378)	-
Depreciation expense of ROU assets - land & buildings	(12,131)	-
Depreciation expense of ROU assets - vehicles & equipment	(775)	-
Impairment charges of ROU assets - land & buildings	(7,340)	-
Impairment charges of ROU assets - vehicles & equipment	(82)	-
Reversal of impairment charges of ROU assets - early termination of leases	3,853	-
Impairment charges of Lease Receivables	(2,225)	-

The total cash outflow for leases in FY20 was $10.2 million (FY19: $13.6 million).

14.3 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. 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 35 for accounting policies for AASB 16.

14.4 Non cancellable operating leases

The Group leases company stores and office premises with the lease terms of three to five years, motor vehicle leases with lease terms of three years and office equipment leases with lease terms between two and four years. The Group does not have an option to purchase the lease assets at the expiry of the lease periods. From 1 July 2019, the Group has recognised right-of-use assets for these leases.

(i) Future minimum lease payments

Consolidated	FY20 $'000	FY19 $'000
Less than one year	-	8,646
Between one and five years	-	17,296
More than five years	-	3,887
	-	29,829

(ii) Rental expense relating to operating lease

Consolidated	FY20 $'000	FY19 $'000
Lease expense	-	7,859
	-	7,859

15. Intangible assets

15.1 Intangible assets

Consolidated	Notes	Goodwill	Indefinite Life: Brand Networks	Indefinite Life: Intellectual Property Rights	Finite Life: Other	Total
		$'000	$'000	$'000	$'000	$'000
Gross carrying amount						
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)
Balance as at 1 July 2019		254,859	429,544	5,337	4,984	694,724
Add: FY19 Assets previously classified as held for sale		18,293	-	-	11,300	29,593
Additions		-	-	-	286	286
Exchange differences		(95)	(57)	-	(20)	(172)
Balance as at 30 June 2020		273,057	429,487	5,337	16,550	724,431
Accumulated amortisation						
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
Balance as at 1 July 2019		(185,227)	(249,190)	-	(4,119)	(438,536)
Add: FY19 Assets previously classified as held for sale		(18,293)	-	-	(3,111)	(21,404)
Amortisation expense		-	-	-	(1,703)	(1,703)
Impairment losses		(2,700)	(22,000)	-	-	(24,700)
Balance as at 30 June 2020		(206,220)	(271,190)	-	(8,933)	(486,343)
Net book value						
As at 30 June 2019		69,632	180,354	5,337	865	256,188
As at 30 June 2020		66,837	158,297	5,337	7,617	238,088

15.2 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 FY21 sustainable earnings, including assumptions to reflect actual impacts of COVID-19 experienced by the Group to date, and future potential impacts of COVID-19 on the Group.

A total impairment expense of $24.7 million has been recognised during the year with respect to Brand systems and Di Bella Coffee goodwill.

15. Intangible assets (continued)

15.3 Useful Life

Brand Networks

Brands Networks are originally recognised at cost and have been assessed to have indefinite useful lives. The Group's brands are well established in the markets they operate and are expected to continue as the Group continues with the planned turnaround strategy. On this basis, the Directors have determined that brands have indefinite lives as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows.

15.4 Assessment of cash-generating units

Indefinite and finite life intangible assets

Indefinite and finite life intangible assets are tested at a cash generating unit level that is the smallest level that generates cash inflows that are largely independent from other cash inflows of other assets of the Group. In this case, the cash generating units are considered to be the Group's Brand Systems, the Group's Di Bella Coffee roasting business and the Manufacturing business.

Goodwill

Goodwill is monitored by management at the level of the five operating segments identified in Note 1.1 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.

15.5 Allocation of goodwill to cash-generating units

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

Goodwill allocation	FY20 $'000	FY19 $'000
Bakery/Café Systems	37,168	37,168
QSR Systems	12,431	12,431
Coffee Retail Systems	17,238	17,239
Di Bella Coffee	-	2,794
	66,837	69,632

15.6 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	FY20 $'000	FY19 $'000
Donut King Brand System	36,037	36,037
Brumby's Bakery Brand System	20,552	24,552
Michel's Patisserie Brand System	5,010	23,010
Crust Gourmet Pizza Bars Brand System	41,932	41,932
Café2U Brand System	5,670	5,670
Gloria Jeans Brand System	44,783	44,840
Di Bella Coffee	9,650	9,650
	163,634	185,691

15. Intangible assets (continued)

15.7 Impairment losses and recoverable amounts

During FY20, impairment losses totalling $24.7 million have been recognised in respect of the following cash-generating units and operating segments.

The recoverable amounts of each of these cash-generating units and operating segments for which an impairment was recognised are also presented below:

Cash-generating unit	Impairment charge	Recoverable amount
Brands		
Michel's Patisserie (included within the Bakery/Café CGU)	$18.0m	-
Brumby's Bakery (included within the Bakery/Café CGU)	$4.0m	$18.5m
Goodwill		
Bakery/Café CGU	-	$83.5m
Di Bella Coffee CGU	$2.7m	$6.9m
Total	$24.7m	

15.8 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 (FVLCD) calculation. The valuation technique adopted was an income-based approach by using a discounted cash-flow model. Since the key assumptions and estimates are significant unobservable inputs, this is classified as a level 3 fair value.

The FVLCD used cash flow projections based on internal forecasts for the FY21 year extended over the subsequent 4 year period and applied a terminal value calculation using estimated growth rates approved by the Board. 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 (VIU) based on the following key assumptions and estimates.

Impact of COVID-19 on key assumptions

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In the FY20 year as a result of COVID-19 the Group experienced reduced revenues in franchise and coffee operations, temporary and permanent closures of franchised stores, international territories and coffee customers, and incurred additional costs and experienced reduced cash inflows from the provision of franchisee and customer support initiatives.

Year 1 cash-flows
The Group determined the recoverable amount of each CGU and operating segment based on a scenario that includes assumptions and cash flow forecasts to reflect actual impacts of COVID-19 experienced by the Group to date as discussed, and future potential impacts of COVID-19. FY21 year one cash flow projections are based on internal forecasts. The Group prepared a range of forecast scenarios for the FY21 year, and selected the lower case scenario for the purposes of impairment testing, which anticipates reduced revenues in franchise and coffee operations, temporary and permanent closures of franchised stores, international territories and coffee customers, and ongoing provision of franchisee and customer support initiatives prevailing across the year.

Years 2 cash-flow growth
In preparing year two forecast scenario's, the Group utilised certain internal forecasting and referred to independent experts long-term forecasts (incorporating their COVID-19 assumptions), for the markets in which the Group operates, as a basis for selecting cash-flow growth rates in years two.

Years 3 to 5 cash-flow growth
In preparing forecast scenario's, the Group referred to independent experts long-term forecasts (incorporating their COVID-19 assumptions), for the markets in which the Group operates as a basis for selecting cash-flow growth rates in years three to five.

Terminal growth
The long-term growth rate used to extrapolate cash-flows beyond year 5 are determined for each operating segment and are based on future long-term expectations of growth.

The lower case scenario adopted for impairment testing incorporating the internal forecasting and growth rates nominated assumes the extent and duration of recovery to the FY20 EBITDA base by end FY24.

15. Intangible assets (continued)

15.8 Key assumptions used for calculating recoverable amounts (continued)

Discount rates

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

Cash-generating unit	Average EBITDA growth rate years 3 - 5	Long term growth rate	FY20 Pre-tax discount rate	FY19 Pre-tax discount rate
Operating Segments for Goodwill testing				
Bakery/Café Systems	4.4%	1.4%	13.79%	17.43%
QSR Systems	4.7%	2.0%	14.40%	17.43%
Coffee Retail Systems	4.5%	1.7%	14.40%	17.81%
Di Bella Coffee	4.7%	2.0%	14.80%	18.00%
Brand Systems				
Donut King Brand System	4.7%	2.0%	13.79%	17.43%
Brumby's Bakery Brand System	3.7%	-	13.79%	17.43%
Michel's Patisserie Brand System	3.0%	-	13.79%	17.43%
Crust Gourmet Pizza Bars Brand System	4.7%	2.0%	14.40%	17.43%
Café 2U Brand System	3.7%	-	14.40%	18.00%
Gloria Jeans Brand System	4.7%	2.0%	14.40%	17.43%
Di Bella Coffee Brand System	4.7%	2.0%	14.80%	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, b) a revised debt/equity weighting in the determination of the Group's weighted average cost of capital upon adoption of AASB 16 Leases, c) a reduced market risk premium applied to discount rates, subsequent to the successful recapitalisation of the Group in FY20, and d) additional risk included in the year 1 underlying earnings projections and cash flows.

Significant estimate: Impact of reasonably possible changes in key assumptions

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. The impacts of COVID-19 on the Group have resulted in the afore mentioned impairments, and a significant reduction in the excess recoverable amounts over carrying values in all cash generating units (CGU's). Whilst the scenario modelling used for impairment testing inherently captures probable and possible impacts of COVID-19 experienced by the Group, additional temporary and permanent closures of franchised stores, international territories and coffee customers, and reduced revenues from extended trading restrictions could cause recoverable amounts of CGU's to fall below their respective carrying amounts and trigger additional impairment.

In 2018 and 2019, the Group significantly reduced the carrying values of intangible assets, recognising $404.7 million impairment against the carrying value of the assets in those financial years. This significant reduction in carrying values prior to the 2020 year has lowered the sensitivity of the respective cash-generating units recoverable amounts to negative changes in earnings assumptions, and the quantum of potential intangible asset impairment in future periods.

Notwithstanding the foregoing, the recoverable amounts in respect of those cash-generating units against which an impairment loss has been recognised continue to be sensitive to a range of assumptions, in particular the growth rates in the cash-flow forecasts.

Goodwill

Di Bella Coffee goodwill has been written down to it's recoverable amount at 30 June 2020. Accordingly, any downwards movement in the growth rate underpinning the calculation of the recoverable amount of this cash-generating unit will result in further impairment.

Identifiable intangible assets

Michel's Patisserie and Brumby's Bakery Brand System intangible assets have been written down to their recoverable amounts at 30 June 2020. Accordingly, any downwards movement in the growth rate underpinning the calculation of the recoverable amounts of these cash-generating units will result in further impairment.

The following table outlines the headroom, growth rates and sensitised growth rates which would trigger impairment in the following cash-generating units, where recoverable amount is determined by the fair value less costs of disposal model, that are also sensitive to a reasonably possible movement in the growth rate:

Cash-generating unit	Headroom	Average growth rate years 2 - 5	Average growth rate years 2 – 5 to trigger impairment
Brand System			
Café 2 U Brand System	$1.4m	5.5%	(2.0%)
Crust Gourmet Pizza Bars Brand System	$14.4m	6.5%	(3.0%)

16. Trade and other payables

Consolidated	FY20 $'000	FY19 $'000
Current		
Trade payables [(1)]	35,291	8,043
Accruals and other creditors	8,080	6,309
Goods and services tax (GST) payable	435	314
	43,806	14,666
Non-current		
Other payables	-	302
	-	302
	43,806	14,968

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

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

17. Provisions

Consolidated	FY20 $'000	FY19 $'000
Current		
Employee benefits	3,217	2,197
Make-good [(1)]	1,669	10,882
Other provisions	11,388	3,319
	16,274	16,398
Non-current		
Employee benefits	171	162
Make-good [(1)]	1,216	11,036
Other provisions	2,595	729
	3,982	11,927
	20,256	28,325

Consolidated	Employee benefits	Make-good [(1)]	Other
	$'000	$'000	$'000
Balance at 1 July 2019	2,359	21,918	4,048
Reallocation on adoption of AASB 16 leases	-	(18,182)	-
Movement in provisions	2,950	(817)	11,225
Payments made	(1,921)	(34)	(1,290)
Balance at 30 June 2020	3,388	2,885	13,983

(1) In the FY19 year provisions for impaired leases (formerly onerous leases) were presented with Make Good provisions. With the adoption of AASB 16 leases in the FY20 year the impaired lease provisions have been reallocated against lease assets and liabilities recognised on adoption of the standard. Prior year comparative information has not been restated. See note 35.1 (g) Adoption of new and revised Accounting Standards for further explanation.

18. Other liabilities

18.1 Unearned income

Consolidated	FY20 $'000	Restated FY19 $'000
Current		
Unearned income	6,190	10,580
Non-current		
Unearned income	15,423	20,603
	21,613	31,183

18.2 Other Liabilities

Consolidated	FY20 $'000	FY19 $'000
Current		
Retention bonds and deposits	608	502
Non-current		
Retention bonds and deposits	88	86
	696	588

Capital

19. Borrowings

Consolidated	FY20 $'000	FY19 $'000
Secured at amortised cost		
Current		
Bank loans [(1)]	7,500	262,754
Loans from other parties	1,447	1,489
Equipment loans	-	23
Borrowing costs (deferred)	(465)	(210)
	8,482	264,056
Secured at amortised cost		
Non-current		
Bank loans [(1)]	45,779	-
Equipment loans	-	25
Borrowing costs (deferred)	(652)	-
	45,127	25
	53,609	264,081

(1) *As at 30 June 2020, the Group's total gross debt decreased to $53.3 million (FY19: $262.8 million), including ancillary facilities. Current bank loans represent quarterly loan principle repayments commencing from December 2020 as required under the senior lending facility.*

20. Issued capital

Consolidated	FY20 $'000	FY19 $'000
2,117,995,198 fully paid ordinary shares (FY19: 182,745,510)	614,935	428,640
	614,935	428,640

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Consolidated	FY20 No. '000	FY20 $'000	FY19 No. '000	FY19 $'000
Fully paid ordinary shares (1)				
Balance at beginning of year	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 year	2,117,995	614,935	182,745	428,640

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

21. Reserves

Equity-settled employee benefits reserve	FY20 $'000	FY19 $'000
Balance at beginning of year	60	67
Transfers to retained earnings (1)	(60)	-
Recognition of share-based payments	444	(7)
Balance at end of year	444	60

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

The equity-settled employee benefits reserve arises on the grant of performance rights to Directors, executives and senior executive management in accordance with the provisions of RFG's Performance Rights Plan. Amounts are transferred out of the reserve and into issued capital when the rights vest. Further information about share-based payments to employees is set out in Note 24.

Foreign Currency Translation reserve	FY20 $'000	FY19 $'000
Balance at beginning of year	1,350	987
Exchange difference on translation of foreign operations	(233)	363
Balance at end of year	1,117	1,350

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

Hedging reserve	FY20 $'000	FY19 $'000
Balance at beginning of year	-	(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 year	-	-

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income, as described in Note 35.10. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

21. Reserves (continued)

Marketing Fund surplus	FY20 $'000	FY19 $'000
Balance at beginning of year	3,695	-
Transfer from retained earnings	-	3,663
Surplus during the period transferred from retained earnings	1,607	32
Balance at end of year	5,302	3,695

The marketing fund reserve relates to marketing levies collected by the Group that are yet to be spent on future marketing expenses.

Total Reserves	6,863	5,105

Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

Hedging reserve

Amounts recognised in profit or loss

As a result of all hedges being ineffective, all movements in the fair value of the interest rate swaps have been recognised in financing expenses in the income statement. The following amounts have been included:

	FY20 $'000	FY19 $'000
Hedge ineffectiveness of interest swaps - amounts in financing expenses	(1,250)	2,938

22. Retained earnings

Consolidated	FY20 $'000	Restated FY19 $'000
Balance at beginning of year	(440,251)	(294,019)
Net profit/(loss) attributable to members of the parent entity	(3,990)	(142,537)
Opening adjustment for adoption of AASB 16	75	-
Transfer from equity-settled employee benefits reserves [1]	60	-
Net profit attributable to marketing funds reclassed to other reserves	(1,607)	(32)
Transfer of marketing fund surpluses to other reserves	-	(3,663)
Balance at end of year	(445,713)	(440,251)

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

23. Dividends

Company	FY20		FY19	
	Cents per share	Total $'000	Cents per share	Total $'000
Declared and paid during the financial year				

(1) The Directors have resolved that no final dividend will be paid in respect of FY20.

Company	FY20 $'000	FY19 $'000
Adjusted franking account balance	50,279	50,279

24. Share-based payments

24.1 Performance Rights Plan

All Performance Rights issued under the Retail Food Group Limited Rights Plan (RFGRP) prior to FY20 have either lapsed or been forfeited as at 30 June 2019.

On 29 November 2019, shareholders approved the grant of 15,000,000 performance rights to Mr Peter George, Executive Chairman of the Company. On 1 April 2020, an additional 9,000,000 performance rights was issued to Ms Jessica Buchanan, Head of Retail of the Company. The RFGRP is designed to provide long-term incentives for selected senior executives to deliver long-term shareholder returns. Under the plan, participants are granted rights which only vest if certain performance standards are met.

There is no consideration payable by the participants upon exercising vested performance rights. Upon vesting, the performance rights will automatically be exercised. Once exercised, the settlement will be in the form of one fully paid ordinary share in the Company, with no ability to settle in cash or cash equivalent.

24. Share-based payments (continued)

24.1 Performance Rights Plan (continued)

Performance rights granted under the RFGRP carry no rights to dividends and no voting rights. Performance rights, if they vest, will be exercised such that each Performance Right entitles the holder to one fully paid ordinary share in the Company, subject to certain disposal restrictions.

The performance rights of each key management personnel are eligible to vest in three tranches, each with different non-market performance vesting conditions and service conditions. The following table summarises the Performance Rights granted under the RFGRP and the key terms:

Grant date	Tranche 1	Tranche 2	Tranche 3	Total	Vesting conditions
On 6 December 2019	3,000,000	5,000,000	7,000,000	15,000,000	- EBITDA, franchise growth and health-related objectives - Operational and organisational criteria - Quantitative measurements relating to company - Quantitative measurements relating to company reputation improvement - Group Normalised EBITDA and Top Line Growth
On 1 April 2020	3,000,000	3,000,000	3,000,000	9,000,000	- Group Normalised EBITDA and Top Line Growth - Critical operational systems and processes - USA / Gloria Jeans International - Managerial Effectiveness and Development
Total rights issued				24,000,000	

(i) Fair value of rights granted

The fair value of the performance rights granted in FY20 has been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the rights were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at grant date of the rights included the following:

	Grant date	
	1 April 2020	6 December 2019
Fair value at grant date	$0.04	$0.10
Share price at grant date	$0.04	$0.10
Exercise price	nil	nil
Expected volatility (weighted average)	61.7%	50.0%
Expected dividends	nil	nil
Risk-free interest rate	2.9%	3.2%
Term from date of grant (years)		
Tranche 1	1.25	0.59
Tranche 2	2.25	1.58
Tranche 3	3.25	2.58

Expected volatility has been based on the evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term.

24. Share-based payments (continued)

24.1 Performance Rights Plan (continued)

(ii) Reconciliation of performance rights

A reconciliation of performance rights held during FY20 is as follows:

	Number of rights FY20
Granted during the year	24,000,000
Vested during the year	-
Balance as at 30 June	**24,000,000**
Vested at 30 June	**-**

(iii) Expense recognised in profit or loss

For details of related employee benefit expenses, see note 5.

Risk

25. Financial instruments

25.1 Capital risk management

The capital structure of the Group consists of net debt (borrowings disclosed in Note 19, offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings, as disclosed in Notes 20, 21 and 22).

The Group is not subject to any externally imposed capital requirements.

Operating cash flows are used to maintain the Group's assets, as well as to make the routine outflows of tax and other working capital obligations. The Group's policy is to borrow centrally, using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

25.2 Gearing ratio

Details of the Group's capital at the end of the reporting year is presented in the following table:

Consolidated	FY20 $'000	FY19 $'000
Debt (1)	54,726	264,291
Cash and bank balances	(33,922)	(7,823)
Net debt	20,804	256,468
Equity (2)	176,085	(6,506)
Net debt to equity (gearing) (3)	12%	n/a

(1) Debt is defined as long and short-term borrowings, excluding deferred borrowing costs, derivatives and financial guarantee contracts, as described in Note 19.

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

(3) Net debt divided by total equity as shown in the consolidated statement of financial position. Following adoption of AASB 16 leases, the FY20 gearing ratio increases to 82% when including total lease liabilities into debt.

25. Financial instruments (continued)

25.3 Categories of financial instruments

Consolidated	FY20 $'000	FY19 $'000
Financial assets		
Loans and receivables		
Trade and other receivables	20,106	15,416
Other financial assets	4,057	4,688
Cash and cash equivalents	40,248	12,317
Financial liabilities		
Trade payables	35,291	8,043
Other payables	8,515	6,623
Retention bonds and deposits	696	588
Loans (at amortised cost)	53,609	264,081
Derivative financial instruments - current	1,892	3,063

25.4 Financial risk management objectives

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

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

25.5 Derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period. The Group has the following derivative financial instruments:

	FY20 $'000	FY19 $'000
Current liabilities		
Interest rate swap contracts - cash flow hedges	1,892	3,063
	1,892	3,063

Subsequent to 30 June 2020 the Group has settled the interest rate swap contracts in full.

25.6 Market risk

The Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates (refer Note 25.8) and interest rates (refer Note 25.7).

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

25.7 Interest rate risk management

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

The Group interest rate risk management measures include legacy interest rate swap contracts covering $100.0 million of gross debt with a 0.5-1.0 year maturity profile. The fixed interest rate contracts were taken out in prior periods to hedge the interest rate risk of associated movements in the Bank Bill Swap Benchmark (BBSW), and accounting for these derivatives in accordance with AASB 9 *Financial Instruments*. Movements in the fair value of the interest rate swap contracts are recognised via profit or loss.

At 30 June 2020, the Group's weighted average interest rate is 2.5% and total debt at variable interest rates is $53.3 million.

25. Financial instruments (continued)

25.7 Interest rate risk management (continued)

Interest rate sensitivity analysis

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

	Impact on post-tax profit		Impact on other components of equity	
Sensitivity	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Interest rates - increase by 100 basis points (1%)	130	569	-	-
Interest rates - decrease by 100 basis points (1%)	(130)	(569)	-	-

25.8 Foreign exchange risk

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

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

	Assets		Liabilities	
Exposure	FY20 $'000	FY19 $'000	FY20 $'000	FY19 $'000
US Dollar	2,783	19,810	1,198	1,844
Euro	8	332	1	9
New Zealand Dollar	666	759	182	210

Foreign currency sensitivity analysis

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

	FY20		FY19	
Impact of Sensitivity to Profit or Loss	10%	-10%	10%	-10%
US Dollar	(101)	123	(1,143)	1,397
Euro	-	-	(21)	25
New Zealand Dollar	(31)	38	(35)	43
Total increase/(decrease)	(132)	161	(1,199)	1,465

25. Financial instruments (continued)

25.9 Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group.

Credit risk management

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a measure of mitigating the risk of financial loss from defaults. Credit exposure is reviewed continually.

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

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

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

Financial assets and other credit exposures	FY20 $'000	FY19 $'000
Contingent liabilities		
Financial guarantees	814	814
Rental guarantees	2,897	2,824
	3,711	3,638

Trade receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

25.10 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and undrawn borrowing facilities, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Note 7.3 sets out details of additional undrawn facilities that the Group had at 30 June 2020. Note 19 sets out details of the Group's borrowings at 30 June 2020.

25. Financial instruments (continued)

25.10 Liquidity risk management (continued)

Liquidity and interest rate risk tables

The following table details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The information has been presented based on the non-discounted cash flows of financial liabilities, using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest cash flows are at floating rates, the non-discounted amount is derived from forward interest rate curves at the end of the reporting period.

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Over 5 years	Total
	%	$'000	$'000	$'000	$'000
FY20					
Non-derivatives					
Trade payables	-	35,291	-	-	35,291
Other payables	-	8,515	-	-	8,515
Retention bonds and deposits	-	608	88	-	696
Bank loans	2.2	7,500	45,779	-	53,279
Loan from other parties	2.8	1,447	-	-	1,447
Rental guarantee contracts	1.2	2,897	-	-	2,897
Financial guarantee contracts	-	814	-	-	814
Lease liabilities	-	43,003	79,558	1,494	124,055
		100,075	125,425	1,494	226,994
Derivatives					
Interest rate swaps					
- (inflow)	0.1	(108)	-	-	(108)
- outflow	2.5	2,030	-	-	2,030
		1,922	-	-	1,922
FY19					
Non-derivatives					
Trade payables	-	8,043	-	-	8,043
Other payables	-	6,623	302	-	6,925
Retention bonds and deposits	-	432	86	-	518
Bank loans	4.9	270,959	-	-	270,959
Loan from other parties	6.0	1,510	25	-	1,535
Rental guarantee contracts	3.3	2,824	-	-	2,824
Financial guarantee contracts	-	814	-	-	814
		291,205	413	-	291,618
Derivatives					
Interest rate swaps					
- (inflow)	1.4	(1,832)	(1,142)	-	(2,974)
- outflow	2.5	3,090	1,986	-	5,076
		1,258	844	-	2,102

The maximum amount the Group could be forced to settle under the rental and financial guarantee contracts, if the fully guaranteed amount is claimed by the counterparty to the guarantee, is $3.7 million (FY19: $3.6 million).

25. Financial instruments (continued)

25.10 Liquidity risk management (continued)

Liquidity and interest rate risk tables (continued)

The following table details the Group's expected maturity for its non-derivative financial assets. The information has been presented based on the non-discounted contractual maturities of the financial assets, including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management, as the liquidity is managed on a net asset and liability basis.

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Total
	%	$'000	$'000	$'000
FY20				
Cash and cash equivalents	-	33,922	-	33,922
Loans and receivables	-	22,607	1,556	24,163
		56,529	1,556	58,085
FY19				
Cash and cash equivalents	-	7,823	-	7,823
Loans and receivables	-	17,766	2,339	20,105
		25,589	2,339	27,928

The Group has access to financing facilities, as described in Note 7.3, of which $2.1 million was unused at the end of the reporting period (FY19: $10.7 million). Note 19 sets out details of the Group's borrowings at 30 June 2020.

The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

25. Financial instruments (continued)

25.11 Fair value of financial instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3, based on the degree to which the fair value is observable.

Recognised fair value measurements

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2020.

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

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

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

Recurring fair value measurements At 30 June 2020	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities					
Derivatives - interest rates swaps	25.5	-	1,892	-	1,892
Total financial liabilities		-	1,892	-	1,892

Recurring fair value measurements At 30 June 2019	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities					
Derivatives - interest rates swaps		-	3,063	-	3,063
Total financial liabilities		-	3,063	-	3,063

Specific valuation techniques used to value financial instruments include:

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

NOTES TO THE FINANCIAL STATEMENTS

Group structure

26. Subsidiaries

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

Entity	FY20 %	FY19 %	Entity	FY20 %	FY19 %
Addiqtion Holdings Pty Ltd[2]	100	100	Gloria Jean's Coffees International China*	100	100
Adonai International Unit Trust[2]	100	100	Gloria Jean's Coffees International Pty Limited*	100	100
Associated Foodservice Distributors Pty Ltd[2]	100	100	Gloria Jean's Coffees International (UK) Pty Ltd*	100	100
Associated Smallgoods Distributors Pty. Ltd.[2]	100	100	Gloria Jean's Coffees UK Limited*	100	100
ACN 159 149 872 Pty Ltd[2]	100	100	Gloria Jean's Gourmet Coffees Corp. (GJ Stores, GJ Ecommerce)*	100	100
BB's Cafe System Pty Ltd[2]	100	100	Gloria Jean's Gourmet Coffees Franchising Corp (GJ Franchising, GJ Ad Fund, GJ Gift Card)*	100	100
bb's New Zealand Limited[Δ]	100	100	Gourmet Foods Australia Pty Limited[2]	100	100
BDP Franchise Pty Ltd[2]	100	100	HDCZ (NZ) Limited[Δ]	100	100
BDP System Pty Ltd[2]	100	100	Hot Dog Construction Zone (Aust) Pty Ltd[2]	100	100
Booming Pty Ltd[2]	100	100	A.C.N. 125 810 059 Pty Ltd[2]	100	100
Brumby's Bakeries Corporate Retail Division Pty Ltd[2]	100	100	International Franchisor Pty Ltd[2]	100	100
Brumby's Bakeries Holdings Pty Ltd[2]	100	100	Jireh Group Pty Limited[2]	100	100
Brumby's Bakeries Pty Ltd[2]	100	100	Jireh International Retail Pty Limited[2]	100	100
Brumby's Bakeries System (NZ) Limited[Δ]	100	100	Jireh International Unit Trust[2]	100	100
Brumby's Bakeries System Pty Ltd[2]	100	100	Jonamill Pty. Limited[2]	100	100
Cafe2U (NZ) Limited[Δ]	100	100	Maranatha Import Export India Private Limited*	100	100
Cafe2U International Pty. Ltd.[2]	100	100	MEMGMT Pty Ltd[2]	100	100
Cafe2U Pty Limited[2]	100	100	Michel's Patisserie (S.A.) Pty. Limited[2]	100	100
Caffe Coffee (NZ) Limited[Δ]	100	100	Michel's Patisserie (VQ) Pty Ltd[2]	100	100
Caper Construction Pty Ltd[2]	100	100	Michel's Patisserie (VQL) Pty Ltd[2]	100	100
Capercorp Pty Ltd[2]	100	100	Michel's Patisserie (W.A.) Pty. Limited[2]	100	100
Capers Gourmet Kitchen Pty Ltd[2]	100	100	Michel's Patisserie Corporate Retail Division Pty Ltd[2]	100	100
CGP (NZ) Limited[Δ]	100	100	Michel's Patisserie Management Pty Ltd[2]	100	100
CGP Systems Pty Ltd[2]	100	100	Michel's Patisserie Operations Pty Ltd[2]	100	100
Coffee Houses CRD Pty Ltd[2]	100	100	Michel's Patisserie System Pty Ltd[2]	100	100
Dairy Country Pty Ltd[2]	100	100	Michel's Patisserie Systems (NZ) Limited[Δ]	100	100
DBC Services Pty Ltd[2]	100	100	Mules Enterprises Pty Ltd[2]	100	100
DCM System Pty Ltd[2]	100	100	Patisserie Delights Pty Ltd[2]	100	100
Di Bella Coffee Domestic GJC Supply Pty Ltd previously Jireh International and Warehouse Distribution Pty. Limited[2]	100	100	Pizza Capers Franchise Pty Ltd (formally PCGK Holdings Pty Ltd)[2]	100	100
Di Bella Coffee International Network Supply Pty Ltd previously Gloria Jean's Coffees Supply Pty Limited[2]	100	100	Pizza Corporate Retail Division Pty Ltd[2]	100	100
Di Bella Coffee Network Supply Pty Ltd previously Caffe Coffee Pty Ltd[2]	100	100	Praise IAG Franchisor, LLC (IAG Franchising, IAG Ad Fund, IAG Ecommerce)*	100	100
Di Bella Coffee Retail and Wholesale Pty Ltd previously Espresso Enterprises Pty Ltd[2]	100	100	Praise IAG Stores, LLC*	100	100
Di Bella Coffee Supply Holdings Pty Ltd previously Roasting Australia Holdings Pty. Limited[2]	100	100	Praise Operations Company, LLC*	100	100
Di Bella Coffee, LLC (previously Maranatha Import Export, LLC)*	100	100	PRCH Holdings Pty Ltd[2]	100	100

26. Subsidiaries (continued)

Entity	FY20 %	FY19 %	Entity	FY20 %	FY19 %
DK China Pty Ltd[2]	100	100	Regional Franchising Systems Pty Ltd[2]	100	100
Donquay Pty Limited[2]	100	100	Retail Food Group Limited[1]	100	100
Donut King (NZ) Limited[Δ]	100	100	Retail Food Group USA, Inc (previously Praise International North America Inc)*	100	100
Donut King Corporate Retail Division Pty Ltd[2]	100	100	RFG (NZ) Limited[Δ]	100	100
Donut King Franchise Pty Ltd[2]	100	100	RFG Finance Pty Ltd[2]	100	100
Donut King System Pty Ltd[2]	100	100	RFGA Equitech Pty Ltd[2]	100	100
ECH System (NZ) Limited[Δ]	100	100	RFGA Holdings (Aust) Pty Ltd[2]	100	100
Espresso Concepts Pty Ltd[2]	100	100	RFGA Holdings Pty Ltd[2]	100	100
Espresso Kick Pty Ltd[2]	100	100	RFGA Management Pty Ltd[2]	100	100
Esquires Coffee Houses System Pty Ltd[2]	100	100	Roasted Addiqtion Pty Ltd[2]	100	100
Freezer Rental Pty Ltd[2]	100	100	Systems Franchisor Pty Ltd[2]	100	100
GJCI Malaysia SDN BHD*	100	100	TCG Franchising Limited[Δ]	100	100
Gloria Jean's Coffees Australasia Pty Limited[2]	100	100	TCG IProp Pty Ltd[2]	100	100
Gloria Jean's Coffees Holdings Pty Ltd[2]	100	100	WDM Holdings Pty Ltd[2]	100	100

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

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

27. Parent entity disclosures

27.1 Financial position

Parent entity	FY20 $'000	FY19 $'000
Assets		
Current assets	18,344	1,848
Non-current assets	238,088	298,035
Total assets	256,432	299,883
Liabilities		
Current liabilities	9,290	266,638
Non-current liabilities	45,127	-
Total liabilities	54,417	266,638
Equity		
Issued capital	614,935	428,640
Retained earnings	(413,364)	(395,455)
Equity-settled employee benefits	444	60
Total equity	202,015	33,245

27.2 Financial performance

Parent entity	FY20 $'000	FY19 $'000
Profit/(loss) for the year	6,358	(241,009)
Other comprehensive income	-	-
Total comprehensive income	6,358	(241,009)

27.3 Other Commitments

The parent entity has no expenditure commitments as at 30 June 2020 (2019: nil).

Refer to note 31.1 for a detailed description of contingent liabilities the parent entity and subsidiary entities may be subject to.

28. Discontinued operations

28.1 Sale of Discontinued Operations

On 28 November 2019 the Group announced that it had entered into a binding term sheet to dispose of its foodservice business and operations, with successful completion of this transaction on 3 January 2020.

The sale resulted in a pre-tax loss of $5.9 million, which included $2.6 million in proceeds from sale of assets, a $2.2 million gain on early termination of property lease associated with the business, offset by asset impairment and onerous contract costs of $10.6 million incurred in exiting the business. These amounts are included within the results of discontinued operations for the FY20 year.

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

Consolidated	FY20 $'000	Restated FY19 $'000
Revenue	27,557	77,675
Expenses	(42,843)	(129,183)
Loss before income tax	(15,286)	(51,508)
Attributable tax (expense)/benefit	(2,985)	2,346
Net loss attributable to discontinued operations	(18,271)	(49,162)
Earnings per share		
From discontinuing operations:		
Basic (cents per share)	(1.4)	(26.9)
Diluted (cents per share)	(1.4)	(26.9)

During FY20, net cash outflow from operating activities of the discontinued operations was $11.7 million (FY19: $5.9 million, cash outflow), net cash inflow from investing activities was $1.5 million (FY19: $4.6 million cash inflow).

29. Related party transactions

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

29.1 Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 26 to the financial statements.

Equity interests in associates and joint ventures

There are no equity interests in associates or joint ventures.

Equity interests in other related parties

There are no equity interests in other related parties.

29.2 Transactions with Key Management Personnel

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

Key management personnel compensation - Summary	FY20 $'000	FY19 $'000
Short term Benefits	2,488	2,066
Long term Benefits	132	137
Termination Benefits	-	298
Performance Rights	444	11
Total comprehensive income	3,064	2,512

NOTES TO THE FINANCIAL STATEMENTS

Other

30. Events after the reporting period

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn occasioned by it, and the speed of economic recovery. In accordance with AASB 110 Events after the Reporting Date, the Group considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lockdowns implemented across Victoria, the closure of state borders, and the extension of further government support measures. The Group did not identify any subsequent events arising from COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the fluid nature of the current situation, the Group will continue to regularly review forward looking assumptions and forecast economic scenarios.

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.

Final dividend

The Directors have resolved that no dividend will be declared or paid with respect to the FY20 year.

31. Contingent liabilities

Consolidated	FY20 $'000	FY19 $'000
Contingent liabilities		
Financial guarantee contracts	814	814
Rental guarantee contracts [(1)]	2,897	2,824
	3,711	3,638

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

31.1 Contingent liabilities

The Group is or has been 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

On 13 June 2019 the legal firm Corrs Chambers Westgarth announced a possible class action against RFG and related parties on behalf of current and former Michel's Patisserie franchisees. Additionally, one legal firm, Phi Finney McDonald, continues to advertise a possible shareholder class action claim (first announced 10 May 2018) against RFG.

At this time, no plaintiff law firm has contacted RFG in relation to either threatened class action, and the Group is not aware of any developments concerning either possible class action, and notes that no franchisee or shareholder class action claim has been lodged against the Group to date.

It is currently not possible to determine whether either class action or any 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 vigorously 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.

As previously noted, the Australian Securities and Investments Commission (ASIC) had issued notices (ASIC Notices) to the Company under Section 30 of the *Australian Securities and Investments Commission Act 2001 (Cth)*, in connection with ASIC's investigation of possible contraventions of the *Corporations Act 2001 (Cth)* prior to 25 September 2018 (and in respect of a subsequent ASIC Notice, 9 July 2019). The Group fully co-operated with ASIC in respect of the request for records and information outlined in the ASIC Notices. The Group was advised by ASIC in late June 2020 that ASIC had concluded its investigation and decided that it will not take enforcement action following its investigation.

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

32. Commitments for expenditure

Consolidated	FY20 $'000	FY19 $'000
Plant and equipment	31	353

33. Remuneration of auditors

Consolidated	FY20 $	FY19 $
Audit and other services:		
Audit and review of financial statements	1,448,058	1,273,019
Other services	744,810	-
	2,192,868	1,273,019
Other auditors		
Audit and review of financial statements	71,069	18,374
	71,069	18,374

34. Prior Period Restatements

Accounting for AASB 15 Revenue from contracts with customers

The Group adopted AASB 15 "Revenue from contracts with customers" in the financial year ended 30 June 2019 applying the modified retrospective method and adjusting retained earnings at 1 July 2018.

As previously reported, on adoption of AASB 15, the Group allocated any initial and renewal franchise fees to a single performance obligation that exists under the franchise and master franchise agreements in force. The satisfaction of this performance obligation happens over time. Accordingly, initial and renewal fees are recognised on a straight line basis over the term of the franchise and master franchise agreement.

On 1 July 2018 the Group decreased retained earnings and increased unearned income to reflect that these performance obligations were only partially satisfied on transition to AASB 15. The measurement of unearned income on adoption of AASB 15 was based on the original contracted initial and renewal fee amounts. However, because the arrangements provide for payment of the fees over the contract period, this resulted in the gross recognition of trade receivables and unearned revenue on 1 July 2018.

In 2018 and 2019, the Group experienced significant declines in revenues and profitability resulting in the need to recapitalise and restructure the Group's debts, and also culminated in substantial write-downs, impairments and sale of assets. The Group raised significant expected credit loss provisions on all aged receivables owing for initial and renewal fees at this time.

During the year ended 30 June 2020, the Group performed a detailed review of all receivables and loans including considering the impacts of COVID-19, resulting in the significant write off of previously provisioned amounts receivable. This process identified that unearned revenue remained for several contracts for which significant credit losses had been recognised, which would result in the continued revenue recognition for amounts that were not expected to be collected.

As a result of this review, management determined that the substance of the arrangements was that the consideration to be received was variable due to the Group providing relief to certain franchisees. AASB 15 only allows variable revenue to be recognised to the extent of the minimum amount that is highly probable to be received. As such, the Group has recognised that there has been a mismatch in the timing of establishing credit loss provisions and its decision to vary the arrangements with its franchise partners in 2020 and thereby release the uncollectible revenue. Accordingly, the Group has decided to restate its comparatives to more appropriately reflect the expected credit losses taken in the prior period as a reduction to unearned revenue. The Group considers the alignment of the reversal of the unearned revenue against the expected credit loss to more appropriately reflect the revenue earned for its performance under the contracts.

As such, the unearned income recognised on transition to AASB 15 at 1 July 2018 has been restated to reflect the Group's best estimate of the amount of variable consideration that was highly probable at that date. In addition, expected credit loss provisions raised in 2019 have adjusted deferred revenue that was recorded at June 2019. Associated deferred tax balances have also been restated. In reflecting these adjustments in the prior periods, the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity for the year ended 30 June 2019 has been restated.

Discontinued operations

In the financial year ending 30 June 2019, the Group had classified the entire manufacturing and distribution division as discontinued operations., which included the Dairy Country business. Subsequent to the end of FY19, the Company determined the Dairy Country business would be retained in the near term as a continuing operation. Accordingly, the Dairy Country business is classified within continuing operations in the FY20 financial statements. In addition, the comparative financial information in the consolidated statement of profit or loss and other comprehensive income has been restated to include Dairy Country as a continuing operation in FY19.

The restated comparative period financial statement adjustments are summarised in the following tables:

Consolidated statement of profit or loss and other comprehensive income	30 June 2019 Reported	Discontinued operations adjustments	AASB 15 adjustments	30 June 2019 Restated
	$'000	$'000	$'000	$'000
Revenue	172,530	99,565	(737)	271,358
Expenses	(289,509)	(100,192)	5,271	(384,430)
Loss before income tax	(116,979)	(627)	4,534	(113,072)
Attributable tax (expense)/benefit *	17,082	429	2,186	19,697
Loss attributable to discontinued operations	(99,897)	(198)	6,720	(93,375)
Loss from discontinued operations	(49,360)	198	-	(49,162)
Loss for the year	(149,257)	-	6,720	(142,537)

34. Prior Period Restatements (continued)

Consolidated statement of changes in equity	1 July 2018	30 June 2019
	$'000	$'000
Balance as reported	(296,457)	(449,409)
Total adjustments	2,438	9,158
Balance restated	(294,019)	(440,251)

Consolidated statement of financial position	1 July 2018 Reported	AASB 15 adjustments	1 July 2018 Restated	30 June 2019 Reported	AASB 15 adjustments	30 June 2019 Restated
	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other receivables	52,113	(2,549)	49,564	15,395	-	15,395
Deferred tax assets *	45,474	(2,187)	43,287	55,874	-	55,874
Total assets	617,872	(4,736)	613,136	445,222	-	445,222
Unearned income	(48,111)	7,174	(40,937)	(40,341)	9,158	(31,183)
Total liabilities	(485,680)	7,174	(478,506)	(460,886)	9,158	(451,728)
Retained losses	(296,457)	2,438	(294,019)	(449,409)	9,158	(440,251)
Total equity	132,192	2,438	134,630	(15,664)	9,158	(6,506)

* Adjustment to deferred tax assets are net of movements in temporary differences for expected credit losses and unearned revenue.

35. Summary of significant accounting policies

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

35.1 Basis of preparation

The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Group is a for-profit entity.

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

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

(a) Statement of compliance

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

The financial statements were authorised for issue by the Directors on the 28 August 2020.

(b) Basis of measurement

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

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, and, in accordance with that Corporations Instrument, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

(c) Early adoption of Accounting Standards

The Directors have elected not to early adopt Accounting Standards that are not applicable to the reporting period ended 30 June 2020.

(d) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian Dollars ('$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entities functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use. These are included in the cost of the assets only when they are regarded as an adjustment to interest costs on the related foreign currency borrowings;
- Exchange differences on transactions entered into, in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), and which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Australian Dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(e) Use of estimates and judgements

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

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

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

Recognition of receivables - Note 8
Recognition of revenue - Note 35.2
Estimation of recoverability of deferred tax assets - Note 35.3
Estimation of Impairment of non-financial assets other than goodwill and indefinite life intangible assets - Note 35.7
Estimation of goodwill and indefinite life intangible asset impairment - Note 35.7
Estimation of useful life of indefinite life intangibles - Note 35.7
Estimation of provisions - Note 35.8

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included within receivables or payables.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(g) Adoption of new and revised Accounting Standards

Standards and Interpretations adopted in the current period

The Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and are effective for the current reporting period.

AASB 16 Leases

As indicated in note 14 above, the group has adopted AASB 16 Leases retrospectively from 1 July 2019, but has not restated comparatives for the FY19 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

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). The group leases various offices, warehouses, retail stores, equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 8 years, but may have extension options as described in (ii) below.

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.

In the prior year the Group recognised operating lease income that was offset by an equal operating lease expense. This presentation reflected the back to back sublease arrangements in place with franchisees. With the implementation of AASB 16, and the recognition of lease liabilities, operating lease income is now presented separately in revenue.

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(g) Adoption of new and revised Accounting Standards (continued)

Standards and Interpretations adopted in the current period (continued)

(i) 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.

(ii) Extension and termination options

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 35.1 (g) (iii) 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.

(iii) 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.

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 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 $10.9 million, ROU assets of $6.7 million and lease receivables of $8.0 million.

(iv) Measurement of lease liabilities

Operating lease commitments disclosed as at 30 June 2019	29,829
Discounted using the lessee's incremental borrowing rate of at the date of initial adoption	25,493
Add: contracts reassessed as lease contracts	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

(v) Right-of-use assets and finance lease receivable assets

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.

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.

Finance lease receivables (back to back franchise store leases) recognised as at 1 July 2019 are $107,172 (refer to note 14).

(vi) 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:

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(g) Adoption of new and revised Accounting Standards (continued)

Standards and Interpretations adopted in the current period (continued)

	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 note14).

(vii) Impact on segment disclosures and earnings per share

Adjusted EBITDA, for the year ended 30 June 2020 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	(327)	5,781
QSR Brand Systems	167	153
Coffee Retail Brand Systems	1,718	2,976
Di Bella Coffee	1,154	1,680
Manufacturing & Distribution	4,025	2,316
Total	6,737	12,906

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 0.6c per share for the year ended 30 June 2020 as a result of the adoption of AASB 16.

(viii) Practical expedients applied

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 July 2019
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using 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 is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ix) 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 14.1 for amounts receivable under finance leases.

(x) 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.

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(g) Adoption of new and revised Accounting Standards (continued)

Standards and Interpretations adopted in the current period (continued)

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

35. Summary of significant accounting policies (continued)

35.2 Revenue recognition

The Group's revised accounting policies in accordance with AASB 15 are as follows:

Revenue from sale of goods

The Group sells a range of coffee, coffee related products, bakery goods and other food items. The sale of these goods is recognised when the control of the products passes to the customer.

Revenues from the sale of goods, in some instances, attract volume discounts based on sales over various periods. Revenue from these sales is recognised at the price in the contract, net of the expected volume discounts. The volume discounts are estimated based on the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur when discounts are finalised.

Revenue from franchise agreements

The Group enters into franchise agreements and master franchise agreements (franchise agreements) with individual franchisees for the operation of the Group's various brand systems. The franchise agreements include a number of cash-flows at various stages of the franchise agreement including initial franchise fees on entry in the franchise agreements, royalties paid by franchisees throughout the term and marketing fees paid by franchisee as a contribution to marketing activities of the respective brands.

The franchise agreements contain one performance obligation being the grant of a licence to franchisees in order to allow them to access the Groups intellectual property over the term of the franchise agreements. The franchise agreements do not contain a material right to a discount on renewal.

This performance obligation is satisfied consistently over the term of the agreement. As such, initial franchise fees and renewal fees for subsequent terms, are recorded on a straight-line basis over the term of the franchise agreement.

In respect of ongoing sales based royalties and marketing fees received, the Group recognise revenue for these royalties and fees as the subsequent franchisee sales occur.

In most cases initial franchise fees are payable on commencement of the franchise agreement, and the royalty is payable on a regular basis throughout the term of the agreement. Payment terms are typically 7 days. There are certain circumstances where initial fees are due for payment over a longer term.

Renewal fees are payable on commencement of the franchise agreement renewal period. Payment terms are typically 7 days, however longer term settlement periods may be offered to renewing franchisees.

Where long term settlement periods exist, the Group assesses whether the contract contains a significant financing component. Where a significant financing component does exist, revenue is adjusted for the effects of the time value of money.

Revenue from sale of distribution rights

The Group receives fees from suppliers in exchange for access to supply goods to the franchise network. On commencement of a supply distribution agreement, the Group may receive an upfront fee from the supplier. In addition, over the course of the supply distribution term, the Group also earns volume-based fees based on goods distributed by suppliers to the brand networks.

Each supply agreement has been assessed as having a single performance obligation relating to the grant of distribution rights to the suppliers for a specific period of time. This performance obligation is satisfied over the term of the agreement either on the basis of time elapsed or units delivered, depending on the terms of the distribution agreement. The ongoing volume-based licence fee is recognised when the subsequent supply occurs.

Payment terms of initial supplier licence fees vary across agreements. Where long term settlement periods exist, the Group determines the existence of a significant financing component. Where a significant financing component does exist, revenue is adjusted for the effects of the time value of money.

Other revenue

Other revenue, for sales generated from the QSR online platform, is recognised at the point when the goods pass to the customer. Revenue earned from rental income, by supplying free on loan coffee machines, is recognised at the point in time the coffee sales are generated and recognised from these arrangements.

35.3 Income taxes

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

35. Summary of significant accounting policies (continued)

35.3 Income taxes (continued)

Current and deferred tax for the year

Current and deferred taxes are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity). In this case the tax is also recognised outside profit or loss, or where it arises from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax balances

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets, arising from deductible temporary differences associated with such investments and interests, are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences, and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would flow in the manner the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Critical accounting judgements and key sources of estimation uncertainty

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

Assumptions about the generation of future taxable profits, and repatriation of retained earnings, depend on Management's estimates of future cash flows which, in turn, depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. These judgements and estimates have had a direct bearing on the level of impairment taken on receivables, intangibles, and other assets as well as provisions raised for restructuring and other costs. Judgements have also been made in the adoption of leases under AASB 16, in particular about extension and renewal options. Refer to note 35.1(g). Judgements are also required in relation to the application of income tax legislation.

Deferred tax assets

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

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amounts of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the consolidated statement of profit or loss and other comprehensive income.

35. Summary of significant accounting policies (continued)

35.4 Cash and cash equivalents

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

35.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with categories being valued on a weighted average cost basis as determined by the inventory's nature and use.

35.6 Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

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

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

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

- leasehold improvements 5 - 10 years; and
- plant and equipment 2 - 25 years.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

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

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

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

35.7 Intangible assets

Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives (which are estimated to be between 2 - 10 years). The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination, and recognised separately from goodwill, are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

35. Summary of significant accounting policies (continued)

35.7 Intangible assets (continued)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Franchise networks and intellectual property

Intangible assets include franchise networks (consisting of identifiable franchise systems and brand names) and intellectual property (consisting of trademarks, recipes, manuals and systems).

Franchise networks are identified and recognised at the time of a business combination and recorded at their fair value, if their fair value can be measured reliably. Franchise networks acquired separately, and intellectual property are recorded at cost.

Franchise networks and intellectual property are not amortised on the basis that they have an indefinite life and are reviewed annually.

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

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), so the excess is recognised immediately in profit or loss as a bargain purchase gain.

Impairment of goodwill and indefinite life intangible assets

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's operating segments expected to benefit from the synergies of the combination. Operating segments, to which goodwill, has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the operating segments is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units. Otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. Hence the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior financial years. A reversal of an impairment loss is recognised immediately in profit or loss.

Determination as indefinite life

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.7 Intangible assets (continued)

Determination as indefinite life (continued)

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

Therefore, consistent with AASB 138 *Intangible Assets*, the Group treats each of its franchise networks and intellectual property rights as having an indefinite life. All such assets are tested for impairment annually.

Internally Generated Intangible Assets, Including Research and Development Expenditure

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

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

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

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

35.8 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, and if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably, a receivable is recognised as an asset.

Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Make-good

A provision has been made for the present value of future make good payments with respect to leased sites for which an onerous lease contract existed on 1 July 2019, and where the Group is presently obliged to make payments under non-cancellable lease contracts, utilising Directors' best estimate of the future costs that will be required to restore the site that existed at the end of the reporting period, to a condition specified in the relevant lease agreement. The estimate has been made on the basis of quotes obtained from restoration specialists or past experience.

The calculation of provision requires assumptions such as the expected costs of making-good the premises. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time.

35. Summary of significant accounting policies (continued)

35.8 Provisions (continued)

Warranties

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

35.9 Share-based payments

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions, with parties other than employees, are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably. In which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Measurement of equity-settled share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Rights subject to marketing conditions have been valued using the Monte Carlo simulation (using the Black-Scholes framework) and rights subject to non-market conditions have been valued using the Black-Scholes option pricing model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

35.10 Financial instruments

Financial Assets

Trade receivables, loans and other receivables that have fixed or determinable payments, that are not quoted in an active market, are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds received, net of direct issue costs.

Financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities only when the Group's obligations are discharged, cancelled or they expire.

Financial guarantee contract liabilities

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

35. Summary of significant accounting policies (continued)

35.10 Financial instruments (continued)

Financial liabilities and equity instruments issued by the Group (continued)

- The amount of the obligation under the contract, as determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; or
- The amount initially recognised less, where appropriate, cumulative amortisation, recognised in accordance with the revenue recognition policies set out in Note 35.2.

Derivatives and hedging activities

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

The Group designates certain derivatives as either:

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 25.10. Movements in the hedging reserve in shareholders' equity are shown in Note 21. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge

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

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

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

(ii) Net investment hedges

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

35. *Summary of significant accounting policies (continued)*

35.11 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 balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

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 statement of profit or loss.

DIRECTORS' DECLARATION

The Directors declare that:

(a) In the Directors' opinion, the financial statements and notes set out on pages 33 to 102 are in accordance with the Corporations Act 2001, including:

   (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the consolidated Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

(b) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) In the Directors' opinion, the financial statements are in compliance with International Financial Reporting Standards, as disclosed in the notes to the financial statements of the 2020 Annual Report;

(d) The Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors made pursuant to s.295 (5) of the *Corporations Act 2001*.

On behalf of the Directors

RETAIL FOOD GROUP LIMITED

Mr Peter George
Executive Chairman

Robina
28 August 2020

Independent auditor's report

To the members of Retail Food Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2020
- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

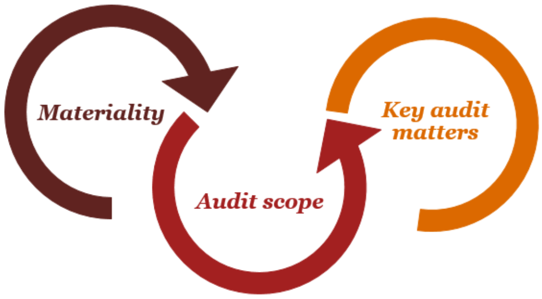
Independence

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

Our audit approach

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

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



Materiality

- For the purpose of the Group audit we used over all Group materiality of $2.8m, which represents approximately 5% of the Group's profit before tax from continuing operations adjusted to exclude the gain on debt forgiveness.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax from continuing operations because, in our view, it is the benchmark against which the performance of the Group would be most commonly measured. We adjusted that benchmark to exclude the gain on debt forgiveness as the amount is a significant one-off item which significantly distorts the overall operating performance of the Group in 2020.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Key audit matters

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

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

Revenue recognition
(Refer to note 2) $236.4m for revenue from continuing operations and (note 28) $27.6m for revenue from discontinuing operations
 	
The Group has several revenue streams across each of its different businesses.
 	
Revenue recognition was a key audit matter due to:
 	
• the complexity involved in applying the requirements of AASB 15,
• the restatement in respect of prior periods associated with initial and renewal franchise fees,
• the significant judgements employed by the Group in the recognition and measurement of revenue from franchise arrangements and the timing of its recognition based on the terms of the relevant agreements,
• each revenue stream is underpinned by different systems, processes and controls, and
• the opportunity for manual intervention, the high volume of transactions and the interfaces of multiple systems with the general ledger presenting conditions for transactions to be recorded incorrectly.
	We performed the following procedures, amongst others:
	
	• developed an understanding of and evaluated the operating effectiveness of relevant key revenue internal controls,
	• assisted by PwC financial reporting specialists, assessed whether the Group's accounting policies were in accordance with the requirements of AASB 15 through consideration of accounting papers on key areas of judgement prepared by the Group,
	• obtained the Group's calculations and supporting information for the restatement and performed the following procedures, amongst others:
	  ◦ tested the mathematical accuracy and assessed the adequacy of the methodology of the calculations used by the Group to identify and quantify the restatement, and
	  ◦ agreed a sample of inputs to the calculation of the restatement to underlying supporting contracts, registers and other evidence.
	• assessed the reasonableness of the Group's revenue assumptions including those in respect of highly probable amounts expected to be received under franchise agreements in calculating unearned revenue,
	• for a sample of new contracts for selected revenue streams we:
	  ◦ developed an understanding of the key terms of the arrangement including parties, term dates, background of agreement, performance obligations and payments to be made; and
	  ◦ considered the Group's identification of performance obligations and allocation of selling prices to the performance obligations.
	• tested the Group's unearned income by checking the mathematically accuracy of a sample of the underlying calculations and the application of AASB 15 to determine the amounts of unearned income to be recognised, and
	• evaluated the adequacy of the disclosures made in notes 2 and 34 in light of the requirements of Australian Accounting Standards.

Key audit matter	*How our audit addressed the key audit matter*
Assessment of recoverability of goodwill and brand intangible assets *(Refer to note 15) $238.1m* The Group has recognised goodwill, indefinite and finite life intangible assets which directly relate to the businesses it operates. As required by Australian Accounting Standards, these non-amortising and amortising assets are tested each year for impairment as part of the cash generating units they relate to. The Group performed impairment assessments over each of its cash generating units (CGUs) by calculating the recoverable amount of each CGU. The recoverable amount was determined by either a value in use or fair value less cost of disposal methodology using discounted cash flow models (the models). The recoverable amount of each CGU was determined by the Group incorporating the Group's expected impact of COVID-19 on each CGU's operations. As a result of the significant impact of COVID-19 on the Group and the broader retail industry, and the uncertainty with regards to the future impact of COVID-19 on the Group's operations, there is considerable judgement involved in estimating the key assumptions used in the Group's impairment valuation models, including discount rates and growth rates incorporated in the modelling. Given the degree of judgement involved in the Group's impairment models as a result of COVID-19, and the financial significance of the goodwill and brand intangible assets recognised on the Group's consolidated statement of financial position, we determined that this was a key audit matter. The Group has recorded impairment charges on goodwill and indefinite life intangible assets totalling $24.7m for the year ended 30 June 2020.	We performed the following procedures, amongst others: • assessed whether the division of the Group's goodwill and intangible assets into CGUs, which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our knowledge of the Group's operations and internal Group reporting, • tested the mathematical accuracy of the impairment models' calculations, • assessed whether the CGUs included assets, liabilities and cash flows directly attributable to each CGU and a reasonable allocation of corporate assets and overheads, • evaluated the Group's methodologies and their documented basis for key assumptions utilised in the impairment models which are described in Note 15, • evaluated the Group's forecast recovery path for each CGU by comparison to selected recently issued economic and industry forecasts, • compared the forecast cash flows used in the impairment models to the most up-to-date budget scenarios approved by the Board, • considered whether the year 1 cash flow forecasts were reasonable by comparing to actual cash flows in FY20, • assessed whether the discount rates appropriately reflected the risks of the CGUs with the assistance of PwC Valuation experts, • assessed the long-term growth rates by comparing to economic forecasts, with the assistance of PwC valuation experts, • compared the combined recoverable amount of the CGUs to the market capitalisation of the Group at 30 June 2020, • assessed the Group's consideration of the sensitivity to a change in key assumptions that either individually or collectively would be required for assets to be impaired and considered the likelihood of such a movement in those key assumptions arising,

Key audit matter	*How our audit addressed the key audit matter*
	• considered whether any impairments taken or other factors had a bearing on whether the indefinite life intangible assets may have a finite life and accordingly should be amortised, and • evaluated the adequacy of the disclosures made in note 15, including those regarding the key assumptions and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards.
Business restructure *(Refer to note 5)* The Group's turnaround strategy has resulted in a number of restructuring initiatives and costs being across the Group. As a result, significant asset impairments and provisions have been recognised in the 30 June 2020 financial report. This was a key audit matter because in recognising asset impairments and provisions, a number of significant judgements were made by the Group. The most significant judgements included the estimation of: • the recoverability of trade receivables and vendor finance amounts due from franchisees (including master franchisees), • the potential impairment of lease assets, • the provision for costs and other expenses directly linked to the restructuring plans the Group is committed to incur, and • the recoverable amounts of intangible assets (including goodwill) attributed to franchise brand systems. This has been addressed in a separate key audit matter.	For the recoverability of amounts due from franchisees (including master franchisees) we performed the following procedures, amongst others: • developed an understanding of the Group's policies and procedures in relation to the recognition of expected credit losses, • made enquiries of management in respect of debtors who have experienced past defaults along with current and forward-looking factors and assessed the risk of the receivables not being settled, • considered selected correspondence between the Group and franchisees in respect of amounts past due or on payment plans, • evaluated the accuracy of the aged receivables listing through tracing a sample to the underlying invoices to assess the dates included in the listing, • tested a sample of trade receivables and vendor finance amounts due from franchisees to subsequent receipts in the bank statements, including testing if they were in line with the agreed payment plans for those franchisees, and tested the allocation of these receipts against outstanding debtor balances, • considered the implications on revenue recognition for amounts receivable subject to credit loss provisions for which revenue had been assessed as highly probable. This was also addressed in the key audit matter on revenue recognition,

Key audit matter	How our audit addressed the key audit matter
	• considered the implications on revenue recognition for amounts receivable subject to credit loss provisions for which revenue had been assessed as highly probable. This was also addressed in the key audit matter on revenue recognition, and • considered the appropriateness of expected credit loss allowances raised in respect of a sample of amounts due from franchisees who had overdue amounts and not paid subsequently. For lease impairment, we performed the following audit procedures, amongst others: • assessed the Group's assumptions made in relation to lease impairment including current trading performance of stores, planned store closure dates and correspondence with landlords, and • for those onerous lease impairments recognised, assessed whether the measurement of the provision was in accordance with criteria outlined in Australian Accounting Standards. For the provision of costs and other expenses associated with restructuring, we performed the following procedures, amongst others: • obtained an understanding and assessed the Group's assumptions relating to expected costs and other expenses associated with the restructuring of the business; and • for a sample of associated provisions, assessed the evidence for the level of provisions raised.

Key audit matter	*How our audit addressed the key audit matter*
Lease accounting *(Refer to note 14)* The Group adopted a new lease accounting policy during the year due to the mandatory introduction of AASB 16 *Leases*. The new policy and the transition impacts disclosed in note 35.1(g). The adoption of a new lease accounting policy was a key audit matter due to the financial significance and complexity of the Group's property lease portfolio and the application of the new AASB 16 requirements.	We performed the following procedures, amongst others: • assessed whether the Group's new accounting policies as set out in note 35.1(g) are in accordance with the requirements of AASB 16, including the adoption of any practical expedients applied by the Group as part of its transition, • recalculated the mathematical accuracy of the Group's AASB 16 lease liability, right of use assets and finance lease receivable calculations performed, • assessed the accuracy of the key inputs into the Group's AASB 16 lease calculations (including key dates, rent payments, term and renewal options) by agreeing a sample to underlying signed lease agreements, • tested the completeness of the lease calculations by comparing this to previously disclosed operating lease commitments, • assessed the reasonableness of the Group's assumptions in respect of lease renewals employed in calculating the lease assets and lease liabilities recognised, • assessed the reasonableness of the incremental borrowing rates applied to discount future lease payments, and • evaluated the adequacy of the disclosures made in note 14 and 35.1(g) in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 15 to 30 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Retail Food Group Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Pricewaterhouse Coopers

PricewaterhouseCoopers

Steven Bosiljevac
Partner

Brisbane
28 August 2020

ADDITIONAL STOCK EXCHANGE INFORMATION

Number of holders of equity securities as at 06 August 2020

Ordinary share capital

- 2,117,995,198 ordinary shares are held by 15,686 individual shareholders.

All issued ordinary shares carry one vote per share.

Distribution of holders of equity securities

	Total holders fully paid ordinary shares	Fully paid ordinary shares	% Issued capital	Total holders options	Options
1 - 1000	5,245	2,465,883	0.12%	-	-
1,001 - 5,000	4,959	12,730,203	0.60%	-	-
5,001 - 10,000	1,577	12,003,010	0.57%	-	-
10,001 - 100,000	2,971	95,549,228	4.51%	-	-
100,001 and over	934	1,995,246,874	94.20%	-	-
	15,686	2,117,995,198	100.00%	-	-

The number of shareholders holding less than a marketable parcel of ordinary shares is 11,115.

Substantial shareholders

Ordinary shareholders	Fully paid		Partly paid	
	Number held	Percentage	Number held	Percentage
Regal Funds Management Pty Ltd (RFM)	275,463,596	13.01%	-	-
Invesco Australia Limited	374,666,356	17.69%	-	-

Twenty largest holders of quoted equity instruments

Ordinary shareholders	Fully paid		Partly paid	
	Number	Percentage	Number	Percentage
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	559,397,828	26.41%	-	-
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	191,048,519	9.02%	-	-
UBS NOMINEES PTY LTD	113,992,684	5.38%	-	-
CITICORP NOMINEES PTY LIMITED	100,345,779	4.74%	-	-
CS THIRD NOMINEES PTY LIMITED	95,742,351	4.52%	-	-
NATIONAL NOMINEES LIMITED	90,615,269	4.28%	-	-
WASHINGTON H SOUL PATTINSON AND COMPANY	80,977,407	3.82%	-	-
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	76,760,233	3.62%	-	-
CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	55,890,902	2.64%	-	-
MOLVEST PTY LTD <MOLVEST FAMILY A/C>	43,650,000	2.06%	-	-
GWYNVILL TRADING PTY LTD	40,000,000	1.89%	-	-
HISHENK PTY LTD	30,000,000	1.42%	-	-
NATIONAL NOMINEES LIMITED <DB A/C>	21,082,407	1.00%	-	-
DELPHI UNTERNEHMENBERATUNG	16,000,000	0.76%	-	-
BNP PARIBAS NOMS PTY LTD <DRP>	15,471,412	0.73%	-	-
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	14,653,359	0.69%	-	-
HORRIE PTY LTD <HORRIE SUPERANNUATION A/C>	10,490,000	0.50%	-	-
ARCHERFIELD AIRPORT CORPORATION PTY LTD	10,000,000	0.47%	-	-
GROVE INVESTMENT GROUP PTY LTD	9,488,925	0.45%	-	-
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	7,504,673	0.35%	-	-
	1,583,111,748	74.75%	-	-