Retail Food Group Limited

APPENDIX 4E (Rule 4.3A)
FINAL REPORT
FOR THE YEAR ENDED 30 June 2023
RESULTS FOR ANNOUNCEMENT TO THE MARKET
(All comparisons to the period ended 1 July 2022)

				FY23 A$'000	FY22 A$'000
Revenue and other income from continuing operations	*Up*	*8.0%*	*to*	120,767	111,843
Total revenues and other income	***Up***	*8.0%*	*to*	**120,767**	**111,843**
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	***Up***	*21.0%*	*to*	**26,019**	**21,508**
AASB 15				1,520	2,797
AASB 16				12,615	7,437
Discontinued Operations and Disposal costs				-	400
Business restructuring, impairment, provisioning and marketing expenses				(36,594)	(14,810)
Gain on debt forgiveness				-	-
Reported earnings before interest, tax, depreciation and amortisation (EBITDA)	***Down***	***(79.5%)***	***to***	**3,560**	**17,332**
(Loss)/profit from continuing operations before income tax	***Down***	***(282.4%)***	***to***	**(9,260)**	**5,076**
Profit/(loss) from discontinued operations before income tax				**-**	**400**
(Loss)/profit before income tax	***Down***	***(269.1%)***	***to***	**(9,260)**	**5,476**
Income tax benefit/(expense) from continuing operations				**314**	**(217)**
(Loss)/profit for the year attributable to members of the parent entity	***Down***	***(270.1%)***	***to***	**(8,946)**	**5,259**
				FY23	**FY22**
Net Tangible Assets/(Liabilities) per security				(0.8) cents	(2.0) 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 2023

Contents

CORPORATE DIRECTORY

Directors	Mr Peter George Executive Chairman Mr David Grant Independent Non-Executive Director Ms Kerry Ryan Independent Non-Executive Director Mr Michael Bulley Non-Executive Director (Appointed 13 March 2023)
Company Secretary	Mr Anthony Mark Connors
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
Auditors	KPMG Level 16, 71 Eagle Street Brisbane QLD 4000
Bankers	Commonwealth Bank of Australia Level 8, Commonwealth Bank Place South 11 Harbour Street Sydney NSW 2000
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 ('RFG', 'Group' or 'Company') present the Annual Report of the Company for the financial year ended 30 June 2023 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. Subsequent to the year end, on 1 July 2023, CEO duties were relinquished upon the appointment of Matthew Marshall as CEO. 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. Mr. George served as Executive Chairman of Nylex Limited from 2004-2008, and Managing Director of B Digital Limited from 2004-2006. Mr George was also a non-executive Director and Chair of the Audit and Risk Committee of Isentia Group Limited (between April and September 2021) and Asciano Limited (from 2007 – 2016), and a non-executive Director of Optus Communications from 1994 - 1998. He is currently non-executive Chairman of Booktopia Group Limited (December 2022 to present).
Mr David Grant	Independent Non-Executive Director, Bachelor of Commerce (Accounting, Finance & Systems), Graduate of the Australian Institute of Company Directors and a member of 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 EVT Limited (formerly Event Hospitality and Entertainment Limited) and The Reject Shop Limited. Former directorships include A2B Australia Limited (where he also briefly served as Executive Chairman), iiNet Limited, Consolidated Rutile Limited and Murray Goulburn Cooperative Limited (including its associated listed unit trust). Mr Grant has 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 25 August 2015. She is an experienced non-executive director across commercial, government and NFP sectors and spanning a range of consumer facing industries, including professional services, AFL, education, health and fitness, and education. Ms Ryan is currently a non-executive director of building services firm, A.G Coombs Group Pty Ltd and Aligned Leisure, a subsidiary of the Richmond Football Club, which runs its health and fitness business and the Club's education arm, the Richmond Institute of Sports Leadership. She is also an external member of the Parliament of Victoria's Audit and Risk Committee. In the NFP sector, Ms Ryan is Vice President and non-executive director of Kids First Australia and is a non-executive director of Mental Health First Aid International. Previous board roles include Richmond Football Club and CPA Australia. 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 well-known retail and food and beverage brands in relation to their international business dealings.
Mr Michael Bulley	Non-Executive Director, Mr Bulley was appointed to the Board on 13 March 2023. Mr Bulley holds extensive retail and small business experience. Having established his first business venture, an independent doughnut shop, in 1989, he grew that business to four stores over the following decade. He then identified enhanced scope for business growth under the Donut King brand system, and in 2002, commenced conversion of his stores to Donut King. Since that time, Mr Bulley has opened six new Donut King stores, and has reinvigorated a further six outlets across multiple RFG Brand Systems. He was also a founding member of the Donut King Franchise Advisory Council and is a qualified pastry chef. He is passionate about developing systems and processes to improve retail business performance, whilst empowering young team members to achieve success within his retail store portfolio.

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	Isentia Group Limited	15 April 2021 to 1 September 2021
	Booktopia Group Limited	1 December 2022 to present
Mr David Grant	EVT Limited (formerly 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 3 October 2022

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	10,965,000
Mr David Grant	1,790,000
Ms Kerry Ryan	1,377,079
Mr Michael Bulley	646,312

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, there were no performance rights granted to the Non-Executive Directors as part of their remuneration.

Senior Executive Management and the Executive Chairman of the Company were granted performance rights in connection with their remuneration. See the Remuneration Report within this Directors' Report for further information on the issue of performance rights.

Directors' meetings

During the financial year, 20 Board meetings, 6 Audit & Risk Management Committee meetings and 7 Nominations & Remuneration Committee meetings were held. 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 (where eligible to attend) is as follows:

Directors	Board of Directors		Audit & Risk Management Committee		Nominations & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr Peter George	20	20	6	6	7	7
Mr David Grant	20	20	6	6	7	7
Ms Kerry Ryan	20	20	6	6	7	7
Mr Michael Bulley (1)	4	4	-	-	-	-

(1) Since the appointment of Michael Bulley on 13 March 2023 the Board held 4 meetings which he was eligible to attend. Mr Bulley is not a member of either the Audit & Risk Management Committee or Nominations & Remuneration Committee.

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 franchise partners, regulators and consumers. The Company's practice is to publish its Corporate Governance Statement, which details the Company's observance of the Corporate Governance Principles & Recommendations (4th Edition), via the Australian Securities Exchange (ASX) and RFG's website at www.rfg.com.au when releasing the Company's Annual Report.

Principal activities

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

- Intellectual property ownership of the Donut King, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, Rack 'em Bones BBQ Ribs, The Coffee Guy, Café2U and Gloria Jean's Coffees Brand Systems;
- Development and or management of the Donut King, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, Rack 'em Bones BBQ Ribs, The Coffee Guy, Café2U and Gloria Jean's Coffees Brand Systems throughout the world, whether directly managed and/or as licensor for all Brand Systems; and
- 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.

There were no significant changes in the nature of the Group's principal activities during the course of the financial year.

Important Information

This Directors' Report contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events and future financial prospects. Forward looking statements include those containing words such as 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan', 'consider', 'foresee', 'aim', 'will' and other similar expressions. 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 actual outcomes to be materially different from the events or results expressed or implied by such statements, and 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') make 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 Directors' Report 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 Directors' Report 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 (underlying performance). Underlying EBITDA is a non-IFRS financial measure and excludes the impact of certain items consistent with the manner in which senior management reviews the financial and operating performance of the Group's business. Each underlying measure disclosed has been adjusted to remove the impact of these items on a consistent basis. A 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 Directors' Report. 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.

Unless otherwise specified, all operational metrics (including Same Store Sales (SSS), Customer Count (CC), Average Weekly Sales (AWS) and Average Transaction Value (ATV) provided in this Directors' Report are based on unaudited reported sales by franchisees amongst stores trading, in the case of a half year, a minimum 23 of 26 weeks, and in the case of a full year, a minimum 46 of 52 weeks, versus unaudited reported sales by franchisees against same stores trading a similar number of weeks during the comparable preceding period (as the case may be).

Operating and Financial Overview

Group Overview

Building upon the momentum from the second half of FY22, the business saw a continued rebound in customer count across domestic coffee based brand systems and strong operational performances across the Group's business in FY23.

Operating and Financial Overview (continued)

- Underlying FY23 Group EBITDA was $26.0 million versus $21.5 million in FY22;
- Domestic network sales grew by 7.2% to $502.5 million in FY23 (FY22: $468.9 million);
- Domestic network Average Transaction Value (ATV) grew +2.4% on the prior comparative period (PCP), which helped to offset the impact on network sales of a -2.4% decrease in trading outlet count vs PCP.

During the financial year, the Group completed its transformational journey , including resolution of the ACCC proceedings without admission of fault, the payment of any pecuniary penalty or being subject to any injunction, disclosure or adverse publicity order; completion of debt refinancing and a capital raise to strengthen the Group's balance sheet, and exit from a number of underperforming sites. The Group enters FY24 with a resilient network capable of withstanding challenging economic conditions, with a more normalised outlet turnover expected. This provides the Group with a strong platform for driving profitability and growth under a newly appointed Chief Executive Officer, Matthew Marshall.

Resolution of ACCC Proceedings:

- On 23 December 2022, the Company announced the resolution of the Federal Court of Australia proceedings commenced by the ACCC against it and certain of its related entities;
- The proceedings were discontinued, without RFG:

  - making any admission as to the ACCC's allegations in the proceedings;
  - paying any pecuniary penalty; or
  - being subject to any injunction, disclosure or adverse publicity order.

  As part of the agreed resolution, RFG entered into an undertaking with the ACCC under section 87B of the Competition and Consumer Act 2010 (Cth). Pursuant to that undertaking, RFG undertook to pay an agreed discrete sum to, and waive certain prior debts owing by, relevant franchisees who acquired corporate stores, calculated based on their individual dealings with the Company, and also to pay an agreed sum to certain franchisees in connection with the Michel's Patisserie marketing fund. RFG also contributed $500 thousand towards the ACCC's legal costs.
- The total amount payable to franchisees under the undertaking was $8,035,055. In addition, the total amount of franchisee debts waived under the undertaking was $1,819,763.

QSR Division (incorporating the Crust Gourmet Pizza, Pizza Capers Brand Systems and Rack 'em Bones)

- FY23 performance of the QSR Division reflects challenging comparatives as the PCP benefited from consumer preferences for takeaway or delivery meal options during the COVID-19 pandemic;
- The QSR Division delivered segment revenue of $19.3 million which was slightly below FY22 of $19.5 million due to a slowdown in consumer demand following strong trading conditions amidst the COVID-19 pandemic. Underlying EBITDA was $5.8 million and down on the prior period in line with segment revenue (FY22: $6.0 million);
- Crust Gourmet Pizza demonstrated steady network sales, including an 4.9% increase in ATV which offset a decline in customer count of -6.7% vs FY22;
- Pizza Capers experienced a customer count decline of 13.9% which outweighed an 4.7% increase in ATV, resulting in an 9.9% decline in FY23 network sales;
- Despite the challenging trading conditions both pizza brands faced in the year, on a SSS, ATV, CC and AWS basis both brands remain stronger than FY19 (Pre COVID-19);
- The full launch of the "Rack 'em Bones BBQ Ribs" virtual brand concept, targeted at supporting the QSR Division, has been a notable success with strong ramp up in network sales in May and June 2023 across 42 trading outlets at 30 June 2023; and
- The success of the virtual brand stems from its design to leverage existing QSR stores' fixed costs and assets to maximise profitability. Rack 'em Bones BBQ Ribs:

  - Represents a simple, low-cost business model which affords incremental sales opportunity within a new food category;
  - Is being pursued as a distinct brand to avoid potential cannibalisation of existing QSR Division sales and menu;
  - Incorporates a compelling 'delivered only' menu underpinned by signature gourmet ribs, with scope for menu extension and innovation;
  - Requires limited set-up and training to commence operations; and
  - Incorporates a pricing structure that allows for third party aggregator cost structures.

Bakery/Café Division (incorporating Donut King, Brumby's Bakery and Michel's Patisserie Brand Systems)

- The Bakery/Café Division grew strongly in the period with segment revenue of $48.0 million (FY22: $40.8 million) driven by growth in Donut King and Brumby's. Underlying EBITDA of $10.9 million (FY22: $7.1 million) demonstrated the significant benefits of adding scale to our business model as revenues normalised in the post pandemic period and we grew AWS by 17.6% to $14.6 thousand.

Operating and Financial Overview (continued)

- The Donut King brand has continued its strong momentum with a 26.6% uplift in network sales driven by an 19.0% improvement in customer count and 6.5% growth in ATV in comparison to FY22;
- Brumby's yielded consistent network sales despite a drop in customer count of 5.5%, offset by a positive 3.7% increase in ATV; and
- Michel's Patisserie navigated a challenging period with a 9.5% decrease in network sales due to net 16 trading outlet closures in FY23. Despite the significant outlet closures ATV grew by 6.0% across the Michel's Patisserie brand.

Coffee Retail Division

- The Coffee Retail division grew segment revenues to $49.3 million, up from $45.3 million in FY22 which was predominantly driven by the Gloria Jeans Australia network's recovery from COVID-19. Underlying EBITDA was $8.5 million (FY22: $7.1 million) for the period;
- Gloria Jean's AU grew network sales by 12.3% in FY23, supported by growth in customer count of 4.6% and a 7.4% increase in ATV;
- Improved trading conditions reported by Master Franchise Partners (MFPs), together with the benefits of prior restructuring activity, facilitated an improved contribution by the International Division to FY23 underlying EBITDA; and
- As at 30 June 2023, international operations comprised 599 trading outlets across 51 licensed international territories in 33 countries.

Di Bella Coffee

- Di Bella Coffee yielded underlying EBITDA of $0.9 million which was down on the prior year result (FY22: $1.2 million) due to continued price competition and costs to serve in the independent food services channel. FY23 saw improved gross margins due to the full year impact of the FY22 exit from certain low margin supermarket supply contracts.
- Di Bella Coffee remains important to the Group through the integration of a coffee supply chain into the Company's other business segments and its ability to supply international markets with greater flexibility than outsourced arrangements.

Impact of coronavirus (COVID-19)

The COVID-19 pandemic and measures to contain it, together with the more recent 'normalised' post COVID-19 trading conditions, have materially changed the global economic outlook, directly or indirectly causing large-scale economic disruption in all markets the Group operates in. The economic disruption could lead, and in some cases has led, to elevated levels of credit losses from business insolvencies and ongoing disruption to trading conditions, including supply chain disruption or delay and inflationary pressures. Management are committed to continuously monitoring the macroeconomic activity and its impacts on the Group in efforts to reduce the adverse financial effects, direct and indirect. The Group has carefully considered the ongoing impacts of COVID-19 in preparing its financial statements for the period ended 30 June 2023.

FY23 Results

Item	FY23	FY22	Change
Revenue from continuing operations[2]	$120.8m	$111.8m	8.0%
EBITDA	$3.6m	$17.3m	(79.5%)
EBITDA Adjustments[1][4]	$22.4m	$4.2m	437.8%
EBITDA (Underlying)[1][2][3]	$26.0m	$21.5m	21.0%
NPAT	($8.9m)	$5.3m	(270.1%)
NPAT Adjustments[1][4]	$31.5m	$13.2m	138.4%
NPAT (Underlying)[1]	$22.6m	$18.5m	22.3%

(1) These figures are not subject to audit or review. A reconciliation of Underlying to Statutory results is presented in the Group's FY23 Investor Presentation accompanying these financial statements.

(2) Revenue from continuing operations includes Revenue from contracts with customers and Other revenue.

(3) Underlying EBITDA excludes the impact of the ACCC proceedings and subsequent resolution thereof, the Michel's Patisserie Class Action and associated costs, restructuring costs, impairment charges, and AASB 15 and AASB 16.

(4) Adjustments include restructuring, ACCC settlement, impairment, AASB15, AASB16 and marketing funds.

FY23 Underlying EBITDA of $26.0 million was $4.5 million above PCP and demonstrated the positive outcomes derived from the Company's turnaround strategy.

Statutory revenue from continuing operations, inclusive of other revenue, for FY23 was $120.8 million, representing an increase of $9.0 million on PCP. The increase in revenues is primarily attributable to a $7.9 million increase in Bakery/Café Brand System segment revenues, including growth in corporate stores.

Cash outflows from operating activities for FY23 were $1.7 million (FY22: $15.4 million cash inflow) due to outflows associated with non-core expenditure for ACCC settlement, legal fees and business restructuring. Operationally, before non-core exceptional items net cash inflows returned to more normalised 'post COVID-19' operations in FY23. Net decrease in cash and cash equivalents of $7.0 million included the impact of the capital raise and refinancing concluded in the year, reflecting the impact of resolution of the ACCC proceedings and other restructuring costs.

Impairment of Intangible Assets

A non-cash impairment charge of $7.3 million was recognised against the Café2U Brand System Brand, Intellectual Property and goodwill intangible assets during FY23, writing down the carrying value of this Brand System to nil, given the current and future forecast trading performance.

Restructuring costs

Restructuring costs totalled $26.0 million, comprising amounts related to the ACCC proceedings and resolution thereof, class action response activities and costs associated with restructuring, including employee costs.

Contingent Liabilities

Michel's Patisserie Class Action:

The Company, along with two of its related entities involved in the operation of the Michel's Patisserie brand system, are respondents in representative proceedings commenced in October 2021 in the Federal Court of Australia by a former Michel's Patisserie franchisee on behalf of herself and certain other Michel's Patisserie franchisees, former franchisees and their related parties. No allegations have been made in the proceedings in respect of the other brand systems operated by the Group.

The proceedings relate to the historical conduct and operation of the Michel's Patisserie brand system under former RFG leadership, including in relation to changes implemented to the supply chain during the period 2015 to 2016 (the 'fresh to frozen' model). The applicant alleges breach of Franchise Agreement, contraventions of the Australian Consumer Law and the Franchising Code of Conduct.

The proceedings were commenced by way of Originating Application and Concise Statement.

At the request of the Company, the representative applicant filed a Statement of Claim in the proceedings.

On 25 October 2022, the Company was successful in obtaining orders from the Court striking out the applicant's entire statement of claim, with costs.

Contingent Liabilities (continued)

The Court provided the applicant leave to replead and file a further Statement of Claim by 6 December 2022.

On 14 December 2022 the applicant filed an Amended Originating Application and Amended Statement of Claim.

On 28 July 2023, the RFG respondent entities filed their Defence to the Amended Statement of Claim. On 1 August 2023, the Court made orders requiring the applicant to file any Reply to that Defence by 31 August 2023.

The proceeding is then set down for further directions on 2 November 2023.

In the proceedings, the representative applicant is seeking damages, declarations, interest and costs. It is currently not possible to determine the potential outcome or financial impact of the proceedings for the Group.

The Company denies the allegations raised against it and its related entities and is vigorously defending the proceedings.

Debt & Equity Raising

During FY23, the Group undertook a $45.3 million debt and equity recapitalisation to reset and strengthen the Group's balance sheet in order to pursue business opportunities. This included an initiative to early refinance its existing senior debt facility (originally due to mature in September 2023) as part of financial risk management to minimise its exposure in uncertain credit markets. This was aimed to improve cash flow with a non-amortising facility to materially reduce leverage and maintain balance sheet flexibility.

Recapitalisation	FY23
Share placement	$24.9m
New debt facility	$20.0m
Share purchase plan	$0.4m
Total value (before costs)	$45.3m

- The Group completed the placement of 311.5 million new ordinary shares, raising $24.9 million before costs, to sophisticated institutional investors at an issue price of $0.08 per share (Share placement plan);
- The Group entered into a new three-year non-amortising $20.0 million secured debt facility with Washington H. Soul Pattinson and Company Limited (New debt facility); and
- The Group conducted a Share purchase plan that provided existing shareholders the opportunity to subscribe for shares at the same price as the share placement plan ($0.08 per share), raising an additional circa $0.4 million.

Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. As reported at 30 June 2023, the Group had $17.9 million (FY22: $22.3 million) in unrestricted cash, and fully drawn senior debt of $20.0 million (FY22: $37.3 million), resulting in a lower net debt position of $2.1 million. The Group had a net current assets position of $11.2 million at 30 June 2023 (FY22: $3.7 million net current liability position) following the refinancing of the Group debt facility and its classification into non-current liabilities. Net current assets includes $14.6 million of net current liabilities at 30 June 2023 (FY22: $20.1 million) arising from recognition of lease assets and liabilities under AASB 16 - Leases.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. In assessing the reasonableness of cash flow projections, the Directors have had regard to recent trading conditions and the strength of the Group balance sheet following the refinancing activity completed within FY23.

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.

Subsequent Events

Effective 1 July 2023, Mr Matthew Marshall was promoted to Chief Executive Officer (previously Head of Retail) and Mr Peter George extended his tenure as Executive Chairman for an additional term of two years. Further details are disclosed in the Remuneration Report and RFG's announcement to the ASX dated 15 June 2023.

There has not been any other matter or circumstance occurring, in the reasonable opinion of the Directors, that may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Dividend

The Directors have resolved that no dividend will be declared or paid with respect to the FY23 period.

Environmental regulations

The Group, due to the nature of its operations, is not required to be environmentally licensed nor is it subject to any material 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.

The Company also recognises the important role all businesses can play in positively influencing change within the environments and communities in which they operate.

Consistent with this philosophy, during FY21 the Group conducted its first materiality assessment on Environmental, Social and Governance (ESG) matters to identify those issues most important to its business and stakeholders, and to inform development of a framework to guide future development of the Group' sustainability initiatives.

During FY23 the Group established its ESG framework to provide a clear 'north star' for the future development of sustainability initiatives. This framework contemplates a commitment to 'Inspiring Towards a Healthy and Prosperous Planet and People' and is underpinned by five key pillars:

- Environmental protection and resource conservation;
- Responsible sourcing and care for our supply chain;
- Excellence in well-being across all of our people;
- Healthier customers, healthier communities; and
- Ensuring a prosperous RFG.

This framework has informed a number of activities, including engagement of a leading climate change consultancy to help RFG establish the Group's inaugural carbon footprint to inform a credible starting point for determining future steps as part of the Group's ESG strategies, the adoption of the Group's Sustainable Packaging Policy, the Group's procurement of SEDEX membership and the redesign of its approach to supply partner onboarding and management, and proactive steps to improve the certification standards of green coffee beans used in the Group's coffee roasting business. In terms of this last initiative, in October 2022 the Group purchased 75% of its Australian operations' green coffee bean requirements as certified coffee and has committed to migrating the entirety of its green bean coffee requirements to 100% certified coffee by the end of FY24.

Additionally, in December 2022 the Group published its inaugural Sustainability Report (available on the Company's website at www.rfg.com.au and on the ASX website) which further reinforced the commitments and actions referred to above whilst providing additional details in relation to a number of the ESG initiatives the Group has implemented to date.

In June 2023 the International Sustainability Standards Board (ISSB) released IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate Related Disclosures, which incorporate recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD). These standards are expected to be effective for the 2027-2028 reporting period for the Group. The Group will commence planning for the introduction of the new standards in FY24.

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 agreements 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),* these agreements indemnify 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 by the auditor during FY23 are outlined in Note 32 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during FY23, 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 32 to the financial statements, do not compromise the external auditor's independence, based on advice received from the Audit & Risk Management Committee, for the following reasons:

Non-audit services (continued)

- 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 34 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.

Business strategies and financial outlook

The Group continues to explore opportunities to facilitate effective and sustainable expansion via new outlets and inorganic growth opportunities. These opportunities include but are not limited to:

- Partnerships with landlords operating new retail formats such as fuel convenience drive-thru locations, including for multi-brand retail opportunities;
- Execution of the Crust intra-territory satellite outlet program, which provides scope for growing territory customer base, improved delivery times and enhanced customer experience;
- Continued expansion of the Gloria Jean's Drive Thru network ; and
- Leveraging existing bricks and mortar outlets to harness virtual outlet opportunities, such as the FY23 introduced Rack 'em Bones BBQ Ribs concept, to expand customer appeal, increase market share and 'sweat' existing assets.

These initiatives form part of a broader roadmap underpinned by four core principles:

- Franchisee first;
- Customer obsessed;
- People matter; and
- Future focussed.

Together these principals inform five over-arching themes to support sustainable growth across the Group's domestic franchise business:

- Effective Franchise Operations: A relentless focus on enhancing operational systems and standards, and building more effective partnerships with franchise partners;
- Digital Acceleration: Expediting investment in digital technology and capability to unlock omni-channel growth opportunities;
- Corporate Stores: Building a corporate store portfolio that demonstrates Brand System benchmarks and fosters retail mindsets;
- Realising Profitability: Effectively managing retail pricing strategies and product mixes to maximise transaction value whilst building effective supply chain partnerships that encourage innovation, sustainability, and a cost-conscious approach; and
- Growth Initiatives: Advancement of strategic growth drivers and new concepts, to provide a pipeline for sustainable future growth.

The Group complements its strategic roadmap with a constant focus on marketing, new product development and efficiency improvements including technology deployment to drive profitability at an outlet level.

RFG seeks to maintain a resilient brand system portfolio well positioned to respond to an increasingly challenging trading environment influenced by inflationary and interest rate pressures, particularly on consumer discretionary spending.

The Company has a clear roadmap for driving sustainable growth and an experienced management team, led by the recently appointed CEO Matt Marshall and CFO Rob Shore, capable of executing its strategy.

The Directors consider that these important attributes, together with the FY23 resolution of legacy regulatory issues, provides a firm platform to pursue a stronger FY24 and a return to consistent long-term and sustainable profitability.

Key Risks

The Group is subject to material business risks that may impact prospects of current and future financial performance, including:

1. Compliance with Laws, Regulations and Undertakings - there is a risk that regulatory interventions and changes in legislation would have a potential impact on the Group's performance, such as changes to the Franchising Code of Conduct and political instability in certain regions or intervention arising out of undertakings provided to regulators. This risk is addressed through continuous monitoring and assessment of the environments and regulations in which the Group's domestic and international franchise networks operate in, proactive management of enforceable undertakings and obtaining advice from external lawyers where required.

2. Safety and Quality - there is a risk that consumers and employees may be harmed if food safety and quality is compromised or a health or safety incident arises. The safety of those impacted by the Group's operations is the Group's highest priority and this risk is addressed by an experienced franchise management team implementing robust food safety and sanitation practices, occupational health and safety practices, audit programs, customer complaint processes and supplier and franchise partner selection protocols and monitoring activities.

3. Competition - there is a risk of the Group being adversely affected by competition given its franchise network competes in several markets with considerably concentrated levels of competition in the Australian and international coffee and retail food sectors. This risk is addressed through strategic planning and close monitoring of the markets in which the Group's franchise networks operate.

4. Global Economic Factors - there is a risk of continued significant inflationary and other macro-economic pressures on consumer behaviour having direct and indirect adverse impacts on the Group's financial and operating performance in both domestic and international franchise networks. This risk is being addressed through active monitoring and negotiations on supplier contracts and financial institutions with refinancing opportunities, and proactive retail pricing strategies.

5. Supply Chain - there is a risk of disruption to the supply chain which could impact delivery of key ingredients efficiently and cost-effectively. This risk is addressed through proactive and constructive relationships with key suppliers; supplier evaluation and monitoring processes; forward-buying and inventory management; the use where possible of multiple suppliers to allow diversification of distribution routes; and regular monitoring and maintenance of coffee roasting infrastructure. The Group's response to the risk of modern slavery is also set out in its Modern Slavery Statements, the most recent of which is available on the Company's website at www.rfg.com.au.

6. New Debt Facility - there is a risk that the Group may transfer ownership of secured assets in the event it breaches debt covenants or is unable to meet repayment obligations. This risk is addressed through having an experienced management team frequently reviewing and reassessing the Group's financial position to meet obligations.

7. Reputation - there is a risk of reputational damage which could impact financial performance since the success of the Group and its brands is heavily influenced by reputation. This risk includes reputational risks associated with the Group's compliance and adherence to stakeholder expectations of RFG in relation to Environmental, Social and Governance ('ESG') expectations. This risk is addressed through having an experienced management team frequently reviewing and assessing the Group's operating activities.

8. Intellectual Property - there is a risk surrounding our ability to protect trade secrets, copyright, domain and business name registrations and trademarks. This risk is addressed through continuous monitoring and assessment of applications and renewals of registrations to minimise exposure to intellectual property risk.

9. Data Security and IT - there is a risk that the Group's IT infrastructure, systems and processes become vulnerable to certain threats, including hacking, data breaches and ransomware as the sophistication and frequency of cyber-crimes continue to increase. The Group manages this risk through information security processes and protections (including, for example, penetration testing and disaster recovery), and user training and education. The Group otherwise continually reviews its information technology systems to ensure that those systems will enable the Group to pursue its strategic plans.

10. Third-party Food Delivery Platforms - there is a risk associated with the Group's considerable reliance on food delivery platforms for certain brands within the network, in particular Crust Gourmet Pizza, Pizza Capers and Rack 'em Bones BBQ Ribs, with reasonable volume of orders processed via online food delivery platforms. The Group relies on operational efficiency and data security measures managed by these third-party online platforms, whilst also implementing initiatives to diversify these brand systems' consumer engagement activities.

11. Franchisee Network Performance - The Group's financial performance is dependent on the compliance levels and success of its existing and future master franchise partners and franchisees and the ability of the Group to grow network population and sales, including via successful corporate outlets, which in turn is influenced by the availability of suitable sites, the ability of the Group to negotiate acceptable lease terms and ability of the Group to attract quality new franchisees and master franchise partners. This risk is reduced through execution of the Group's 'franchisee first' philosophy, a strong understanding of the benchmarked unit economics of individual retail brands (which includes, where appropriate, operating corporate stores which provide an early warning of operational challenges and an ability to trial new innovations for retail success), various operational activities (such as training and marketing initiatives) implemented to support the Group's franchise and corporate store network, loss prevention initiatives, and maintenance of an experienced and capable Growth Team to manage the Group's property portfolio and outlet growth strategy, and implementation of proactive credit management practices in connection with rental arrears owing by franchise parties where the Group is 'head on lease'.

Key Risks (continued)

12. **Changes in Consumer Behaviour** - there is a risk of failure to anticipate, identify and appropriately react to changing consumer trends, demands and preferences could impact the performance of the Group and its franchise network. This risk is managed by monitoring the consumer environment, implementation of effective consumer engagement strategies and new product development designed to meet the changing needs and expectations of consumers.

13. **Pandemic** - The COVID-19 pandemic demonstrated the potential material impact on the Group's operations of a global pandemic, including due to government mandated trading restrictions or evolving market dynamics (particularly amongst CBD and transport hubs precincts). The Group developed a variety of responses to COVID-19, including operational modifications at outlet level, financial support for franchisees, supply chain management initiatives, deferment of non-essential expenditure, landlord engagement initiatives and workforce planning initiatives to reduce payroll costs.

14. **Human Resources** - the Group's ability to develop and grow is reliant on having the right mix of motivated and skilled talent in place. There is also a risk that the Group's performance and reputation could be adversely impacted by wage employment law non-compliance within its corporate or franchise outlet network. The Group mitigates these risks by implementing performance targets, reward and recognition programs; internal leadership and capability programs; employee benefits and assistance programs and an appropriate organisational structure. The Group also invests significant resources in maintaining a wage compliance framework to drive franchise network compliance with employment laws, including outlet audit activities.

15. **Litigation Risk** - The Group may from time to time be involved in legal proceedings or disputes, the outcome of which cannot be predicted with certainty and could be costly and damaging to RFG's reputation and business relationships, performance and financial position. Without limiting the foregoing, the Company and certain of its subsidiaries are parties to Federal Court of Australia representative proceedings, further details in respect of which are provided in Contingent Liabilities note recorded above.

16. **Climate Change** - The Group relies upon suppliers of food products sourced from agricultural products such as milk, flour, coffee and other raw ingredients. Adverse weather and climatic conditions including floods, bushfires, droughts and storms caused or contributed to by climate change may impact on the Group's ability to source these products if supply chain processes are impacted (refer Risk 5 above in relation to mitigating actions). There is also potential scope for physical impacts to RFG's outlet network, including from flood inundation or destruction from bushfires. The Group also recognises the important role all businesses can play in positively influencing change within the environments and communities in which they operate. In this respect, reference should be made to the various initiatives outlined under Environmental Regulations above.

Remuneration report (audited)

The Directors present the Retail Food Group Limited FY23 Remuneration Report, outlining key aspects of the Company's remuneration policy and framework, and remuneration awarded during the financial year.

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and senior executive management (together Key Management Personnel or KMP) for the financial year ended 30 June 2023.

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

1. Key Management Personnel;
2. Remuneration Policy and Framework;
3. Relationship between Remuneration Policy and Group Performance;
4. Remuneration of Directors and Senior Executive Management;
5. Key Management Personnel equity holdings;
6. Key terms of employment contracts;
7. Loans to Key Management Personnel; and
8. Other transactions with Key Management Personnel and Directors of the Group.

1. Key Management Personnel

RFG has identified the following personnel as Key Management Personnel during the year ended 30 June 2023:

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
Mr Michael Bulley	Non-Executive Director (Appointed 13 March 2023)

Senior executive management	Position
Mr Matthew Marshall	Chief Executive Officer (Appointed 1 July 2023 - formerly Head of Retail throughout FY23)
Mr Robert Shore	Chief Financial Officer (Appointed 17 April 2023)
Mr Anthony Mark Connors	Company Secretary, Director Corporate Services
Ms Nicola Swarbrick	Head of Growth (Up until 30 June 2023)
Mr Peter McGettigan	Chief Financial Officer (Up until 7 November 2022)
Mr Damian Zammit	Head of Training and Capability (Up until 28 October 2022)

Matthew Marshall held the role of Head of Retail until 30 June 2023, at which time he was appointed to the role of Chief Executive Officer effective 1 July 2023. While the scope of Mr Marshall's role has changed leading up to the appointment of his new role, he is still considered KMP.

Former Chief Financial Officer, Peter McGettigan, held the role until his departure on 7 November 2022. Mr McGettigan played a key role in the Group's financial management and strategic decisions and is considered a KMP until his departure date. The scope of the role as Chief Financial Officer remains the same upon the appointment of Mr Rob Shore and he is considered KMP from the date of appointment.

Head of Growth, Ms Nicola Swarbrick is not considered KMP from 30 June 2023 following an organisational restructure in June 2023.

2. Remuneration Policy and Framework

Overview

The responsibility for overseeing the remuneration policy and strategy of the Group lies with the Nominations & 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 executive Directors' and senior executive management's remuneration and performance; and
- Making recommendations to the Board regarding Directors' compensation.

The Nominations & Remuneration Committee consists of David Grant (who also acts as Committee Chairman), Kerry Ryan and Peter George, however, all Directors are entitled to attend committee meetings. Executive directors do not vote on matters relating to their own remuneration arrangements.

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.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

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

- Attract, retain and motivate 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, to
- Ensure sustainable value for all stakeholders, including the Group's franchise partner 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.

RFG underwent major reconstruction of its Board and management in the 2019 financial year in order to address the funding and other existential threats then facing the Company and to begin the operational turn-around journey of the Group. At that time, the Board resolved to suspend all pre-existing incentive plans. The Company then instituted a 3 year performance rights plan, approved at the 2019 AGM, to better assure the continuity of RFG Executive Chairman Peter George's role, which was considered by the Board to be critical to the Company's stabilisation and ultimate return to sustainable creation of shareholder value. Since then, the Group's business has stabilized and in FY23 the turn-around was completed, leading the Board to approach the future with confidence.

A critical enabler for success going forward is the Company's ability to attract, retain and incentivize key staff. Appropriate remuneration structures are an important element of this. Accordingly, the Company has implemented Management Incentive Programs appropriate to the financial performance of the Group and participants' roles.

During the year, the Committee did not engage any remuneration consultants and there were no 'remuneration recommendations' (as defined in the Corporations Act) in relation to any KMP during the year.

Executive Chairman Performance Rights Plan

This was an initial three year incentive plan approved by shareholders at the 2019 Annual General Meeting which comprised 15,000,000 Performance Rights (the 'Performance Rights' or 'Rights') linked to FY20, FY21 and FY22 outcomes. Where the Performance Rights vested they were converted to one fully paid ordinary share in RFG each. The criteria for awards were tailored to earnings, organisational improvements and turnaround activities specific to the role.

A second one year incentive plan was approved by shareholders at the 2022 Annual General Meeting, comprising 7,000,000 Performance Rights. If the Performance Rights vest they will convert to one fully paid ordinary share in RFG each. The criteria for award is tailored to earnings, organisational improvements and turnaround activities specific to the role. This plan concludes within the FY23 period upon assessment of the FY23 vesting criteria associated with this grant.

FY22 Senior Management Incentive Program ('SMIP')

The FY22 SMIP comprised:

- An annual short term incentive plan under which participants could earn an award equivalent to 10% of their base salary, which was denominated 50% in cash and 50% in Performance Rights (which, if they vested, converted to one fully paid ordinary share in RFG each). The criteria for awards under this plan was weighted towards earnings based metrics supplemented with bespoke, role specific objectives.
- A one off, long term incentive plan under which participants were granted Performance Rights with vesting conditional on a combination of earnings growth criteria and absolute shareholder return criteria for the three years commencing 1 July 2021. The quantum of rights granted represents between 20% and 50% (depending on role and seniority) of participants' base salary immediately prior to implementation of the plan, divided by the volume weighted average price (VWAP) of RFG shares for the 30 day period prior to and inclusive of 30 June 2021. Each Performance Right granted under the plan will, if they vest, convert to one fully paid ordinary share in RFG.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

As at the date of this report, the FY22 Senior Management Incentive Program extends to 17 senior managers. To the extent that participants are considered Key Management Personnel (KMP) for the purposes of the Corporations Act 2001 (Cth), details of their participation in the program are reported in this Remuneration Report.

FY23 Senior Management Incentive Program

- An annual short term incentive plan under which participants can earn an award equivalent to 10% of their base salary, which is dominated 50% in cash and 50% in Performance Rights (which, if they vest, will convert to one fully paid ordinary share in RFG each). The criteria for awards under this plan is weighted towards earnings based metrics supplemented with bespoke, role specific objectives.

As at the date of this report, the FY23 Senior Management Incentive Program extends to 26 senior managers. To the extent that participants are considered Key Management Personnel (KMP) for the purposes of the Corporations Act 2001 (Cth), details of their participation in the program are reported in this Remuneration Report.

One Off Commencement Grants

In order to implement the Group's forward looking growth strategy, and to better compete for talent, the Board will only consider commencement grants for executive KMP and other executives in exceptional circumstances. Where commencement grants are made, they will be delivered in equity and subject to vesting restrictions linked to tenure with RFG and aligned with those of forgone incentives for the individual who is joining RFG. All commencement grants require approval by the Board after recommendation by the Nominations & Remuneration Committee.

Executive Remuneration Composition

Executive Remuneration comprises fixed compensation, plus performance linked compensation.

Fixed compensation consists of base compensation, which is calculated on a total cost basis, and includes any fringe benefits tax related to employee benefits. Fixed compensation also includes employer superannuation contributions.

Performance linked compensation may comprise both long-term and short-term incentives. The architecture of performance linked remuneration differs between the Executive Chairman and other KMP.

Non-Executive Remuneration does not include any equity consideration.

Non-Executive Remuneration Composition

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; and
- Assessment of individual performance.

There are five components relevant to the FY23 remuneration report:

(A) FY20 to FY22 Executive Chairman Performance Rights Plan ('RFGRP')
(B) FY23 Executive Chairman Performance Rights Plan
(C) FY22 Senior Management Incentive Program
(D) FY23 Senior Management Incentive Program
(E) FY23 One-off Commencement Grants

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(A) FY20 to FY22 Executive Chairman Performance Rights Plan ('RFGRP')

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.

Where the above Performance Rights vested, they were exercised such that each Performance Right entitled the holder thereof to one fully paid ordinary share in the Company, subject to certain disposal restrictions.

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

Details on Rights granted as compensation to the Executive Chairman are as follows:

Key Management Personnel	Number of rights granted during FY20	Financial years in which rights vest [(1)]	Vesting conditions apply to all rights granted	Grant Date	Fair value at grant date
Peter George	3,000,000	FY20	EBITDA, franchise growth and health-related objectives	6 December 2019	$0.10
	5,000,000	FY21	Operational and organisational criteria	6 December 2019	$0.10
	7,000,000	FY22	Quantitative measurements relating to company reputation improvement	6 December 2019	$0.10

(1) The number of Rights which vested were 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 fell, and the fair value of rights expected to vest was recognised as an expense. Financial years noted are as per the terms of the performance rights plan.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(A) FY20 to FY22 Executive Chairman Performance Rights Plan ('RFGRP') (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	Vesting occurs in the financial year subsequent to the performance period and is conditional upon board approval. The criteria for vesting was structured to reflect both financial outcomes and qualitative indicators which pertain to sustainable improvements in the Company's business. These criteria were directly referable to the roadmap of key initiatives and deliverables the Board established in connection with the turnaround of RFG over the three-year period to 30 June 2022. The criteria the Board (excluding Mr George) 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 these Rights are detailed in the Company's Notice of Meeting in respect to its 2019 Annual General Meeting.*
Exercise Price	No amount was payable to exercise a Performance Right that 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 were to be forfeited. In other cases, on termination of employment a portion of Performance Rights whose Measurement Period fell within the financial year in which the termination occurred would be forfeited. The proportion is that which the remainder of the financial year following the termination represented of the full financial year. This provision recognised that grants of Performance Rights were part of the remuneration for the year linked to the Measurement Period and that if part of the year was 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 to which the relevant Measurement Period related, was not a requirement in order for Performance Rights to vest.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(A) FY20 to FY22 Executive Chairman Performance Rights Plan ('RFGRP') (continued)

Aspect	Details
Disposal Restrictions	Shares acquired on exercise of vested Performance Rights were subject to disposal restrictions until all of the following ceased 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 in FY22, arising from the Performance Rights granted to Mr George, was $189 thousand.

(B) FY23 Executive Chairman Performance Rights Plan

Given his oversight of RFG's turnaround plan, which was delayed by a number of factors including the COVID-19 pandemic and the protracted nature of the ACCC litigation, at the start of FY23 the Board considered it in the best interests of the Company that Mr George continue in his current role. In connection with that extended tenure, the Board proposed a grant of 7,000,000 Performance Rights, which, if they vest, will entitle the holder to one ordinary share in RFG per each vested Right. Shareholders approved this grant at the Company's 2022 Annual General Meeting.

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).

Details on Rights granted as compensation to the Executive Chairman are as follows:

Key Management Personnel	Number of rights granted during FY23	Financial years in which rights vest (1)	Vesting conditions apply to all rights granted	Grant Date	Fair value at grant date
Peter George	7,000,000	FY24	Quantitative measurements relating financial performance, resolution of legacy regulatory issues, growth criteria and organisational criteria.	1 December 2022	$0.07

(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, and the fair value of Rights expected to vest is recognised as an expense. Financial years noted are as per the terms of the performance rights plan.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(B) FY23 Executive Chairman 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 7,000,000 Performance Rights.
Measurement Period	The measurement period is the period commencing 2 July 2022 and ending 30 June 2023.
Vesting Conditions	Vesting occurs in the financial year subsequent to the performance period and is conditional upon Board approval. 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 (excluding Mr George) identified for vesting of the performance rights includes: • (Metric 1) 20% to the achievement of certain underlying EBITDA performance criteria.[1] • (Metric 2) 10% to the achievement of a Group re-financing.[1] • (Metric 3) 25% to the achievement of qualitative measures associated with resolving legacy regulatory issues and improving the reputation of the Company.[1] • (Metric 4) 20% to the achievement of certain qualitative growth objectives.[1] • (Metric 5) 25% to the achievement of certain operational and organisational criteria.[1] 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 these Rights are detailed in the Company's Notice of Meeting in respect to its 2022 Annual General Meeting.*
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 (audited) (continued)

2. Remuneration Policy and Framework (continued)

(B) FY23 Executive Chairman Performance Rights Plan (continued)

Executive Chairman Incentive Program (continued)

Aspect	Details
Disposal Restrictions	Shares acquired on exercise of vested Performance Rights were subject to disposal restrictions until all of the following ceased 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 2023, 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 $0.07 per Performance Right. The fair value at grant date has been independently determined.

Total share-based payment expense during the year, arising from the Performance Rights granted to Mr George, was $392 thousand.

(C) FY22 Senior Management Incentive Program

At the Company's 24 November 2021 Annual General Meeting, shareholders approved the issue of 22,555,210 Performance Rights to eligible senior managers (only five of that group were KMP as at that date). Performance rights were issued under both a Short Term Incentive Plan (STI) and Long Term Incentive Plan (LTI). The SMIP was designed to attract, retain and motivate key individuals within a framework which aligns the interests of management with those of the Company's shareholders. Under the plan, participants were 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.

Performance Rights granted under the SMIP 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 STI Rights vested over one year and the LTI rights vest after three years, each with different market and non-market performance vesting conditions and service conditions. The LTI vesting conditions are weighted 50% towards market conditions measured by total shareholder return, and 50% towards non-market conditions being EBITDA growth. The fair value at grant date is shown below against each vesting condition.

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 market conditions have been valued using the Monte Carlo simulation and rights subject to non-market conditions have been valued using the Black-Scholes option pricing model.

Vesting Conditions apply to all rights granted:

- FY22 - EBITDA and role specific KPIs
- FY24 - EBITDA growth and Total Shareholder Return

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(C) FY22 Senior Management Incentive Program (continued)

The following table summarises the Performance Rights granted to Key Management Personnel under the FY22 SMIP and the key terms:

Key Management Personnel	Number of rights granted during FY22	Financial years in which rights vest	Grant Date	Fair value at grant date
Mr Matthew Marshall	302,945	FY23	26 August 2021	$0.08
	1,514,723	FY25	26 August 2021	$0.08
	1,514,722	FY25	26 August 2021	$0.04
Mr Anthony Mark Connors	239,241	FY23	26 August 2021	$0.08
	598,103	FY25	26 August 2021	$0.08
	598,103	FY25	26 August 2021	$0.04
Ms Nicola Swarbrick(1)	161,382	FY23	26 August 2021	$0.08
	403,454	FY25	26 August 2021	$0.08
	403,454	FY25	26 August 2021	$0.04
Mr Peter McGettigan(2)	301,529	FY23	26 August 2021	$0.08
	753,822	FY25	26 August 2021	$0.08
	753,822	FY25	26 August 2021	$0.04
Mr Damian Zammit(3)	240,657	FY23	26 August 2021	$0.08
	601,643	FY25	26 August 2021	$0.08
	601,642	FY25	26 August 2021	$0.04

(1) Ms Nicola Swarbrick ceased to be KMP on 30 June 2023

(2) Mr Peter McGettigan resigned effective 7 November 2022. All rights outstanding on that date were forfeited.

(3) Mr Damian Zammit resigned effective 28 October 2022. All rights outstanding on that date were forfeited.

The key features of the SMIP are summarised below:

Aspect	Details
Number of Performance Rights	A total of 8,989,241 Performance Rights - eligible to vest are as follows: • STI: 1,245,754 Performance Rights; and • STI: LTI: 7,743,487 Performance Rights.
Measurement Period	The measurement period in respect of each tranche of Performance Rights is as follows: • STI: The period commencing 1 July 2021 and ending 30 June 2022; and • LTI: The period commencing 1 July 2021 and ending 30 June 2024.
Vesting Conditions - STI Tranche	The number of Performance Rights that vested in relation to the STI Measurement Period were determined by reference to outcomes achieved against pre-determined criteria. On establishment of the FY22 SMIP, the following STI vesting conditions applied: **STI Metric 1:** 70% weighting to the achievement of certain earnings performance criteria: • Stretch - 100% vesting where FY22 underlying EBITDA was $30.3 million or more • Greater than Target and less than Stretch - Pro-rata vesting where FY22 underlying EBITDA was more than $27.3 million and less than $30.3 million • Target - 50% vesting where FY22 underlying EBITDA was $27.3 million • Less than Target - Nil vesting where FY22 underlying EBITDA was less than $27.3 million

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(C) FY22 Senior Management Incentive Program (continued)

Aspect	Details
Vesting Conditions - STI Tranche	**STI Metric 2:** 30% weighting to the relative achievement of certain Key Performance Indicators (KPIs) linked to the Participant's role and which were aligned with the Company's FY22 strategic imperatives. The Board retained discretion to modify vesting in the case that the circumstances that prevailed over the STI Measurement Period materially differed from those expected at the time the vesting scale/conditions were determined, which was intended to be used when the application of vesting scale/conditions would lead to an outcome that may be viewed as inappropriate. In FY22, the Board exercised the discretion afforded to it and referred to above so that STI Metric 1 was varied to allow for 50% vesting referable to the Company's FY22 underlying EBITDA of $21.5 million. The Board considered it appropriate to exercise its discretion as aforesaid given: • The SMIP was established on the assumption of an orderly transition to normal trading conditions during 1H22 where increasing COVID-19 vaccination rates would facilitate an expedient recovery in business conditions. The contrary was however the case, with both 'Delta' related restrictions and the emergence of the 'Omicron' strain having a significant impact on the Company's performance during FY22; • Having regard to the above factors, the Board considered the Group's FY22 underlying EBITDA performance to represent a creditable result.
Vesting Conditions - LTI Tranche	The number of Performance Rights that vested in relation to the LTI Measurement Period were determined by reference to outcomes achieved against pre-determined criteria. On establishment of the FY22 SMIP, the following LTI vesting conditions applied: **Original LTI Metric 1:** 50% weighting to the Company's achievement of certain Cumulative Average Annual Growth (CAAGR) in underlying earnings criteria set out is as follows: • Stretch - 100% vesting where 3 Year CAAGR of at least 12% applies • Greater than Target and less than Stretch - Pro-rata vesting where 3 Year CAAGR exceeds 8% but is less than 12% • Target - 50% vesting where Minimum 3 Year CAAGR is 8% • Less than Target - Nil vesting where Minimum 3 Year CAAGR is less than 8% Underlying earnings for the purposes of assessing CAAGR are the Company's underlying EBITDA as published in the Company's audited annual accounts. The starting metric for establishing 3 Year CAAGR will be the Company's FY21 underlying EBITDA as published in RFG's FY21 audited accounts. For the purposes of LTI metric 1, references to underlying EBITDA excludes the impact of AASB15 and AASB16 and significant items. The Board also retains discretion to adjust for changes to composition of underlying EBITDA should the Board consider such an adjustment necessary to avoid any unintended benefit or detriment to the Participant. **Original LTI Metric 2:** 50% weighting to the Company's achievement of certain absolute Total Shareholder Return (aTSR) criteria set out is as follows: • Stretch - 100% vesting where aTSR represents a Cumulative Average Annual Return of 40% or more • Greater than Target and less than Stretch - Pro-rata vesting where aTSR represents a Cumulative Average Annual Return of more than 20% and less than 40% • Target - 50% vesting where aTSR represents a Cumulative Average Annual Return of at least 20% • Less than Target - Nil vesting where aTSR represents a Cumulative Average Annual Return of less than 20%. The Board retains discretion to modify vesting in the case that the circumstances that prevailed over the LTI Measurement Period materially differed from those expected at the time the vesting scale/conditions were determined, which is intended to be used when the application of vesting scale/conditions would lead to an outcome that may be viewed as inappropriate.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(C) FY22 Senior Management Incentive Program (continued)

Aspect	Details
Vesting Conditions - LTI Tranche	Having regard to the same factors described above (i.e. COVID-19's impact on 1H22 and subsequent performance), together with the imperative to retain critical talent, during February 2022 the Board exercised its discretion to modify the vesting scale/conditions applicable to the LTI Measurement Period. The revised LTI Metrics are as follows: **Revised LTI Metric 1:** 50% weighting to the Company's achievement of certain Cumulative Average Annual Growth (CAAGR) in underlying earnings criteria set out is as follows: • Stretch - 100% vesting where 3 Year CAAGR of at least 10% applies • Greater than Target and less than Stretch - Pro-rata vesting where 3 Year CAAGR exceeds 8% but is less than 10% • Target - 50% vesting where Minimum 3 Year CAAGR is 6% • Less than Target - Nil vesting where Minimum 3 Year CAAGR is less than 6% **Revised LTI Metric 2:** 50% weighting to the Company's achievement of certain absolute Total Shareholder Return (aTSR) criteria set out is as follows: • Stretch - 100% vesting where aTSR represents a Cumulative Average Annual Return of 25% or more • Greater than Target and less than Stretch - Pro-rata vesting where aTSR represents a Cumulative Average Annual Return of more than 12.5% and less than 25% • Target - 50% vesting where aTSR represents a Cumulative Average Annual Return of at least 12.5% • Less than Target - Nil vesting where aTSR represents a Cumulative Average Annual Return of less than 12.5%. NOTE: All SMIP metrics are for the sole purpose of the SMIP and assisting the Board to assess and reward senior executive manager performance. Vesting scales/conditions established under the SMIP do not represent, and are not intended to represent, guidance in whole or in part regarding the future performance of the Group or the Company's share price.
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.
Termination of Employment	Upon ceasing to be an Employee Performance Rights will be forfeited, unless the Board (in its absolute discretion) determines otherwise.
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)

The assessed fair value at grant date of the Performance Rights granted under the SMIP has been independently determined and is outlined below:

- STI $0.08 per performance right
- LTI where vesting condition equals EBITDA Growth $0.08 per performance right
- LTI where vesting condition equals Total Shareholder Return - $0.04 per performance right

Total share-based payment expense during FY23, arising from the Performance Rights granted to Key Management Personnel, was $76 thousand.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(D) FY23 Senior Management Incentive Program

The Board approved the issue of 6,053,583 Performance Rights to eligible senior managers on 5 December 2022 (only three of that group were KMP at that date). Performance Rights were issued in relation to a Short Term Incentive Plan (STI). The SMIP is designed to attract, retain and motivate key individuals within a framework which aligns the interests of management with those of the Company's shareholders. 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.

Performance Rights granted under the SMIP 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 STI Rights vest over one year with non-market performance vesting conditions and service conditions. The fair value at grant date is shown below.

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 non-market conditions have been valued using the Black-Scholes option pricing model.

Vesting Conditions apply to all Rights granted which in relation to the FY23 STI are EBITDA and role specific KPIs.

The following table summarises the Performance Rights granted to persons who were Key Management Personnel on commencement of the FY23 SMIP and the key terms:

Key Management Personnel	Number of rights granted during FY23	Financial years in which rights vest (1)	Grant Date	Fair value at grant date
Mr Matthew Marshall	487,472	FY24	5 December 2022	$0.05
Mr Anthony Mark Connors	384,966	FY24	5 December 2022	$0.05
Ms Nicola Swarbrick (2)	259,681	FY24	5 December 2022	$0.05

(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, and the fair value of rights expected to vest is recognised as an expense. Financial years noted are as per the terms of the performance rights plan.

(2) Ms Nicola Swarbrick ceased to be KMP on 30 June 2023.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(D) FY23 Senior Management Incentive Program (continued)

The key features of the SMIP are summarised below:

Aspect	Details
Number of Performance Rights	A total of 1,132,118 Performance Rights (related to KMP)
Measurement Period	The measurement period is the period commencing 2 July 2021 and ending 30 June 2023
Vesting Conditions - STI Tranche	The number of Performance Rights (if any) that vest in relation to the STI Measurement Period will be determined by reference to outcomes achieved against pre-determined criteria. On establishment of the FY23 SMIP, the following STI vesting conditions applied: **STI Metric 1:** 70% weighting to the achievement of certain earnings performance criteria: • Stretch - 100% vesting where FY23 underlying EBITDA is $29.1 million or more • Greater than Target and less than Stretch - Pro-rata vesting where FY23 underlying EBITDA is more than $26.2 million and less than $29.1 million • Target - 50% vesting where FY23 underlying EBITDA is $26.2 million • Less than Target - Nil vesting where FY23 underlying EBITDA is less than $26.2 million **STI Metric 2:** 30% weighting to the relative achievement of certain Key Performance Indicators (KPIs) linked to the Participant's role and which were aligned with the Company's FY23 strategic imperatives. The Board retained discretion to modify vesting in the case that the circumstances that prevailed over the STI Measurement Period materially differed from those expected at the time the vesting scale/conditions were determined, which was intended to be used when the application of vesting scale/conditions would lead to an outcome that may be viewed as inappropriate. In FY23, the Board exercised the discretion afforded to it and referred to above so that STI Metric 1 is varied to allow for 50% vesting referable to the Company's FY23 underlying EBITDA of $26.0 million. The Board considered it appropriate to exercise its discretion as aforesaid: • Given the SMIP was established on the assumption of normalised trading conditions throughout the year, however trading conditions deteriorated following an unprecedented 12 interest rate rises between May 2022 and June 2023 which impacted H2 trading. • Having regard to the above factors, and that Underlying EBITDA only missed the original target by only $0.2 million, the Board considered the Group's FY23 underlying EBITDA performance to represent a creditable result.
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.
Termination of Employment	Upon ceasing to be an Employee Performance Rights will be forfeited, unless the Board (in its absolute discretion) determines otherwise.
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)

The assessed fair value at grant date of the Performance Rights granted under the SMIP has been independently determined and is outlined above.

Total share-based payment expense during the year, arising from the Performance Rights granted to Key Management Personnel was, $32 thousand.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

(E) FY23 One-off Commencement Grant

The Board approved the grant to Robert Shore, Chief Financial Officer, of 2,000,000 performance rights on 29 June 2023. The Board considered this grant as appropriate having regard to the criticality of the appointment and in recognition of the equity arrangements forgone upon change of employer. The One-off Commencement Grant made will be delivered in equity and subject to vesting conditions aligned with service tenure.

There is no amount payable by Mr Shore 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 for each Performance Right which vests, with no ability to settle in cash or cash equivalent.

Performance Rights granted under the One-off Commencement Grant 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 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 non-market conditions have been valued using the Black-Scholes option pricing model.

The following table summarises the Performance Rights granted to Key Management Personnel under the FY23 One-off Commencement Grant and the key terms:

Aspect	Details
Number of Performance Rights	A total of 2,000,000 Performance Rights.
Service Period	The service period commencing 17 April 2023 and ending 16 April 2026.
Vesting Conditions	A 3 year continuity of service condition between 17 April 2023 to 16 April 2026.
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.
Termination of Employment	If Mr Shore ceases to be an employee, his Performance Rights will be forfeited, unless the Board (in its absolute discretion) determines otherwise.
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)

The assessed fair value at grant date of the Performance Rights granted to Mr Shore was $0.07 per Performance Right.

Total share-based payment expense during the year, arising from the Performance Rights granted to Mr Shore, was $10 thousand.

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Summary of details of performance rights affecting current and future remuneration

Details of vesting profiles and the Rights held at 30 June 2023 by each key management personnel of the Company are detailed below. Rights are expensed over the period from Grant date to Vesting date which may cover multiple financial years.

	Instrument		Grant Date	% achieved in year	% not achieved in year	Financial years in which grants assessed	Maximum value of grant yet to vest as at 30 June 2023[(1) (2)]
Mr Peter George	Rights	7,000,000	1 December 2022	80%	20%	FY23	392,000
Mr Matthew Marshall	Rights	3,029,445	26 August 2021	n/a	n/a	FY24	181,776
Mr Matthew Marshall	Rights	487,472	5 December 2022	50%	50%	FY23	13,910
Mr Robert Shore	Rights	2,000,000	29 June 2023	n/a	n/a	FY26	140,000
Mr Anthony Mark Connors	Rights	1,196,205	26 August 2021	n/a	n/a	FY24	71,772
	Rights	384,966	5 December 2022	50%	50%	FY23	10,985
Ms Nicola Swarbrick[(3)]	Rights	806,907	26 August 2021	n/a	n/a	FY24	48,414
	Rights	259,681	5 December 2022	50%	50%	FY23	7,410

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

(2) n/a: LTI performance rights for KMP are assessed at the end of the 3 year performance period (end FY24). No assessment of % achieved at end FY23 is made with respect of the LTI performance rights.

(3) Ms Nicola Swarbrick ceased to be KMP on 30 June 2023

The table below shows a reconciliation of Performance Rights held by each Key Management Personnel, 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.

FY22 Executive	Grant Date	Balance at the start of the year	Number of rights granted during FY23	Number of Rights Vested[(1) (2)]	Vested %	Number of Rights Forfeited or Lapsed	Forfeited or Lapsed %	Balance of unvested rights at the end of the year
Mr Peter George	26 August 2021	7,000,000		(4,655,000)	67%	(2,345,000)	33%	-
	1 December 2022		7,000,000[(1)]	-	-	-	-	7,000,000[(2)]
Mr Matthew Marshall	26 August 2021	3,332,390	-	(181,767)	5%	(121,178)	4%	3,029,445
	5 December 2022	-	487,472	-	-	-	-	487,472[(3)]
Mr Robert Shore	29 June 2023	-	2,000,000	-	-	-	-	2,000,000
Mr Anthony Mark Connors	26 August 2021	1,435,447	-	(143,545)	10%	(95,696)	7%	1,196,206
	5 December 2022	-	384,966	-	-	-	-	384,966[(3)]
Ms Nicola Swarbrick	26 August 2021	968,290	-	(96,289)	10%	(64,553)	7%	806,907
	5 December 2022	-	259,681	-	-	-	-	259,681[(3)]
Mr Peter McGettigan[(4)]	26 August 2021	1,809,173	-	(180,917)	10%	(1,628,256)	90%	-
Mr Damian Zammit[(4)]	26 August 2021	1,443,941	-	(144,394)	10%	(1,299,547)	90%	-

(1) 7,000,000 performance rights have been granted in accordance with the terms set out in the explanatory notes to RFG's 2022 Notice of Annual general meeting released to the ASX on 28 October 2022.

(2) Subsequent to year end, the company anticipates 5,600,000 ordinary shares will be issued on the vesting of 5,600,000 performance rights, and 1,400,000 rights will be forfeited.

(3) 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. Financial years noted are as per the terms of the performance rights plan.

(4) Peter McGettigan and Damian Zammit both resigned from RFG during FY23 and outstanding Rights were forfeited upon cessation of their employment.

3. 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 2023 is provided in accordance with the requirements of the Corporations Act as follows:

Remuneration report (audited) (continued)

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

Metrics	FY19	FY20	FY21	FY22	FY23
Share price at start of financial year	$0.54	$0.13	$0.07	$0.07	$0.04
Share price at end of financial year	$0.13	$0.07	$0.07	$0.04	$0.06
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic EPS (Underlying)	5.9 cps	1.4 cps	1.1 cps	0.9 cps	1.0 cps
Basic EPS[1]	(81.7 cps)	(0.3 cps)	0.1 cps	0.2 cps	(0.4 cps)
Diluted EPS[1]	(81.7 cps)	(0.3 cps)	0.1 cps	0.2 cps	(0.4 cps)

(1) EPS figures are as historically reported.

Remuneration report (audited) (continued)

4. 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.

FY23	Short-term Benefits				Long-term Benefits				
Name	Salary & fees [1]	Bonus [2]	Other [4]	Performance Rights	Super-annuation	Performance Rights	Other [3]	Termination Benefits	Total
	$	$	$	$	$	$	$	$	$
Non-Executive Directors									
Mr David Grant									
2023	134,703	-	-	-	14,157	-	-	-	148,860
2022	135,221	-	-	-	13,522	-	-	-	148,743
Ms Kerry Ryan									
2023	118,182	-	-	-	12,420	-	-	-	130,602
2022	130,587	-	-	-	13,059	-	-	-	143,646
Mr Michael Bulley									
2023	30,630	-	-	-	3,216	-	-	-	33,846
Executive Director									
Mr Peter George									
2023	579,598	-	40,432	392,000	25,292	-	-	-	1,037,322
2022	596,166	-	26,980	-	23,568	189,471	-	-	836,185
Senior Executive Management									
Mr Matthew Marshall									
2023	413,260	13,910	16,500	13,910	25,292	20,868	-	-	503,740
2022	408,318	13,163	16,500	13,289	23,568	44,432	-	-	519,270
Mr Robert Shore									
2023	120,928	-	346	-	6,323	9,593	-	-	137,190
Mr Mark Connors									
2023	360,046	10,985	1,800	10,985	25,292	18,283	(20,795)	-	406,596
2022	330,884	10,395	1,800	10,495	23,568	17,544	6,415	-	401,101
Ms Nicola Swarbrick									
2023	223,153	7,410	-	7,410	24,382	12,333	-	-	274,688
2022	237,091	7,012	-	7,079	22,551	11,835	-	-	285,568
Mr Peter McGettigan									
2023	211,881	-	623	-	10,968	(11,522)	(110,545)	-	101,405
2022	422,949	13,102	1,800	13,227	23,568	22,112	8,303	-	505,061
Mr Damian Zammit [5]									
2023	69,465	-	554	-	11,077	(9,196)	-	43,822	115,722
2022	305,083	10,457	116,189	10,557	22,921	17,648	-	-	482,855
2023 Total	2,261,846	32,305	60,255	424,305	158,419	40,359	(131,340)	43,822	2,889,971
2022 Total	2,566,299	54,129	163,269	54,647	166,325	303,042	14,718	-	3,322,429

(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) Bonus includes short-term incentive bonus relating to performance during the reporting period using the criteria set out on pages 21 and 24. The amount has been recognised as an expense during the year. The final amount paid will be determined after reporting date when performance reviews are completed and approved by the remuneration committee.

(3) 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.

(4) Other short-term benefits include allowances and benefits paid or provided to individuals as part of their respective employment contract.

(5) Included within 'Other' for Mr Damian Zammit in FY22 is an ex gratia payment upon his appointment to the position of Head of Training and Capability. Mr Damian Zammit received ex gratia termination benefit and left the Group on 28 October 2022.

Remuneration report (audited) (continued)

5. Key Management Personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY23	Balance 2 July 2022	Granted as Compensation	Received on Vesting of Rights (2)	Net Other Change	Purchases from Share Purchase Plan	Balance 30 June 2023
Name	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Mr David Grant						
2023	1,540,000	-	-	-	250,000	1,790,000
2022	1,100,000	-	-	440,000	-	1,540,000
Mr Kerry Ryan						
2023	1,189,579	-	-	-	187,500	1,377,079
2022	1,189,579	-	-	-	-	1,189,579
Mr Michael Bulley (1)						
2023	-	-	-	646,312	-	646,312
2022	-	-	-	-	-	-
Executive Director						
Mr Peter George						
2023	6,060,000	-	4,655,000	-	250,000	10,965,000
2022	2,100,000	-	3,960,000	-	-	6,060,000
Senior Executive Management						
Mr Matthew Marshall						
2023	-	-	181,767	-	-	181,767
2022	-	-	-	-	-	-
Mr Robert Shore (5)						
2023	-	-	-	1,250,000	-	1,250,000
2022	-	-	-	-	-	-
Mr Anthony Mark Connors						
2023	195,567	-	143,545	-	-	339,112
2022	195,567	-	-	-	-	195,567
Ms Nicola Swarbrick						
2023	-	-	96,289	-	-	96,289
2022	-	-	-	-	-	-
Mr Peter McGettigan (3)						
2023	150,000	-	180,917	-	-	330,917
2022	150,000	-	-	-	-	150,000
Mr Damian Zammit (4)						
2023	-	-	144,394	-	-	144,394
2022	-	-	-	-	-	-
2023 Total	9,135,146	-	5,401,912	1,250,000	1,333,812	17,120,870
2022 Total	4,735,146	-	3,960,000	440,000	-	9,135,146

(1) As at the date of Mr Michael Bulley's appointment on 13 March 2023.
(2) The performance rights vested and shares were issued in FY23 with respect to the FY22 Short Term Incentive Plan. With respect to the FY23 performance period, to the extent that rights vest, shares will be issued in FY24.
(3) As at the date of Mr Peter McGettigan's resignation on 7 November 2022.
(4) As at the date of Mr Damian Zammit's resignation on 28 October 2022.
(5) As at the date of Mr Robert Shore's appointment on 17 April 2023.

Details of the Performance Rights Plan and the Senior Management Incentive Program are contained in Note 23.

Remuneration report (audited) (continued)

6. 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.

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

Role	FY23	FY22
Chairman [1]	-	-
Non-executive Director	$110,000	$110,000
Audit & Risk Management Committee Chairman	$20,000	$20,000
Nomination & Remuneration Committee Chairman	$17,500	$17,500
Committee Member*	$10,000	$10,000

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

(1) Mr George as Chairman and CEO is remunerated as an Executive.

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.

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 at 30 June 2023 are as follows:

Name	Particulars
Mr Peter George	Minimum of six (6) months' notice to either party. The Group may terminate the employee by payment of equivalent salary of the required notice in lieu.
Mr Matthew Marshall	Up until the 30 June 2023, minimum of three (3) months' notice to either party. The Group may terminate the employee by payment of equivalent salary of the required notice in lieu. Upon the appointment to Chief Executive Officer, effective 1 July 2023, minimum of six (6) months' notice to either party. The Group may terminate the employee by payment of equivalent salary of the required notice in lieu.
Mr Robert Shore	Minimum of six (6) months' notice to either party. The Group may terminate the employee by payment of equivalent salary of the required notice in lieu.
Mr Mark Connors	Minimum of six (6) months' notice to either party. The Group may terminate the employee by payment of equivalent salary of the required notice in lieu.
Ms Nicola Swarbrick	Minimum of one (1) months' notice to either party. The Group may terminate the employee by 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.

7. Loans to Key Management Personnel

There were no loans outstanding at the end of the financial year (FY22: $nil) to Directors or Senior Executive Management or their related parties.

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

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

Consolidated	FY23 $	FY22 $
Consolidated loss includes the following (income) / expenses arising from transactions with key management personnel of the Group or their related parties:		
Consulting services	-	8,047
Franchise trading activity	(223,125)	-
ACCC Resolution	19,507	-
	(203,618)	8,047

During FY22, the Group engaged the services of production agency, Light up Gold Pty Ltd, being a related party of Mr Peter George. Nil was billed to the Group during FY23 (FY22: $8,047) and there was no balance payable as at 30 June 2023 (FY22: Nil)

From the date of Mr. Michael Bulley's appointment to the Board on 13 March 2023, the Group received income through normal trading activity with

- MJJA Pty Ltd ACN 080 438 802 as trustee for The JAM Family Trust;
- BBJAM Bulley Pty Ltd ACN 653 895 857;
- AJJM Bulley Pty Ltd ACN 641 802 431; and
- MJORD Pty Ltd ACN 161 210 448 as trustee for the MJJRJ Hughes Family Trust.

These entities are related parties of Mr Michael Bulley that operate franchised outlets pursuant to franchises granted by a member of the Group prior to Mr Bulley's appointment as a Director. $223,125 was billed to the related parties by the Group during the period of Directorship. There was no balance owing as at 30 June 2023.

Additionally, on 20 April 2023 the Group paid $19,507 to MJJA Pty Ltd ACN 080 438 802 as trustee For the Jam Family Trust pursuant to the Company's obligations under paragraph 23 of the Undertaking provided to the ACCC, under s87B of the Competition and Consumer Act 2010 (Cth), by RFG on 22 December 2022.

These entities were not related parties until the date of Mr Michael Bulley's appointment on 13 March 2023.

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
23 August 2023

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Retail Food Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Retail Food Group Limited for the financial year ended 30 June 2023 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Stephen Board
Partner

Brisbane
23 August 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

Consolidated	Notes	FY23 $'000	FY22 $'000
Continuing operations			
Revenue from contracts with customers	2	111,374	102,575
Cost of sales	5	(30,620)	(27,531)
Gross profit		80,754	75,044
Other revenue	2	9,393	9,268
Occupancy expenses		(7,083)	(6,322)
Administration expenses		(32,677)	(27,573)
Operating expenses	5	(19,393)	(17,375)
Marketing expenses		(19,219)	(13,276)
Other expenses	5	(16,656)	(12,744)
Finance costs	3	(4,329)	(3,090)
Other gains and losses	5	(50)	1,144
(Loss)/profit before income tax		(9,260)	5,076
Income tax benefit/(expense)	4	314	(217)
(Loss)/profit for the year from continuing operations		(8,946)	4,859
(Loss)/profit from discontinued operations	27	-	400
(Loss)/profit for the year		(8,946)	5,259
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations	20	90	77
Other comprehensive income for the year, net of tax		90	77
Total comprehensive (loss)/profit for the year		(8,856)	5,336
Total comprehensive (loss)/profit is attributable to:			
Equity holders of the parent		(8,856)	5,336
Earnings per share			
From continuing operations:			
Basic (cents per share)	6	(0.4)	0.2
Diluted (cents per share)	6	(0.4)	0.2
Total:			
Basic (cents per share)	6	(0.4)	0.2
Diluted (cents per share)	6	(0.4)	0.2

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

Consolidated	Notes	FY23 $'000	FY22 $'000
Current assets			
Cash and cash equivalents	7	22,263	29,217
Trade and other receivables	8	11,109	7,745
Lease receivables	13	19,309	19,275
Other financial assets	9	878	1,678
Inventories	10	3,717	6,434
Other	11	5,026	2,968
Total current assets		62,302	67,317
Non-current assets			
Lease receivables	13	35,099	30,157
Other financial assets	9	34	83
Property, plant and equipment	12	27,510	23,552
Intangible assets	14	218,404	225,461
Other	11	5,542	3,511
Total non-current assets		286,589	282,764
Total assets		348,891	350,081
Current liabilities			
Trade and other payables	15	9,575	10,731
Borrowings	18	865	9,747
Lease liabilities	13	33,938	39,360
Provisions	16	3,557	7,536
Other	17	3,138	3,659
Total current liabilities		51,073	71,033
Non-current liabilities			
Borrowings	18	19,483	27,218
Lease liabilities	13	56,350	52,093
Deferred tax liabilities	4	-	217
Provisions	16	13,298	5,836
Other	17	8,973	9,907
Total non-current liabilities		98,104	95,271
Total liabilities		149,177	166,304
Net assets		199,714	183,777
Equity			
Issued capital	19	640,316	615,541
Reserves	20	4,355	7,539
Retained losses	21	(444,957)	(439,303)
Total equity		199,714	183,777

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 2023

Consolidated	Notes	Fully Paid Ordinary Shares	Reserves	Retained Losses	Total
		$'000	$'000	$'000	$'000
Balance as at 3 July 2021		615,145	6,191	(443,480)	177,856
Profit for the year	21	-	-	5,259	5,259
Transfer from retained earnings to marketing fund reserve	20, 21	-	1,082	(1,082)	-
Other comprehensive income	20	-	77	-	77
Total comprehensive income		-	1,159	4,177	5,336
Transfer from equity-settled employee benefits reserves	19, 20	396	(396)	-	-
Recognition of share-based payments	20	-	585	-	585
Balance at 1 July 2022		615,541	7,539	(439,303)	183,777
Balance at 2 July 2022		615,541	7,539	(439,303)	183,777
Loss for the year	21	-	-	(8,946)	(8,946)
Transfer from retained earnings to marketing fund reserve	20, 21	-	(3,292)	3,292	-
Other comprehensive income	20	-	90	-	90
Total comprehensive loss		-	(3,202)	(5,654)	(8,856)
Issue of ordinary shares	19	25,288	-	-	25,288
Share issue costs	19	(1,113)	-	-	(1,113)
Transfer from equity-settled employee benefits reserves	19, 20	600	(600)	-	-
Recognition of share-based payments	20	-	618	-	618
Balance at 30 June 2023		640,316	4,355	(444,957)	199,714

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 2023

Consolidated	Notes	FY23 $'000	FY22 $'000
Cash flows from operating activities			
Receipts from customers		116,553	110,144
Payments to suppliers and employees		(116,611)	(93,102)
Interest and other costs of finance paid		(1,905)	(925)
Income taxes refunded/(paid)		265	(708)
Net cash (used in)/provided by operating activities	7	(1,698)	15,409
Cash flows from investing activities			
Interest received		501	24
Repayment of advances to other entities		715	1,126
Disposal of discontinued operations		-	900
Payments for property, plant and equipment		(3,537)	(3,090)
Proceeds from sale of property, plant and equipment		815	236
Payments for intangible assets		(200)	-
Net cash used in investing activities		(1,706)	(804)
Cash flows from financing activities			
Proceeds from issue of equity securities		25,288	-
Share issue costs		(1,113)	-
Lease payments		(11,655)	(12,635)
Proceeds from borrowings		21,148	-
Repayment of borrowings		(37,279)	(7,500)
Debt issue costs		-	(107)
Net cash used in financing activities		(3,611)	(20,242)
Net decrease in cash and cash equivalents		(7,015)	(5,637)
Effects of exchange rate changes on cash and cash equivalents		61	205
Cash and cash equivalents at the beginning of the year		29,217	34,649
Cash and cash equivalents at end of year	7	22,263	29,217

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:

Impact of coronavirus (COVID-19)

The COVID-19 pandemic and measures to contain it, together with the more recent 'normalised' post COVID-19 trading conditions, have materially changed the global economic outlook, directly or indirectly causing large-scale economic disruption in all markets the Group operates in. The economic disruption could lead, and in some cases has led, to elevated levels of credit losses from business insolvencies and ongoing disruption to trading conditions, including supply chain disruption or delay and inflationary pressures. Management are committed to continuously monitoring the macroeconomic activity and its impacts on the Group in efforts to reduce the adverse financial effects, direct and indirect. The Group has carefully considered the ongoing impacts of COVID-19 in preparing its financial statements for the period ended 30 June 2023.

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 franchise partners 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 expected credit losses against > 80% of trade and other receivables that are 30+ days past due.

Lease assets and liabilities

As at 30 June 2023, landlords reported with respect to franchised store leases where the Group is head on lease (HOL) there were lease arrears of $3.7 million (FY22: $8.4 million). The lease arrears balances reported to the Group by landlords are on a net basis, and do include the application by landlords of COVID-19 rental relief in the form of rental abatements.

The Group has recognised a current lease liability at 30 June 2023 for $3.7 million (FY22: $8.4 million), and a corresponding gross lease receivable of $3.7 million (FY22: $8.4 million) from the respective franchise partners occupying the stores to which these arrears apply. An expected credit loss provision (ECL) of $2.8 million (FY22 $6.4 million) was recognised against the lease receivable balance.

In addition, the Group assessed the underlying right-of-use (ROU) assets and lease receivable assets for indicators of impairment. An additional $0.9 million of lease assets were impaired following this assessment, where the franchised outlets were considered a risk of becoming non-viable due to current trading performance. Refer to Note 13.

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 FY23 actual and potential impacts of COVID-19, including referring to independent expert long-term forecasts for the markets in which the Group operates. The indefinite life intangible assets and goodwill of the Cafe2U Brand System were assessed as impaired at 30 June 2023 resulting in an impairment expense of $7.3 million before tax. The Group assessed the remaining carrying values of indefinite life intangible assets and goodwill were not impaired as at 30 June 2023.

The actual results achieved by the Group's cash generating units for the year were comparable to the forecasts used in the 1 July 2022 impairment models.

The Group assessed the carrying values of its property, plant and equipment, for impairment. Lease related ROU assets presented within property, plant and equipment of the Group were impaired as discussed under the foregoing heading "Lease assets and liabilities".

No other property, plant and equipment was assessed as impaired as at 30 June 2023.

Contingent liabilities

Michel's Patisserie Class Action:

The Company, along with two of its related entities involved in the operation of the Michel's Patisserie brand system, are respondents in representative proceedings commenced in October 2021 in the Federal Court of Australia by a former Michel's Patisserie franchisee on behalf of herself and certain other Michel's Patisserie franchisees, former franchisees and their related parties. No allegations have been made in the proceedings in respect of the other brand systems operated by the Group.

The proceedings relate to the historical conduct and operation of the Michel's Patisserie brand system under former RFG leadership, including in relation to changes implemented to the supply chain during the period 2015 to 2016 (the 'fresh to frozen' model). The applicant alleges breach of Franchise Agreement, contraventions of the Australian Consumer Law and the Franchising Code of Conduct.

The proceedings were commenced by way of Originating Application and Concise Statement.

At the request of the Company, the representative applicant filed a Statement of Claim in the proceedings.

Significant changes in the reporting period (continued)

On 25 October 2022, the Company was successful in obtaining orders from the Court striking out the applicant's entire statement of claim, with costs.

The Court provided the applicant leave to replead and file a further Statement of Claim by 6 December 2022.

On 14 December 2022 the applicant filed an Amended Originating Application and Amended Statement of Claim.

On 28 July 2023, the RFG respondent entities filed their Defence to the Amended Statement of Claim. On 1 August 2023, the Court made orders requiring the applicant to file any Reply to that Defence by 31 August 2023.

The proceeding is then set down for further directions on 2 November 2023.

In the proceedings, the representative applicant is seeking damages, declarations, interest and costs. It is currently not possible to determine the potential outcome or financial impact of the proceedings for the Group.

The Company denies the allegations raised against it and its related entities and is vigorously defending the proceedings.

Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. As reported at 30 June 2023, the Group had $17.9 million (FY22: $22.3 million) in unrestricted cash, and fully drawn senior debt of $20.0 million (FY22: $37.3 million), resulting in a lower net debt position of $2.1 million. The Group had a net current assets position of $11.2 million at 30 June 2023 (FY22: $3.7 million net current liability position) following the refinancing of the Group debt facility and its classification into non-current liabilities. Net current assets includes $14.6 million of net current liabilities at 30 June 2023 (FY22: $20.1 million) arising from recognition of lease assets and liabilities under AASB 16 - Leases.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. In assessing the reasonableness of cash flow projections, the Directors have had regard to recent trading conditions and the strength of the Group balance sheet following the refinancing activity completed within FY23.

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.

Refer to Note 33.1 for basis of preparation of the consolidated financial statements.

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 four 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 the Michel's Patisserie, Donut King and Brumby's Bakery Brand Systems);
- QSR Division (incorporating the Crust Gourmet Pizza, Pizza Capers and Rack 'em Bones Brand Systems);
- Coffee Retail Division (incorporating the Gloria Jean's Coffees, Esquires, Café2U and The Coffee Guy Brand Systems); and
- Di Bella Coffee (incorporating wholesale coffee 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 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.

1. Segment information (continued)

1.3 Segment Analysis

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

Segment	Bakery/Café		QSR Systems		Coffee Retail Systems		Di Bella Coffee		Total Continuing Operations	
	FY23 $'000	FY22 $'000	FY23 $'000	FY22 $'000	FY23 $'000	FY22 $'000	FY23 $'000	FY22 $'000	FY23 $'000	FY22 $'000
Revenue	38,225	30,286	13,132	13,148	43,969	40,013	5,551	7,321	100,877	90,768
Impact of AASB 15 & AASB 16	3,320	4,474	357	466	2,791	2,867	11	22	6,479	7,829
Revenue - Restricted Marketing Funds	6,451	6,011	5,767	5,837	2,533	2,425	-	-	14,751	14,273
Inter-segment Elimination	-	-	-	-	-	-	(1,340)	(1,027)	(1,340)	(1,027)
Segment revenue	47,996	40,771	19,256	19,451	49,293	45,305	4,222	6,316	120,767	111,843
Operating EBITDA	10,854	7,137	5,839	6,040	8,459	7,115	867	1,216	26,019	21,508
Impact of AASB 15 & AASB 16	8,535	6,495	(211)	231	6,460	3,560	(649)	(52)	14,135	10,234
Marketing Funds EBITDA									(3,292)	1,082
Restructuring and provisioning									(16,562)	(10,882)
ACCC settlement and legal costs [1]									(9,483)	-
Impairment of intangible assets [2]									(7,257)	(5,010)
Depreciation & amortisation									(8,491)	(8,766)
Finance costs									(4,329)	(3,090)
(Loss)/profit before tax from continuing operations									(9,260)	5,076
Income tax (expense)/benefit									314	(217)
(Loss)/profit after tax for the period from continuing operations									(8,946)	4,859

(1) ACCC settlement and associated legal costs. Refer to Directors' Report for further details.

(2) The Café 2 U (C2U) Brand System was assessed as impaired in 2H23. C2U is included within the Coffee Retail Segment.

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	FY23 $'000	FY22 $'000
Revenue from the sale of goods	51,850	45,523
Revenue from franchise agreements	39,186	37,387
Revenue from the sale of distribution rights	5,587	5,392
Revenue from restricted marketing funds	14,751	14,273
	111,374	102,575
Operating lease income	5,062	5,237
Other revenue	4,331	4,031
	9,393	9,268
	120,767	111,843

The Group's primary revenue streams include revenue from the sales of goods, revenue from the sale of franchise agreements, revenue from the sale of distribution rights and revenue from restricted marketing funds. Revenue from the sale of goods, sale of franchise agreements and restricted marketing funds are derived at a point in time apart from $2.6 million which was derived over time. Operating lease income and revenue from the sale of distribution rights are derived over a period of time.

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, and distribution agreements. Further information can be found in note 17.

Unsatisfied performance obligations
The aggregate amount of the transaction price allocated to initial fees (for which revenue is deferred) is $11.3 million (2022: $12.6 million). Refer to note 17.

Management expects that $2.5 million of the transaction price allocated to unsatisfied performance obligations as of 30 June 2023 will be recognised as revenue during the next reporting period. The remaining amounts will be recognised from 30 June 2024 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	FY23 $'000	FY22 $'000
Finance lease interest	4,427	4,090
Bank interest	1,820	908
Interest expense from continuing operations	6,247	4,998
Finance lease interest income	(2,282)	(2,352)
Other finance costs	364	444
Total finance costs from continuing operations	4,329	3,090

4. Income taxes

4.1 Income tax recognised in profit or loss

Consolidated	Notes	FY23 $'000	FY22 $'000
Current tax:			
In respect of the current year		133	-
In respect of prior periods		(230)	-
		(97)	-
Deferred tax:			
In respect of the current year		(217)	217
In respect of prior periods		-	-
		(217)	217
Total Income tax benefit recognised in the current year relating to continuing operations		(314)	217

4. Income taxes (continued)

4.1 Income tax recognised in profit or loss (continued)

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

Consolidated	FY23 $'000	FY22 $'000
Profit/(loss) from continuing operations before income tax expense	(9,260)	5,076
Income tax (benefit)/expense calculated at 30% (FY22: 30%)	(2,778)	1,523
Effect of:		
Amounts that are (not assessable)/not deductible in determining taxable income/(loss)	1,186	(350)
Non-deductible impairment of goodwill	476	-
Tax adjustments in respect of prior years	(230)	-
(Recognition)/De-recognition of carried forward tax losses	899	(1,095)
Tax losses attributable to discontinued operations	-	120
Other	133	19
Income tax expense/(benefit) recognised in profit or loss (relating to continuing operations)	(314)	217

The tax rate used for the FY23 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	FY23 $'000	FY22 $'000
Share issue costs	19	334	-
Total income tax recognised directly in equity		334	-

4. Income taxes (continued)

4.3 Deferred tax balances

Consolidated FY23	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
	$'000	$'000	$'000	$'000
Temporary differences				
Intangible assets	(47,505)	1,588	-	(45,917)
Unrealised exchange differences	218	(177)	-	41
Leases - ROU asset	(5,020)	(810)	-	(5,830)
Leases - receivable	(16,420)	(2,235)	-	(18,655)
Leases - liability	27,041	(248)	-	26,793
Fixed assets	740	(79)	-	661
Provisions	4,737	1,092	-	5,829
Doubtful debts	2,753	142	-	2,895
Unearned income	3,683	(374)	-	3,309
Share issue costs	1,239	(353)	334	1,220
Other	1,100	(456)	-	644
	(27,434)	(1,910)	334	(29,010)
Unused tax losses and credits				
Tax losses/(credits) (1)	27,217	1,793	-	29,010
	27,217	1,793	-	29,010
	(217)	(117)	334	-

(1) **Unused tax losses reconciliation**

	Unused tax losses	Tax benefit at 30%
	$'000	$'000
Balance at 2 July 2022 - recognised	90,723	27,217
Balance at 2 July 2022 - unrecognised	9,757	2,927
Losses generated in the year ended 30 June 2023	12,087	3,626
Total unused losses at 30 June 2023	112,567	33,770
Balance at 30 June 2023 - recognised	96,701	29,010
Balance at 30 June 2023 - unrecognised	15,866	4,760

(1) The Group has unused revenue tax losses for which no deferred tax asset has been recognised in the amount of $15.9 million (FY22: $9.8 million). All recognised revenue tax losses of $96.7 million and approximately $4.9 million of the unrecognised tax losses relate to the Australian consolidated tax group and the remainder of the unrecognised tax losses of $10.4 million relate to the US and NZ jurisdictions. These tax losses can be carried forward until such time as the Group generates taxable profits against which these losses can be offset.

The Group has a further amount of approximately $91.2 million of unrecognised capital tax losses in the Australian consolidated tax group. These tax losses can be carried forward until such time as the Group generates taxable capital gains against which these losses can be offset.

4. Income taxes (continued)

4.3 Deferred tax balances (continued)

Consolidated FY22	Opening balance	Recognised in profit or loss	Recognise directly in equity	Closing balance
	$'000	$'000	$'000	$'000
Temporary differences				
Intangible assets	(49,047)	1,542	-	(47,505)
Unrealised exchange differences	(65)	283	-	218
Leases - ROU asset	(5,066)	46	-	(5,020)
Leases - receivable	(18,626)	2,206	-	(16,420)
Leases - liability	29,629	(2,588)	-	27,041
Fixed assets	1,222	(482)	-	740
Provisions	3,961	776	-	4,737
Doubtful debts	3,476	(723)	-	2,753
Unearned income	4,597	(914)	-	3,683
Share issue costs	1,887	(648)	-	1,239
Other	1,789	(689)	-	1,100
	(26,243)	(1,191)	-	(27,434)
Unused tax losses and credits				
Tax losses/(credits)	26,243	974	-	27,217
	26,243	974	-	27,217
	-	(217)	-	(217)

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

Consolidated	Notes	FY23 $'000	FY22 $'000
Deferred tax assets		70,402	68,728
Deferred tax liabilities		(70,402)	(68,945)
		-	(217)

4. Income taxes (continued)

4.4 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.

NOTES TO THE FINANCIAL STATEMENTS

5. Loss for the year from continuing operations

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

Consolidated	FY23 $'000	FY22 $'000
Cost of sales	30,620	27,531
Other gains and losses:		
Loss/(gain) on lease modification	338	(1,135)
Gain on disposal of assets	(288)	(9)
Total other gains and losses	50	(1,144)
Operating expenses:		
Wages	17,877	16,447
Franchise partner assistance	173	374
Repairs and maintenance	752	365
Other	591	189
Total operating expenses	19,393	17,375
Other expenses:		
Impairment gain on lease assets	(6,811)	(350)
Impairment (gain)/loss on trade and other receivables	(214)	25
Impairment loss on property, plant and equipment	144	87
Impairment loss on intangible assets	7,257	5,010
Provision increase/(decrease)	7,904	(627)
Depreciation of property, plant and equipment	8,491	8,595
Amortisation - other	-	171
Other	(115)	(168)
Total other expenses	16,656	12,743
Employee benefits expense:		
Equity settled share based payments	618	585
Government wage subsidies	(5)	(332)
Post-employment benefits (defined contribution plans)	2,342	2,095
Other employee benefits (wages and salaries)	28,658	27,307
Total employee benefits expense (1)	31,613	29,655

(1) Employee benefits expense is allocated between administration expenses, operating expenses, selling expenses or cost of sales in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, dependent on the roles performed by the associated employees.

6. Earnings per share

Consolidated	FY23 Cents	FY22 Cents
Basic earnings per share		
From continuing operations	(0.4)	0.2
From discontinued operations	-	-
Basic (cents per share)	(0.4)	0.2
Diluted earnings per share [1]		
From continuing operations	(0.4)	0.2
From discontinued operations	-	-
Diluted (cents per share)	(0.4)	0.2

(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.

6.1 Basic earnings per share

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

Consolidated	FY23 $'000	FY22 $'000
Profit/(loss) for the year		
From continuing operations	(8,946)	4,859
From discontinued operations	-	400
Earnings used in the calculation of basic EPS from continuing and discontinued operations	(8,946)	5,259

Consolidated	FY23 No. '000	FY22 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	2,193,489	2,123,457

Calculation of weighted average number of fully paid ordinary shares		Fully paid ordinary shares issued	Weighted shares[1]
FY23	Date of issue	No. '000	No '000
Balance at beginning of period		2,124,055	2,124,055
Shares issued upon vesting of performance rights	26 August 2022	4,655	3,888
Employee Short Term Incentive performance rights	12 October 2022	1,794	1,286
Placement Shares	9 March 2023	311,522	63,331
Share Purchase Plan	17 April 2023	4,570	929
Total		2,446,596	2,193,489

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

6. Earnings per share (continued)

6.2 Diluted earnings per share

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

Consolidated	FY23 $'000	FY22 $'000
Profit/(loss) for the year		
From continuing operations	(8,946)	4,859
From discontinued operations	-	400
Earnings used in the calculation of diluted EPS from continuing and discontinued operations	(8,946)	5,259

Consolidated	FY23 No. '000	FY22 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS (1)	2,193,489	2,123,457
Adjustments for calculation of diluted EPS – Performance rights	17,955	6,513
Weighted average number of ordinary shares for the purpose of diluted EPS (2)	2,211,444	2,129,970

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

(2) In FY23, diluted EPS is the same as basic EPS as the Group was loss making for 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	FY23 $'000	FY22 $'000
Restricted cash relating to marketing funds and unclaimed dividends	4,372	6,881
Unrestricted cash and cash balances	17,891	22,336
	22,263	29,217

7.2 Restricted cash

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

7.3 Financing facilities

At 30 June 2023, the Group had unused facilities as detailed in the following table. Further details can be found in Notes 18 and 24.

Consolidated	FY23 $'000	FY22 $'000
Secured bank loan facility:		
Amount used	20,000	37,279
Secured ancillary bank facilities (guarantees):		
Amount used	2,495	2,832
Amount unused	6,505	1,168
	9,000	4,000
Secured ancillary bank facilities (other):		
Amount used	-	-
Amount unused	1,000	1,000
	1,000	1,000

7. Cash and cash equivalents (continued)

7.4 Reconciliation of profit/(loss) for the year to net cash flows from operating activities

Consolidated	FY23 $'000	FY22 $'000
Profit/(loss) for the year	(8,946)	5,259
Depreciation of non-current assets	8,491	8,595
Amortisation of intangible assets	-	171
(Gain)/loss on disposal of property, plant and equipment	(288)	(9)
Impairment (gain)/loss on property, plant and equipment	(4,778)	4,031
Impairment loss on intangible assets	7,257	5,010
Impairment loss/(write back) on trade and other receivables	(214)	25
Non-cash employee benefits expense share based payments	618	585
Unrealised foreign exchange (gain)/loss	134	725
Interest income	(504)	(26)
Non-cash operating lease income	(5,062)	(5,237)
Non-cash interest expense	4,427	4,090
Non-cash finance lease income	(2,282)	(2,352)
(Gain)/loss on lease modifications	338	(1,135)
Impairment charges on lease receivables	(1,889)	(3,886)
Lease expenses recognised within financing cash flows	6,300	2,754
Non-cash restructuring and provisioning	7,404	(1,300)
Other	2,647	322
Increase/(decrease) in Current tax liability	265	(708)
Increase/(decrease) in Deferred tax balances	(217)	217
Movements in working capital:		
(Increase)/decrease in Trade and other receivables	(3,954)	(642)
(Increase)/decrease in Inventories	1,903	(2,236)
(Increase)/decrease in Other assets	592	2,369
Increase/(decrease) in Trade and other payables	(10,839)	1,909
Increase/(decrease) in Provisions	(309)	552
Increase/(decrease) in Other liabilities	(2,792)	(3,674)
Net cash generated by operating activities	(1,698)	15,409

7.5 Non-cash investing and financing activities

Acquisition of property, plant and equipment by means of leases was nil (FY22: nil).

7. Cash and cash equivalents (continued)

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 other borrowings $'000	Current borrowing costs $'000	Non-current bank loans $'000	Non-current borrowing costs $'000	Leases $'000
Balance at 2 July 2022	10,000	-	(253)	27,279	(61)	91,453
Recognition of lease arrears	-	-	-	-	-	(4,647)
Repayment of borrowings	-	(731)	-	(36,548)	-	-
Proceeds from borrowings	-	1,879	-	19,269	-	-
Debt forgiveness	-	-	-	-	-	-
Debt issue costs	-	-	-	-	-	-
Amortisation of deferred borrowing costs	-	-	(573)	-	87	-
Reclassification of debt	(10,000)	-	543	10,000	(543)	-
Lease liability additions	-	-	-	-	-	38,389
Lease liability terminations	-	-	-	-	-	(1,293)
Lease Liability - cash[1]	-	-	-	-	-	(33,536)
Lease Liability - effect of movement in exchange rates	-	-	-	-	-	(78)
Balance at 30 June 2023	-	1,148	(283)	20,000	(517)	90,288

(1) Includes $11.7 million paid by the Group with the balance paid by Franchise Partners directly to landlords.

8. Trade and other receivables

8.1 Trade receivables

Consolidated	FY23 $'000	FY22 $'000
Current		
Trade receivables	15,134	12,403
Allowance for impairment	(10,153)	(8,819)
	4,981	3,584
Accrued income	3,454	2,400
Sundry debtors	1,392	1,352
Other	1,282	409
	11,109	7,745

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.

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, the risk profile of the Group counter parties is considered. 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. Additional impairment has been recognised against trade receivables that are at risk of payment default because the debt arose during COVID-19 trading restrictions.

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.

The increase in expected loss rate on current trade receivables is attributable to the loss allowance recognised on rent paid by the Group on behalf of Franchise Partners, which has not been repaid to the Group at reporting date. Where these balances relate to impaired leases, the allowance for expected credit loss and accumulated impairment on leases have been transferred to loss allowance on trade receivables.

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
30 June 2023					
Gross carrying amount - trade receivables	4,023	931	701	9,479	15,134
Loss allowance	(414)	(202)	(257)	(9,280)	(10,153)
1 July 2022					
Gross carrying amount - trade receivables	4,471	410	648	6,874	12,403
Loss allowance	(1,139)	(342)	(583)	(6,755)	(8,819)

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	FY23 $'000	FY22 $'000
Balance at the beginning of the year	8,819	10,737
Reclassification to 'Other' receivables	285	(164)
Reclassification from 'Lease receivables - allowance for expected credit loss' (1)	490	2,366
Reclassification from 'ROU asset - accumulated impairment' (1)	392	677
Reclassification from 'Make-good receivable - loss allowance' (1)	-	144
(Decrease)/increase in loss allowance recognised in profit or loss during the year	1,381	(238)
Receivables written-off during the year as uncollectible	(1,214)	(4,703)
Balance at the end of the year	10,153	8,819

(1) Allowance for expected credit loss and accumulated impairment on leases is reclassified to trade receivables to cover allowance for unpaid rent on impaired leases. These amounts are disclosed above inclusive of GST. The amounts transferred from allowances for expected credit loss and accumulated impairment as disclosed within notes 11, 12 and 13 are exclusive of GST.

9. Other financial assets

Consolidated	FY23 $'000	FY22 $'000
Current		
Loans and receivables carried at amortised cost		
Gross carrying amount - vendor finance (1)	622	761
Loss allowance - vendor finance	(463)	(418)
Gross carrying amount - other receivables (2)	719	1,630
Loss allowance - other receivables	-	(295)
	878	1,678
Non-current		
Loans and receivables carried at amortised cost		
Gross carrying amount - vendor finance (1)	34	83
Gross carrying amount - other receivables (2)	341	1,161
Loss allowance - other receivables	(341)	(1,161)
	34	83
	912	1,761

(1) Vendor finance represents funding provided to franchise partners 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 loans receivable are undertaken at arm's length and can be interest bearing. Recoverability of these loans receivable are assessed on the same basis as trade receivables (Note 8). 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 $60 thousand of vendor finance receivables that were impaired in prior periods were written-off as uncollectable.

(2) Other receivables includes 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	FY23 $'000	FY22 $'000
Stock held for resale	3,717	6,434

The cost of inventories recognised as an expense during the year in respect of continuing operations was $30.6 million (FY22: $27.5 million).

11. Other assets

Consolidated	FY23 $'000	FY22 $'000
Current		
Prepayments	2,708	1,108
Receivables - make-good (1)	4,068	3,544
Allowance for expected credit loss	(1,750)	(1,684)
	5,026	2,968
Non-current		
Prepayments	86	72
Receivables - make-good (1)	6,050	3,807
Allowance for expected credit loss	(594)	(368)
	5,542	3,511
	10,568	6,479

(1) Receivables - make-good relate to the provision recognised for make-good costs associated with franchise store leases. The Group expects that the Franchise Partner will pay the make-good cost at the end of the lease term.

The following table shows the movement in the expected credit loss that has been recognised for Make-good Receivable:

Consolidated	FY23 $'000	FY22 $'000
Balance at the beginning of the year	2,052	1,476
Additional lease impairment recognised during the year	292	707
Reclassification to 'trade receivable - loss allowance' (1)	-	(131)
Balance at the end of the year	2,344	2,052

(1) Allowance for expected credit loss is reclassified to trade receivable to cover defit costs on impaired leases.

12. Property, plant and equipment

Consolidated	Leasehold improvements at cost	Plant & equipment at cost	Motor vehicles at cost	Right-of-use assets	Total
	$'000	$'000	$'000	$'000	$'000
Balance as at 3 July 2021	642	32,839	634	36,587	70,702
Additions	801	2,053	475	18,537	21,866
Disposals	(205)	(554)	(590)	(4,713)	(6,062)
Reclassification of right-of-use assets [(1)]	-	-	-	(10,229)	(10,229)
Reclassification of lease receivables [(2)]	-	-	-	3,622	3,622
Effect of movements in exchange rates	(4)	(10)	(1)	158	143
Balance as at 2 July 2022	1,234	34,328	518	43,962	80,042
Additions	82	3,455	-	28,295	31,832
Disposals	(64)	(317)	(423)	(5,936)	(6,740)
Reclassification of right-of-use assets [(1)]	-	-	-	(22,541)	(22,541)
Reclassification of lease receivables [(2)]	-	-	-	3,282	3,282
Effect of movements in exchange rates	-	3	-	117	120
Balance as at 30 June 2023	1,252	37,469	95	47,179	85,995
Accumulated depreciation and impairment					
Balance as at 3 July 2021	(275)	(29,016)	(607)	(19,832)	(49,730)
Reclassification of right-of-use assets [(1)]	-	-	-	741	741
Disposals	205	512	450	3,498	4,665
Depreciation charge	(178)	(1,057)	(29)	(7,331)	(8,595)
Impairment losses	(88)	(1)	2	(3,944)	(4,031)
Reclassification of inventories	-	(61)	-	-	(61)
Reclassification to 'trade receivable-loss allowance' [(3)]	-	-	-	615	615
Effect of movements in exchange rates	(1)	14	1	(108)	(94)
Balance as at 2 July 2022	(337)	(29,609)	(183)	(26,361)	(56,490)
Reclassification of right-of-use assets [(1)]	-	-	-	680	680
Disposals	3	31	243	492	769
Depreciation charge	(306)	(1,156)	(49)	(6,980)	(8,491)
Impairment losses [(4)]	42	(175)	(11)	4,922	4,778
Reclassification to 'trade receivable-loss allowance' [(3)]	-	-	-	356	356
Effect of movements in exchange rates	-	(1)	-	(86)	(87)
Balance as at 30 June 2023	(598)	(30,910)	-	(26,977)	(58,485)
Net book value					
As at 1 July 2022	897	4,719	335	17,601	23,552
As at 30 June 2023	654	6,559	95	20,202	27,510

(1) Relates to right-of-use assets reclassified to finance lease receivables due to the establishment of a back to back lease contract.
(2) Relates to finance lease receivables reclassified to right-of-use assets.
(3) Amounts relate to trade receivables for impaired lease payments made by the Group on behalf of franchise partners.
(4) Amount includes adjustment for terminated impaired leases.

NOTES TO THE FINANCIAL STATEMENTS

13. Leases

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

13.1 Amounts recognised in the consolidated statement of financial position

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

Consolidated	FY23 $'000	FY22 $'000
Finance lease receivables		
Current		
Lease receivable	23,097	24,804
Allowance for expected credit loss	(4,254)	(6,049)
	18,843	18,755
Non-current		
Lease receivable	40,161	35,265
Allowance for expected credit loss	(5,062)	(5,111)
	35,099	30,154
Operating lease receivables (1)		
Current		
Lease receivable - ROU assets	1,936	4,466
Allowance for expected credit loss	(1,470)	(3,946)
	466	520
Non-current		
Lease receivable - ROU assets	-	7
Allowance for expected credit loss	-	(4)
	-	3
	54,408	49,432
Right-of-use (ROU) assets		
Land & buildings	20,072	17,530
Vehicles & equipment	130	71
	20,202	17,601
Lease liabilities		
Current	33,938	39,360
Non-current	56,350	52,093
	90,288	91,453

(1) Receivables in relation to arrears on leases classified as ROU assets.

The right-of-use (ROU) assets are presented in property, plant and equipment in the Group's consolidated statement of financial position.

13. Leases (continued)

13.1 Amounts recognised in the consolidated statement of financial position (continued)

The following table shows the movement in the expected credit loss that has been recognised for Lease Receivables:

Consolidated	FY23 $'000	FY22 $'000
Balance at the beginning of the year	15,110	18,828
Reclassification from 'right-of-use assets'	1,557	21
Lease impairment recognised/(reversed) during the period	(2,193)	(3,055)
Reclassification to 'trade receivables - loss allowance' (2)	(446)	(2,151)
Expected credit loss/(reversals) on rental arrears & deferrals	(3,242)	1,467
Balance at the end of the year	10,786	15,110

(2) Allowance for expected credit loss is reclassified to trade receivables to cover allowance for unpaid rent on impaired leases.

Minimum undiscounted lease payments for finance leases to be made after reporting date are as follows:

	FY23 $'000	FY22 $'000
Within 1 year	27,511	30,989
Between 1 and 2 years	17,974	15,940
Between 2 and 3 years	12,729	10,672
Between 3 and 4 years	8,029	6,113
Between 4 and 5 years	2,948	2,578
Later than 5 years	1,834	2,565
	71,025	68,857

Minimum undiscounted lease payments for operating leases to be made after reporting date are as follows:

	FY23 $'000	FY22 $'000
Within 1 year	8,402	10,370
Between 1 and 2 years	6,556	6,921
Between 2 and 3 years	5,526	4,797
Between 3 and 4 years	4,021	3,714
Between 4 and 5 years	1,983	2,042
Later than 5 years	741	1,033
	27,229	28,877

13. Leases (continued)

13.2 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:

	FY23 $'000	FY22 $'000
Operating lease income	5,062	5,237
Finance lease interest income	2,282	2,352
Interest expense (finance lease)	(2,282)	(2,352)
Interest expense (operating leases)	(2,145)	(1,738)
Depreciation expense of ROU assets	(6,980)	(7,331)
Impairment gain/(loss) on ROU assets	4,922	(3,536)
Expected credit gain/(loss) - lease receivables	1,889	3,886
Gain/(loss) on lease modification	(338)	1,135

The total cash outflow for leases in FY23 was $11.7 million (FY22: $12.6 million).

13.3 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 for impaired and unimpaired leases. Refer to note 16 for additional detail on provisions.

For operating leases entered into post adoption of AASB 16 where the lease asset is a ROU asset, these costs are capitalised within ROU assets and amortised over the shorter of the term of the lease and the useful life of the assets. For finance leases, where the underlying lease asset is a finance lease receivable, the costs associated with make-good provisions are presented as Receivables - make-good, and classified within other assets. Refer to note 11.

Refer to note 33 for accounting policies for AASB 16.

14. Intangible assets

14.1 Intangible assets

Consolidated		Indefinite Life		Finite Life	Total
	Goodwill	Brand Networks	Intellectual Property Rights	Other	
	$'000	$'000	$'000	$'000	$'000
Gross carrying amount					
Balance as at 3 July 2021	273,057	429,487	5,337	5,240	713,121
Exchange differences	-	-	-	(11)	(11)
Disposals	-	-	-	(3,000)	(3,000)
Balance as at 2 July 2022	273,057	429,487	5,337	2,229	710,110
Exchange differences	-	-	-	-	-
Disposals	-	-	-	-	-
Additions	-	-	200	-	200
Balance as at 30 June 2023	273,057	429,487	5,537	2,229	710,310
Accumulated amortisation and impairment					
Balance as at 3 July 2021	(206,220)	(271,190)	-	(5,006)	(482,416)
Amortisation expense	-	-	-	(171)	(171)
Disposals	-	-	-	2,948	2,948
Impairment losses	-	(5,010)	-	-	(5,010)
Balance as at 2 July 2022	(206,220)	(276,200)	-	(2,229)	(484,649)
Amortisation expense	-	-	-	-	-
Disposals	-	-	-	-	-
Impairment losses	(1,587)	(5,670)	-	-	(7,257)
Balance as at 30 June 2023	(207,807)	(281,870)	-	(2,229)	(491,906)
Net book value					
As at 1 July 2022	66,837	153,287	5,337	-	225,461
As at 30 June 2023	65,250	147,617	5,537	-	218,404

14.2 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.

The indefinite life intangible assets and goodwill of the Cafe2U Brand System were assessed as impaired at 30 June 2023 resulting in an impairment expense of $7.3 million before tax.

In FY22, the indefinite life intangible assets of the Michel's Patisserie Brand System were assessed as impaired at 1 July 2022, resulting in an impairment expense of $5.0 million before tax.

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 FY24 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.

The carrying value, subsequent to recording the impairment of the Brand System, does not exceed the recoverable value of the assets and therefore no further impairment is recognised.

14.3 Useful Life

Brand Networks

14. Intangible assets (continued)

14.3 Useful Life (continued)

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.

14.4 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 and the Group's Di Bella Coffee roasting business.

Goodwill

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

14.5 Allocation of goodwill to cash-generating units

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

Goodwill allocation	FY23 $'000	FY22 $'000
Bakery/Café Systems	37,168	37,168
QSR Systems	12,431	12,431
Coffee Retail Systems	15,651	17,238
	65,250	66,837

14.6 Allocation of indefinite life intangible assets to cash-generating units

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

Indefinite life intangibles allocation	FY23 $'000	FY22 $'000
Donut King Brand System	36,037	36,037
Brumby's Bakery Brand System	20,552	20,552
Crust Gourmet Pizza Bars Brand System	42,132	41,932
Café2U Brand System	-	5,670
Gloria Jeans Brand System	44,783	44,783
Di Bella Coffee	9,650	9,650
	153,154	158,624

14. Intangible assets (continued)

14.7 Impairment losses and recoverable amounts

During FY23, impairment losses totalling $7.3 million (FY22: $5.0 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
FY23:		
Café2U (included within the Coffee Retail CGU)	$7.3m	-
FY22:		
Michel's Patisserie (included within the Bakery/Café CGU)	$5.0m	-

14.8 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 FY24 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 fair value less costs of disposal (FVLCD) calculation based on the following key assumptions and estimates.

Impact of COVID-19 on key assumptions
The COVID-19 pandemic and measures to contain it, together with the more recent 'normalised' post COVID-19 trading conditions, have materially changed the global economic outlook, directly or indirectly causing large-scale economic disruption in all markets the Group operates in. During FY23, the Group experienced more normalised trading conditions but remain vigilant and committed to continuously monitoring the macroeconomic activity and its impacts on the Group.

Year 1 cash-flows
The Group determined the recoverable amount of each CGU and operating segment. FY24 year one cash flow projections are based on internal forecasts. The Group prepared a range of forecast scenarios for the FY24 year, and selected the most likely scenario for the purposes of impairment testing. The Group utilised certain internal forecasting and referred to independent experts FY24 forecasts (incorporating their COVID-19 assumptions), for the markets in which the Group operates, as a basis for selecting a cash-flow growth rate in year one.

Years 2 to 5 cash-flow growth
In preparing forecast scenarios, the Group utilised 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 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.

Discount rates
In determining the appropriate discount rates for impairment testing, the Group utilised independent experts to calculate a range of discount rates applicable to the Group, and apply an additional company specific risk premium.

The following key assumptions have been applied to reflect the specific risks within each operating segment and brand system:

14. Intangible assets (continued)

14.8 Key assumptions used for calculating recoverable amounts (continued)

Cash-generating unit	Average EBITDA CAGR years 2 - 5	Terminal growth rate	FY23 Pre-tax discount rate	FY22 Pre-tax discount rate
Operating Segments for Goodwill testing				
Bakery/Café Systems	6.50%	2.50%	12.24%	12.08%
QSR Systems	4.95%	2.50%	14.07%	12.34%
Coffee Retail Systems	4.60%	2.50%	12.61%	12.43%
Di Bella Coffee	7.47%	2.50%	13.84%	13.19%
Brand Systems				
Donut King Brand System	8.11%	2.50%	12.21%	11.73%
Brumby's Bakery Brand System	3.00%	2.50%	12.56%	12.35%
Crust Gourmet Pizza Bars Brand System	5.00%	2.50%	13.99%	12.56%
Café 2U Brand System	(10.00)%	(5.00)%	24.41%	12.80%
Gloria Jeans Brand System	5.00%	2.50%	12.41%	12.34%
Di Bella Coffee Brand System	7.47%	2.50%	13.84%	13.19%

Significant estimate: Impact of reasonably possible changes in key assumptions

In prior years, the impacts of COVID-19 on the Group resulted in impairments, and a significant reduction in the excess recoverable amounts over carrying values in all cash generating units (CGU's). In FY23, with more normalised trading and an improved, albeit uncertain outlook with respect to macro economic conditions, the Group has seen a recovery in the excess recoverable amounts over carrying values in most CGU's. Whilst the scenario modelling used for impairment testing inherently captures probable and possible impacts, additional temporary and permanent closures of franchised stores, international territories and coffee customers, and reduced revenues due to weaker trading conditions could cause recoverable amounts of CGU's to fall below their respective carrying amounts and trigger additional impairment.

In 2018 to 2022 financial years, the Group significantly reduced the carrying values of intangible assets, recognising $434.4 million impairment against the carrying value of the assets in those financial years. A $7.3 million impairment against the Cafe2U Brand System in the current year has also reduced the carrying value of this asset to nil and lowered the carrying value of the Coffee Retail Systems segment by the same amount.

This significant reduction in carrying values prior to the 2022 year and in the current 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.

Recoverable amounts in cash-generating units are sensitive to certain assumptions, in particular the discount rate used in the cash-flow forecasts. The following table outlines the sensitivity to impairment for each cash-generating unit:

Cash-generating unit	Pre tax discount rate to trigger impairment	
Brand System Assets & IP		
Crust Gourmet Pizza Bars Brand System	15.6%	A reduction in the growth rates in years 2 to 5 by 40% does not cause an impairment;
Donut King Brand System	22.0%	
Brumby's Bakery Brand System	16.7%	
Gloria Jeans Brand System	13.5%	
Di Bella Coffee Brand System	35.6%	
Michel's Patisserie Brand System	n/a	Brand systems have been fully impaired as at 30 June 2023 and there is no likely change in assumptions which would result in a reversal.
Café 2U Brand System	n/a	

Operating Segments for Goodwill testing		
Bakery/Café Systems Segment	15.9%	Reducing growth rates in years 2 to 5 by 40% does not cause an impairment;
QSR Systems	15.9%	
Coffee Retail Systems	13.2%	
Di Bella Coffee	n/a	Goodwill associated with Di Bella has been fully impaired in a prior period and the sensitivity related to the recoverable brand asset amount is noted above.

15. Trade and other payables

Consolidated	FY23 $'000	FY22 $'000
Current		
Trade payables [(1)]	6,836	8,252
Accruals and other creditors	2,627	2,507
Goods and services tax (GST) payable	112	(28)
	9,575	10,731

(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.

16. Provisions

Consolidated	FY23 $'000	FY22 $'000
Current		
Employee benefits	2,227	2,526
Make-good	550	4,458
Other provisions	780	552
	3,557	7,536
Non-current		
Employee benefits	143	117
Make-good	13,155	5,675
Other provisions	-	44
	13,298	5,836
	16,855	13,372

Consolidated	Employee benefits	Make-good	Other
	$'000	$'000	$'000
Balance at 2 July 2022	2,643	10,133	596
Movement in provisions	1,103	3,572	1,120
Payments made [(1)]	(1,376)	-	(936)
Balance at 30 June 2023	2,370	13,705	780

(1) Make-good payments made include amounts reclassified to trade receivables for defit costs paid on impaired leases. These amounts disclosed are GST exclusive. The amounts disclosed within note 8.1 are inclusive of GST.

17. Other liabilities

Consolidated	FY23 $'000	FY22 $'000
Current		
Unearned Income	2,465	2,816
Retention bonds and deposits	673	843
	3,138	3,659
Non-current		
Unearned Income	8,864	9,802
Retention bonds and deposits	109	105
	8,973	9,907

Consolidated - Unearned Income	FY23 $'000	FY22 $'000
Balance at the beginning of the year	12,618	15,235
Additions	1,337	1,194
Decrease in unearned income recognised in profit or loss during the year from:		
- Franchise agreements	(2,163)	(2,964)
- Distribution agreements	(463)	(847)
Balance at the end of the year	11,329	12,618

Capital

18. Borrowings

Consolidated	FY23 $'000	FY22 $'000
Secured at amortised cost		
Current		
Bank loans	-	10,000
Finance liabilities	1,148	-
Borrowing costs (deferred)	(283)	(253)
	865	9,747
Secured at amortised cost		
Non-current		
Bank loans [1]	20,000	27,279
Borrowing costs (deferred)	(517)	(61)
	19,483	27,218
	20,348	36,965

(1) As at 30 June 2023, the Group's total gross debt decreased to $20.0 million (FY22: $37.3 million).

The Group's senior debt facilities mature in April 2026.

The Group is compliant with all debt covenants as at 30 June 2023.

Interest rates are calculated by lenders as BBSY plus margin on the drawn loan balance. See note 24 for information on gearing and interest rates.

19. Issued capital

Consolidated	FY23 $'000	FY22 $'000
2,446,595,505 fully paid ordinary shares (FY22: 2,124,055,198)	640,316	615,541

Changes to the 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	FY23 No. '000	FY23 $'000	FY22 No. '000	FY22 $'000
Fully paid ordinary shares [1]				
Balance at beginning of year	2,124,055	615,541	2,120,095	615,145
Issue of ordinary shares	316,092	25,288	-	-
Transfer from equity-settled employee benefits reserve	6,449	600	3,960	396
Share issue costs	-	(1,113)	-	-
Balance at end of year	2,446,596	640,316	2,124,055	615,541

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

NOTES TO THE FINANCIAL STATEMENTS

20. Reserves

Equity-settled employee benefits reserve	FY23 $'000	FY22 $'000
Balance at beginning of year	847	658
Recognition of share-based payments	618	585
Transfer from equity-settled employee benefits reserve	(600)	(396)
Balance at end of year	865	847

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 23.

Foreign Currency Translation reserve	FY23 $'000	FY22 $'000
Balance at beginning of year	1,080	1,003
Exchange difference on translation of foreign operations	90	77
Balance at end of year	1,170	1,080

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.

Marketing Fund surplus	FY23 $'000	FY22 $'000
Balance at beginning of year	5,612	4,530
(Deficit)/surplus during the period transferred from retained earnings	(3,292)	1,082
Balance at end of year	2,320	5,612

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

Total Reserves	4,355	7,539

21. Retained earnings

Consolidated	FY23 $'000	FY22 $'000
Balance at beginning of year	(439,303)	(443,480)
Net profit/(loss) attributable to members of the parent entity	(8,946)	5,259
Net profit/(loss) attributable to marketing funds reclassed to other reserves	3,292	(1,082)
Balance at end of year	(444,957)	(439,303)

22. Dividends

Company	FY23		FY22	
	Cents per share	Total $'000	Cents per share	Total $'000
Declared and paid during the financial year				
Final dividend - fully franked at 30% tax rate [(1)]	-	-	-	-

(1) The Directors have resolved that no final dividend will be paid in respect of FY23.

Company	FY23 $'000	FY22 $'000
Adjusted franking account balance	50,279	50,279

23. Share-based payments

23.1 FY20 to FY22 Executive Chairman Performance Rights Plan

On 29 November 2019, shareholders approved the grant of 15,000,000 performance rights to Mr Peter George, Executive Chairman of the Company. The RFGRP is designed to provide a long-term incentive 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 participant 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.

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 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

This Performance Rights Plan concluded in the FY23 financial year with the partial vesting of the final tranche. No rights are outstanding under the FY20 to FY22 Executive Chairman Performance Rights Plan as at 30 June 2023 (FY22: 7,000,000).

23. Share-based payments (continued)

23.1 FY20 to FY22 Executive Chairman Performance Rights Plan (continued)

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 6 December 2019
Fair value at grant date		$0.10
Share price at grant date		$0.10
Exercise price		nil
Expected volatility (weighted average)		50.0%
Expected dividends		nil
Risk-free interest rate		3.2%
Term from date of grant (years)		
	Tranche 1	0.59
	Tranche 2	1.58
	Tranche 3	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.

(i) Reconciliation of performance rights

A reconciliation of performance rights held during FY23 is as follows:

	Number of rights FY23
Balance as at 1 July 2022	**7,000,000**
Granted during the year	-
Vested during the year	(4,655,000)
Forfeited during the year	(2,345,000)
Balance as at 30 June 2023	**-**

(ii) Expense recognised in profit or loss

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

23. Share-based payments (continued)

23.2 FY22 Senior Management Incentive Program

On 24 November 2021, Shareholders approved the issue of 22,555,210 performance rights to eligible senior managers in accordance with RFG's Senior Management Incentive Program (SMIP). A further 2,536,232 performance rights were granted to senior managers who commenced employment subsequent to the initial grant. Performance rights were issued under both the Short Term Incentive Plan (STI) and Long Term Incentive Plan (LTI). The SMIP is designed to attract, retain and motivate key individuals within a framework which aligns the interests of management with those of the Company's shareholders. Under the plan, participants are granted rights which only vest if certain performance standards are met.

There is no consideration payable by the participant 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.

Performance rights granted under the SMIP 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 STI rights vest over one year and the LTI rights vest after three years, each with different vesting conditions including market, non-market and service conditions. The following table summarises the Performance Rights granted under the SMIP and the key terms:

Grant date	STI	LTI	Total	Vesting conditions
26 August 2021	3,900,057		3,900,057	EBITDA and role specific KPIs
26 August 2021		18,655,155	18,655,155	EBITDA growth and Shareholder Return
04 May 2022	133,045		133,045	EBITDA and role specific KPIs
04 May 2022		815,350	815,350	EBITDA growth and Shareholder Return
30 June 2022	30,991		30,991	EBITDA and role specific KPIs
30 June 2022		972,897	972,897	EBITDA growth and Shareholder Return
5 December 2022		583,947	583,947	EBITDA growth and Shareholder Return
Total			25,091,442	

23. Share-based payments (continued)

23.2 FY22 Senior Management Incentive Program (continued)

Fair value of rights granted

The fair value of the performance rights granted in FY22 have been independently valued. The LTI rights subject to market conditions have been valued using the Monte Carlo simulation to test the likelihood of attaining the TSR hurdle, and the balance of rights subject to non-market conditions have been valued using the Black-Scholes option pricing model.

The valuation was based on the initial grant and was not revalued for subsequent grants, due to the immaterial differences attributable to the inputs of each grant.

The inputs used in the measurement of the fair values at initial grant date of the 22,555,210 rights included the following. The same valuation was used for each subsequent grant on the basis the fair value was not materially different.

	Grant date		
	STI	LTI - Earnings Based	LTI - TSR
Fair value at grant date	$0.08	$0.08	$0.04
Share price at grant date	$0.08	$0.08	$0.08
Exercise price	nil	nil	nil
Expected volatility (weighted average)	60%	60%	60%
Expected dividends	nil	nil	nil
Risk-free interest rate	0.14%	0.14%	0.14%
Term from date of grant (years)	1	3	3

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.

(i) Reconciliation of FY23 SMIP performance rights

A reconciliation of FY23 SMIP performance rights held during FY23 is as follows:

	Number of rights FY23
Balance as at 2 July 2022	**19,481,304**
Granted during the year	583,947
Vested during the year	(1,793,357)
Forfeited during the year	(7,706,326)
Balance as at 30 June 2023	**10,565,568**

(ii) Expense recognised in profit or loss.

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

23. Share-based payments (continued)

23.3 FY23 Executive Chairman Performance Rights Plan

Given his oversight of RFG's turnaround plan, which was delayed by a number of factors including the COVID-19 pandemic and the protracted nature of the ACCC litigation, at the start of FY23 the Board considered it in the best interests of the Company that Mr George continue in his current role. In connection with the extended tenure, the Board proposed a grant of up to 7,000,000 Performance Rights. Shareholders approved this grant at the Company's 2022 Annual General Meeting.

The FY23 Executive Chairman Performance Rights Plan is designed to provide an incentive 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 participant 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.

Performance rights granted under the FY23 Executive Chairman Performance Rights Plan 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 are eligible to vest in a single tranche subject to 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	Rights	Vesting conditions
1 December 2022	7,000,000	• (Metric 1) 20% to the achievement of certain underlying EBITDA performance criteria. • (Metric 2) 10% to the achievement of a Group re-financing. • (Metric 3) 25% to the achievement of qualitative measures associated with resolving legacy regulatory issues and improving the reputation of the Company. • (Metric 4) 20% to the achievement of certain qualitative growth objectives. • (Metric 5) 25% to the achievement of certain operational and organisational criteria.

This Performance Rights Plan concludes within the FY23 financial year upon assessment of the FY23 vesting criteria associated with this grant.

23. Share-based payments (continued)

23.3 FY23 Executive Chairman Performance Rights Plan (continued)

Fair value of rights granted

The fair value of the performance rights granted in FY23 have 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 December 2022
Fair value at grant date	$0.07
Share price at grant date	$0.07
Exercise price	nil
Expected volatility (weighted average)	53.0%
Expected dividends	nil
Risk-free interest rate	3.19%
Term from date of grant (years)	0.58

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.

(i) Reconciliation of performance rights

A reconciliation of performance rights held during FY23 is as follows:

	Number of rights FY23
Balance as at 2 July 2022	**-**
Granted during the year	7,000,000
Vested during the year	-
Forfeited during the year	-
Balance as at 30 June 2023	**7,000,000**

(ii) Expense recognised in profit or loss.

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

23.4 FY23 Senior Management Incentive Program

The Board approved the issue of 6,053,583 Performance Rights to eligible senior managers on 5 December 2022. Performance Rights were issued in relation to a Short Term Incentive Plan (STI). The SMIP is designed to attract, retain and motivate key individuals within a framework which aligns the interests of management with those of the Company's shareholders. 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.

Performance Rights granted under the SMIP 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 STI Rights vest over one year with non-market performance vesting conditions and service conditions. The fair value at grant date is shown below. The following table summarises the Performance Rights granted under the SMIP and the key terms:

Grant date	Rights	Vesting conditions
5 December 2022	6,053,583	EBITDA and role specific KPIs

23. Share-based payments (continued)

23.4 FY23 Senior Management Incentive Program (continued)

Fair value of rights granted

The fair value of the performance rights granted in FY23 have 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 5 December 2022
Fair value at grant date	$0.07
Share price at grant date	$0.07
Exercise price	nil
Expected volatility (weighted average)	53.0%
Expected dividends	nil
Risk-free interest rate	3.19%
Term from date of grant (years)	0.58

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.

(i) Reconciliation of FY23 SMIP performance rights

A reconciliation of FY23 SMIP performance rights held during FY23 is as follows:

	Number of rights FY23
Balance as at 2 July 2022	**-**
Granted during the year	6,053,583
Vested during the year	-
Forfeited during the year	(664,009)
Balance as at 30 June 2023	**5,389,574**

(ii) Expense recognised in profit or loss.

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

23. Share-based payments (continued)

23.5 FY23 One-off Commencement Grant

The Board approved the grant to Robert Shore, Chief Financial Officer, of 2,000,000 performance rights on 29 June 2023. The Board considered this grant as appropriate having regard to the criticality of the appointment and in recognition of the equity arrangements forgone upon change of employer. The One-off Commencement Grant made will be delivered in equity and subject to vesting restrictions conditions aligned with service conditions tenure.

There is no consideration payable by Mr Shore 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 for each Performance Right which vests, with no ability to settle in cash or cash equivalent.

Performance Rights granted under the One-off Commencement Grant 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 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 non-market conditions have been valued using the Black-Scholes option pricing model. The following table summarises the Performance Rights granted and the key terms:

Grant date	Rights	Vesting conditions
29 June 2023	2,000,000	Continuity of service tenure from 17 April 2023 to 16 April 2026

Fair value of rights granted

The fair value of the performance rights granted in FY23 have 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 29 June 2023
Fair value at grant date	$0.07
Share price at grant date	$0.07
Exercise price	nil
Expected volatility (weighted average)	68%
Expected dividends	nil
Risk-free interest rate	3.07%
Term from date of grant (years)	3

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.

(i) Reconciliation of FY23 One off commencement grant

A reconciliation of FY23 One-off Commencement Grant rights held during FY23 is as follows:

	Number of rights FY23
Balance as at 2 July 2022	**-**
Granted during the year	2,000,000
Vested during the year	-
Forfeited during the year	-
Balance as at 30 June 2023	**2,000,000**

(ii) Expense recognised in profit or loss

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

Risk

24. Financial instruments

24.1 Capital risk management

The capital structure of the Group consists of net debt (borrowings disclosed in Note 18, offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings, as disclosed in Notes 19, 20 and 21).

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.

24.2 Gearing ratio

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

Consolidated	FY23 $'000	FY22 $'000
Debt [1]	20,000	37,279
Cash and bank balances - unrestricted	(17,891)	(22,336)
Net debt	2,109	14,943
Equity [2]	199,714	183,777
Net debt to equity (gearing) [3]	1%	8%

(1) Debt is defined as long and short-term borrowings, excluding deferred borrowing costs, derivatives and financial guarantee contracts, as described in Note 18.

(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.

24. Financial instruments (continued)

24.3 Categories of financial instruments

Consolidated	FY23 $'000	FY22 $'000
Financial assets		
Loans and receivables		
Trade and other receivables	11,109	7,745
Lease receivables	54,408	49,432
Other financial assets	912	1,761
Other	10,568	6,479
Cash and cash equivalents	22,263	29,217
Financial liabilities		
Trade payables	6,836	8,252
Other payables	2,739	2,479
Retention bonds and deposits	782	948
Loans (at amortised cost)	20,348	36,965
Lease liabilities	90,288	91,453

24.4 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 in relation to the risks and policies implemented to mitigate risk exposure.

24.5 Market risk

The Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates (refer Note 24.7) and interest rates (refer Note 24.6).

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

24.6 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.

At 30 June 2023, the Group's weighted average interest rate is 11.1% and total debt at variable interest rates is $20.0 million.

Interest rate sensitivity analysis

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

	Impact on post-tax profit		Impact on other components of equity	
Sensitivity	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Interest rates - increase by 100 basis points (1%)	(140)	(261)	-	-
Interest rates - decrease by 100 basis points (1%)	140	261	-	-

24. Financial instruments (continued)

24.7 Foreign exchange risk

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

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

	Assets		Liabilities	
Exposure	FY23 $'000	FY22 $'000	FY23 $'000	FY22 $'000
US Dollar	6,151	4,049	293	1,293
Euro	-	-	(38)	-
New Zealand Dollar	731	762	340	129

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.

	FY23		FY22	
Impact of Sensitivity to Profit or Loss	10%	-10%	10%	-10%
US Dollar	(373)	456	(175)	214
Euro	(2)	3	-	-
New Zealand Dollar	(25)	30	(40)	49
Total increase/(decrease)	(400)	489	(215)	263

24.8 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. Refer to note 8.1 for impairment loss allowance and aging analysis.

Lease receivables consist of amounts receivable from a large number of unrelated franchise partners with respect to back to back lease arrangements where the Group is head on lease. Ongoing credit evaluation is performed on the financial conditions of lease receivable amounts, and the Group recognises an expected credit loss allowance (ECL) against lease receivables where there is a high risk of default. The Group has lease receivables of $65.2 million due from franchise partners at 30 June 2023 and has recorded a total allowance for ECL of $10.8 million. Included in these receivables are amounts of $3.7 million due from franchise partners in relation to past due arrears over the COVID-19 period. An ECL provision of $2.8 million has been recorded against these arrears. Refer to note 13.1 for a breakdown of these balances.

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.

24. Financial instruments (continued)

24.8 Credit risk (continued)

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	FY23 $'000	FY22 $'000
Contingent liabilities		
Financial guarantees	814	814
Rental guarantees	2,495	2,832
	3,309	3,646

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.

24.9 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and undrawn borrowing facilities, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Note 7.3 sets out details of additional undrawn facilities that the Group had at 30 June 2023. Note 18 sets out details of the Group's borrowings at 30 June 2023.

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 discounted cash flows of financial liabilities, using the earliest date on which the Group can be required to pay. 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
FY23					
Non-derivatives					
Trade payables	-	6,836	-	-	6,836
Other payables	-	2,739	-	-	2,739
Retention bonds and deposits	-	673	109	-	782
Bank loans	11.1	-	20,406	-	20,406
Finance liabilities	2.3	1,164	-	-	1,164
Lease liabilities	-	33,938	53,775	2,575	90,288
		45,350	74,290	2,575	122,215
FY22					
Non-derivatives					
Trade payables	-	8,252	-	-	8,252
Other payables	-	2,479	-	-	2,479
Retention bonds and deposits	-	843	105	-	948
Bank loans	2.1	10,695	27,544	-	38,239
Lease liabilities	-	39,360	48,496	3,597	91,453
		61,629	76,145	3,597	141,371

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 $3.3 million (FY22: $3.6 million).

24. Financial instruments (continued)

24.9 Liquidity risk management (continued)

Liquidity and interest rate risk tables (continued)

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

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Over 5 years	Total
	%	$'000	$'000	$'000	$'000
FY23					
Cash and cash equivalents - unrestricted	-	17,891	-	-	17,891
Loans and receivables	-	11,971	50	-	12,021
Lease receivables	4.9	19,309	34,278	821	54,408
Other	-	5,027	3,066	2,477	10,570
		54,198	37,394	3,298	94,890
FY22					
Cash and cash equivalents - unrestricted	-	22,336	-	-	22,336
Loans and receivables	-	9,423	83	-	9,506
Lease receivables	4.9	19,275	28,953	1,204	49,432
Other	-	2,968	3,309	202	6,479
		54,002	32,345	1,406	87,753

The Group has access to financing facilities, as described in Note 7.3, of which $7.5 million was unused at the end of the reporting period (FY22: $2.2 million). Note 18 sets out details of the Group's borrowings at 30 June 2023.

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

24.10 Fair value of financial instruments

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

Group structure

25. 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	FY23 %	FY22 %	Entity	FY23 %	FY22 %
Addiqtion Holdings Pty Ltd[2]	100	100	Gloria Jean's Coffees International Pty Limited[2]	100	100
Adonai International Unit Trust[2]	100	100	Gloria Jean's Coffees International (UK) Pty Ltd*	100	100
ACN 159 149 872 Pty Ltd[2]	100	100	Gloria Jean's Coffees UK Limited*	100	100
BB's Cafe System Pty Ltd[2]	100	100	Gloria Jean's Gourmet Coffees Corp.*	100	100
bb's New Zealand LimitedΔ	100	100	Gloria Jean's Gourmet Coffees Franchising Corp*	100	100
BDP Franchise Pty Ltd[2]	100	100	HDCZ (NZ) LimitedΔ	100	100
BDP System Pty Ltd[2]	100	100	A.C.N. 125 810 059 Pty Ltd[2]	100	100
Booming 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) LimitedΔ	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) LimitedΔ	100	100	Michel's Patisserie (VQ) Pty Ltd[2]	100	100
Cafe2U International Pty. Ltd.[2]	100	100	Michel's Patisserie (VQL) Pty Ltd[2]	100	100
Cafe2U Pty Limited[2]	100	100	Michel's Patisserie Operations Pty Ltd[2]	100	100
Caffe Coffee (NZ) LimitedΔ	100	100	Michel's Patisserie System Pty Ltd[2]	100	100
Capercorp Pty Ltd[2]	100	100	Michel's Patisserie Systems (NZ) LimitedΔ	100	100
CGP (NZ) LimitedΔ	100	100	Mules Enterprises Pty Ltd[2]	100	100
CGP Systems Pty Ltd[2]	100	100	Patisserie Delights Pty Ltd[2]	100	100
C-Store Trading Pty Ltd[2]	100	100	Pizza Capers Franchise Pty Ltd (formally PCGK Holdings Pty Ltd)	100	100
DBC Services Pty Ltd[2]	100	100	Praise IAG Franchisor, LLC*	100	100
Di Bella Coffee Domestic GJC Supply Pty Ltd[2]	100	100	Praise IAG Stores, LLC*	100	100
Di Bella Coffee International Network Supply Pty Ltd[2]	100	100	Praise Operations Company, LLC*	100	100
Di Bella Coffee Network Supply Pty Ltd[2]	100	100	PRCH Holdings Pty Ltd[2]	100	100
Di Bella Coffee Retail and Wholesale Pty Ltd[2]	100	100	Rack 'em Bones IP Pty Ltd[2]	100	100
Di Bella Coffee Supply Holdings Pty Ltd[2]	100	100	Rack 'em Bones System Pty Ltd[2]	100	-
Donquay Pty Limited[2]	100	100	Regional Franchising Systems Pty Ltd[2]	100	100
Donut King (NZ) LimitedΔ	100	100	Retail Food Group Limited[1]	100	100
Donut King Franchise Pty Ltd[2]	100	100	Retail Food Group USA, Inc*	100	100
Donut King System Pty Ltd[2]	100	100	RFG (NZ) LimitedΔ	100	100
ECH System (NZ) LimitedΔ	100	100	RFG Finance Pty Ltd[2]	100	100
Espresso Concepts Pty Ltd[2]	100	100	RFGA Holdings (Aust) Pty Ltd[2]	100	100
Espresso Kick Pty Ltd[2]	100	100	RFGA Holdings Pty Ltd[2]	100	100
Esquires Coffee Houses System Pty Ltd[2]	100	100	RFGA Management Pty Ltd[2]	100	100
Freezer Rental Pty Ltd[2]	100	100	Roasted Addiqtion Pty Ltd[2]	100	100
GJCI Malaysia SDN BHD*	100	100	TCG Franchising LimitedΔ	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
Gloria Jean's Coffee International China*	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

26. Parent entity disclosures

26.1 Financial position

Parent entity	FY23 $'000	FY22 $'000
Assets		
Current assets	503,110	506,711
Non-current assets	243,302	243,421
Total assets	746,412	750,132
Liabilities		
Current liabilities	19	9,826
Non-current liabilities	20,514	28,450
Total liabilities	20,533	38,276
Equity		
Issued capital	640,316	615,541
Retained earnings	84,757	95,500
Reserves	806	815
Total equity	725,879	711,856

26.2 Financial performance

Parent entity	FY23 $'000	FY22 $'000
Loss for the year	(10,743)	(8,231)
Other comprehensive (loss)/income	(9)	158
Total comprehensive loss	(10,752)	(8,073)

26.3 Other Commitments

The parent entity has no expenditure commitments as at 30 June 2023 (2022: nil).

Refer to note 30.1 for a detailed description of contingent liabilities the parent entity and subsidiary entities may be subject to.

27. Discontinued operations

Retail Food Group (RFG) disposed of the business and assets of its subsidiary, DC Tarmac Pty Ltd (formerly Dairy Country Pty Ltd), to Fonterra Brands (Australia) Pty Ltd (Fonterra) on 19 October 2020, with effect from that date. Dairy Country was part of the Group's former Manufacturing and Distribution Division.

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

Consolidated	FY23 $'000	FY22 $'000
Expenses	-	(500)
Other gains/(losses)	-	900
Profit/(loss) before income tax from operations	-	400
Attributable tax (expense)/benefit	-	-
Net loss attributable to discontinued operations	-	400
Earnings per share		
From discontinuing operations:		
Basic (cents per share)	-	-
Diluted (cents per share)	-	-

The carrying amounts of assets and liabilities as at the date of sale (19 October 2020) were as follows:

Consolidated	$'000
Net Assets disposed	-

28. 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.

28.1 Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 25 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.

28.2 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	FY23 $'000	FY22 $'000
Short term Benefits	2,354	2,783
Long term Benefits	71	181
Performance Rights	490	358
Total comprehensive income	2,915	3,322

During FY22, the Group engaged the services of production agency, Light up Gold Pty Ltd, being a related party of Mr Peter George. Nil was billed to the Group during FY23 (FY22: $8,047) and there was no balance payable as at 30 June 2023 (FY22: nil).

From the date of Mr. Michael Bulley's appointment to the Board on 13 March 2023, the Group received income through normal trading activity with

- MJJA Pty Ltd ACN 080 438 802 as trustee for The JAM Family Trust;
- BBJAM Bulley Pty Ltd ACN 653 895 857;
- AJJM Bulley Pty Ltd ACN 641 802 431; and
- MJORD Pty Ltd ACN 161 210 448 as trustee for the MJJRJ Hughes Family Trust.

These entities are related parties of Mr Michael Bulley that operate franchised outlets pursuant to franchises granted by a member of the Group prior to Mr Bulley's appointment as a Director. $223,125 was billed to the related parties by the Group during FY23 and there was no balance owing as at 30 June 2023.

Additionally, on 20 April 2023 the Group paid $19,507 to MJJA Pty Ltd ACN 080 438 802 as trustee For the Jam Family Trust pursuant to the Company's obligations under paragraph 23 of the Undertaking provided to the ACCC, under s87B of the Competition and Consumer Act 2010 (Cth), by RFG on 22 December 2022.

These entities were not related parties until the date of Mr Michael Bulley's appointment on 13 March 2023.

Other

29. Events after the reporting period

Effective 1 July 2023, Mr Matthew Marshall was promoted to Chief Executive Officer (previously Head of Retail) and Mr Peter George extended his tenure as Executive Chairman for an additional term of two years. Further details are disclosed in the Remuneration Report and RFG's announcement to the ASX dated 15 June 2023.

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 FY23 year.

30. Contingent liabilities

Financial assets and other credit exposures	FY23 $'000	FY22 $'000
Contingent liabilities		
Financial guarantees	814	814
Rental guarantees	2,495	2,832
	3,309	3,646

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

30.1 Contingent liabilities

Michel's Patisserie Class Action:

The Company, along with two of its related entities involved in the operation of the Michel's Patisserie brand system, are respondents in representative proceedings commenced in October 2021 in the Federal Court of Australia by a former Michel's Patisserie franchisee on behalf of herself and certain other Michel's Patisserie franchisees, former franchisees and their related parties. No allegations have been made in the proceedings in respect of the other brand systems operated by the Group.

The proceedings relate to the historical conduct and operation of the Michel's Patisserie brand system under former RFG leadership, including in relation to changes implemented to the supply chain during the period 2015 to 2016 (the 'fresh to frozen' model). The applicant alleges breach of Franchise Agreement, contraventions of the Australian Consumer Law and the Franchising Code of Conduct.

The proceedings were commenced by way of Originating Application and Concise Statement.

At the request of the Company, the representative applicant filed a Statement of Claim in the proceedings.

On 25 October 2022, the Company was successful in obtaining orders from the Court striking out the applicant's entire statement of claim, with costs.

The Court provided the applicant leave to replead and file a further Statement of Claim by 6 December 2022.

On 14 December 2022 the applicant filed an Amended Originating Application and Amended Statement of Claim.

On 28 July 2023, the RFG respondent entities filed their Defence to the Amended Statement of Claim. On 1 August 2023, the Court made orders requiring the applicant to file any Reply to that Defence by 31 August 2023.

The proceeding is then set down for further directions on 2 November 2023.

In the proceedings, the representative applicant is seeking damages, declarations, interest and costs. It is currently not possible to determine the potential outcome or financial impact of the proceedings for the Group.

The Company denies the allegations raised against it and its related entities and is vigorously defending the proceedings.

31. Commitments for expenditure

Consolidated	FY23 $'000	FY22 $'000
Plant and equipment	140	761

32. Remuneration of auditors

Consolidated	FY23 $	FY22 $
Audit and review services		
Auditors of the Group - KPMG		
Audit and review of financial statements	800,000	715,000
Other auditors		
Audit and review of financial statements for USA entities	172,336	16,865
Assurance services		
Auditors of the Group - KPMG		
Audit and review of other financial statements	290,788	325,000
Other assurance services	97,500	83,755
Other services		
Auditors of the Group - KPMG		
Taxation advice and tax compliance services	117,612	133,330
Other - Company Secretarial	153,102	232,505
	1,631,338	1,506,455

33. Summary of significant accounting policies

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

33.1 Basis of preparation

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

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

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

(a) Statement of compliance

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

The financial statements were authorised for issue by the Directors on the 23 August 2023.

(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 2023.

33. Summary of significant accounting policies (continued)

33.1 Basis of preparation (continued)

(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.

(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 33.2
Estimation of recoverability of deferred tax assets - Note 33.3
Estimation of Impairment of non-financial assets other than goodwill and indefinite life intangible assets - Note 33.6
Estimation of goodwill and indefinite life intangible asset impairment - Note 33.7
Estimation of useful life of indefinite life intangibles - Note 33.7
Estimation of provisions - Note 33.8
Estimation of recoverability of lease receivables - Note 33.12

(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.

33. Summary of significant accounting policies (continued)

33.1 Basis of preparation (continued)

(f) Goods and services tax (continued)

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.

(g) Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. As reported at 30 June 2023, the Group had $17.9 million (FY22: $22.3 million) in unrestricted cash, and fully drawn senior debt of $20.0 million (FY22: $37.3 million), resulting in a lower net debt position of $2.1 million. The Group had a net current assets position of $11.2 million at 30 June 2023 (FY22: $3.7 million net current liability position) following the refinancing of the Group debt facility and its classification into non-current liabilities. Net current assets includes $14.6 million of net current liabilities at 30 June 2023 (FY22: $20.1 million) arising from recognition of lease assets and liabilities under AASB 16 - Leases.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. In assessing the reasonableness of cash flow projections, the Directors have had regard to recent trading conditions and the strength of the Group balance sheet following the refinancing activity completed within FY23.

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.

33.2 Revenue recognition

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 franchise partners and master franchise partners 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 franchise partners and master franchise partners throughout the term and marketing fees paid by franchise partners and master franchise partners as a contribution to marketing activities of the respective brands.

The franchise agreements contain one performance obligation being the grant of a licence to franchise partners in order to allow them to access the Group's 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 recognises revenue for these royalties and fees as the subsequent franchise partner and master franchise partners sales occur.

In most cases initial franchise fees are payable on commencement of the franchise agreement, and the fee 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 franchise partners.

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 may also earn 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.

33. Summary of significant accounting policies (continued)

33.2 Revenue recognition (continued)

Revenue from sale of distribution rights (continued)

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 the sale of coffee, by supplying free on loan coffee machines, is recognised at the point in time the coffee sales are generated and recognised from these arrangements.

33.3 Income taxes

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

Current tax

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

Current and deferred tax for the year

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

Deferred tax balances

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from 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 if the temporary difference arises from goodwill.

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. Judgements are also required in relation to the application of income tax legislation.

33. Summary of significant accounting policies (continued)

33.3 Income taxes (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

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.

33.4 Cash and cash equivalents

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

33.5 Inventories

Inventories are stated at the lower of cost and net realisable value. 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.

33.6 Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

The gain or loss arising from 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.

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

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

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles).

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.

33. Summary of significant accounting policies (continued)

33.7 Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

Franchise networks and intellectual property

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

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

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

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

Goodwill

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

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

Impairment of goodwill and indefinite life intangible assets

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

At the end of each reporting period, the Group reviews the carrying amounts of its 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.

33. Summary of significant accounting policies (continued)

33.7 Intangible assets (continued)

Determination as indefinite life

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

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

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

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

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

Internally Generated Intangible Assets, Including Research and Development Expenditure

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

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

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

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

33.8 Provisions

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

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.

33. Summary of significant accounting policies (continued)

33.8 Provisions (continued)

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.

33.9 Share-based payments

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

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

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

Measurement of equity-settled share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Rights subject to market conditions have been valued using the Monte Carlo simulation 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.

33.10 Financial instruments

Financial Assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

33. Summary of significant accounting policies (continued)

33.10 Financial instruments (continued)

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

Financial guarantee contract liabilities

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

- The amount of the obligation under the contract, as determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, or
- The amount initially recognised less, where appropriate, cumulative amortisation, recognised in accordance with the revenue recognition policies set out in Note 33.2.

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 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.

33. Summary of significant accounting policies (continued)

33.11 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.

33.12 Leases

(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.

(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.

(iv) 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 franchise partner 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 13 for amounts receivable under finance leases.

33. Summary of significant accounting policies (continued)

33.12 Leases (continued)

(v) Accounting for leases

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

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

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

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

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

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

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

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

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

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

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

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

(vi) Accounting for lease concessions

The Group may receive lease concessions from landlords in the form of rental waivers. Rental waivers are only recognised once confirmation is received from a landlord that represents a legally binding waiver of rent payable. Lease receivables and lease liabilities are remeasured based on new terms which incorporate the waivers. Gains and losses from waivers received from landlords where the Group has back to back sub-lease agreements with franchise partners offset each other and are recorded through profit and loss.

DIRECTORS' DECLARATION

The Directors declare that:

(a) In the Directors’ opinion, the financial statements and notes set out on pages 35 to 99 and the Remuneration report on pages 13 to 32 in the Directors' report, 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 2023 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 2023 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
23 August 2023

Independent Auditor's Report

To the shareholders of Retail Food Group Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Retail Food Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2023;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year ended on that date;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 are independent of the Group in accordance with 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 fulfilled our other ethical responsibilities in accordance with these requirements.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Goodwill and other indefinite life intangible assets;
- Revenue recognition; and
- Lease accounting - estimate of lease arrears and assessment of recoverability of finance lease receivables.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These 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.

Goodwill and other indefinite life intangible assets ($218.4m)

Refer to Note 14 and Note 33.7 of the financial report

The key audit matter	How the matter was addressed in our audit
A key audit matter for us was the Group's annual testing of goodwill and other indefinite life intangible assets for impairment, given the size of the balance (being 63% of total assets). Certain conditions impacting the Group increased the judgement applied by us when evaluating the evidence available. We focused on the significant forward-looking assumptions the Group applied in their fair value less costs of disposal model for each cash generating unit (CGU), including: • forecast cash flows – the Group experienced significant business disruption as a result of COVID-19, and is facing uncertain economic impacts from inflation and interest rates increases. These conditions and the uncertainty of their continuation increase the possibility of goodwill and other indefinite life intangible assets being impaired, plus the risk of inaccurate forecasts or a significantly wider range of possible outcomes for us to consider. We focused on the expected rate of recovery for the Group and the Group's proposed future business model when assessing the feasibility of the Group's forecast cashflows. • discount rate - these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time, and the models' approach to incorporating risks into the cash flows or discount rates.	Working with our valuation specialists, our procedures included: • Evaluating the appropriateness of the fair value less costs of disposal (FVLCD) method applied by the Group to perform the annual test of goodwill and other indefinite life intangible assets for impairment against the requirements of the accounting standards. • Assessing the integrity of the FVLCD models used, including the accuracy of the underlying calculation formulas. • Meeting with management to understand the impact of a post COVID-19 economy to the Group and impact to the FY23 results. • Comparing the year one forecast underlying EBITDA cash flows contained in the FVLCD models to Board approved budget. • Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. • Assessing the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows contained in the FVLCD models, for consistency with our understanding of the business and the criteria in the accounting standards. • Assessing the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on the requirements of the accounting

Goodwill and other indefinite life intangible assets ($218.4m)	
Refer to Note 14 and Note 33.7 of the financial report	
The Group uses complex models to perform their annual testing of goodwill and brand intangible assets for impairment. The models use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter. The Group has a number of individual CGUs necessitating our consideration of the Group's determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows.	standards. • Assessing the Group's determination of CGU assets for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards. • Considering the sensitivity of the models by varying key assumptions, such as forecast growth rates, and discount rates, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment and those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures. • Challenging the Group's significant forecast cash flow and growth assumptions. We compared forecast growth rates to industry trends and expectations and considered differences for the Group's operations. We used our knowledge of the Group, business and customers, and our industry experience. We sourced authoritative and credible inputs from our specialists. • Checking the consistency of the growth rates to the Group's plans and our experience regarding the feasibility of these in the industry in which they operate. • Independently developing a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • Considering the Group's determination of their CGUs based on our understanding of the operations of the Group's business and how independent cash inflows were generated, against the requirements of the accounting standards. • Evaluating the disclosures made in the financials against the requirements of the accounting standards.

Revenue recognition (Revenue $111.4m)	
Refer to Note 2 and Note 33.2 of the financial report	
The key audit matter	**How the matter was addressed in our audit**
The Group has several revenue streams across each of its different operating segments which provide a range of services and product offerings. The Group's significant revenue streams include: - Sale of franchise agreements; - Sale of goods; and - Sale of distribution rights. Revenue recognition was a key audit matter due to the quantum of the balance, and the significant audit effort and judgment we have applied in assessing the Group's recognition and measurement of revenue. This was the result of the: • High volume of transactions within revenue recognised from the sale of franchise agreements and the sale of goods. • Complexity and judgements involved in applying the requirements of AASB15 *Revenue from Contracts with Customers.* • Significant judgements made by the Group in the recognition and measurement of revenue and associated unearned revenue contract liabilities from the sale of franchise arrangements and the level of audit effort required by us in assessing the Group's assumptions underlying the timing of its recognition based on the terms of the relevant agreements. • 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. In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.	Our procedures included: • Developing an understanding of key revenue internal controls. • Evaluating the appropriateness of the Group's accounting policies for revenue recognition for each significant revenue stream against the requirements of AASB 15 and our understanding of the business. • Reading a sample of executed customer contracts from the sale of franchise agreements, the sale of goods and supplier contracts, and the sale of distribution rights to understand the key terms of the arrangements and the performance obligations. • Comparing the relevant features of a sample of executed customer and supplier distribution contracts to the criteria in the accounting standard, those in the Group's policies, and against the Group's identified performance obligations. • Testing a sample of revenue transactions for each significant revenue stream, testing the timing of revenue recognised by the Group to underlying documentation such as signed customer contracts, customer invoices, proof of delivery, electronic point-of-sale reports, supplier rebate reports, and the Group's revenue recognition policies. We also checked customer and supplier receipts to bank statements. We compared our testing against amounts recorded in manual spreadsheets, revenue models, sales systems and the Group's general ledger, for reconciliation issues. • Recalculating a sample of revenue transactions for selected revenue streams, recognised by the Group. This necessitated assessing how the Group allocated revenue to separately identified performance obligations from the same contract. We used underlying documentation obtained from our procedures above and criteria in the accounting standard to assess the allocation of revenue. We compared our assessment to the amount recorded by the Group. • Assessing the Group's revenue assumptions which included evaluating the underlying documentation of a sample of franchise agreement sales and the

Revenue recognition (Revenue $111.4m)	
Refer to Note 2 and Note 33.2 of the financial report	
	Group's assessment of items and amounts they considered highly probable of future receipt. We recalculated computations splitting the items into revenue and unearned revenue liability. • Evaluating the adequacy of the disclosures made in the financials against the requirements of the accounting standards.

Lease accounting - estimate of lease arrears and assessment of recoverability of lease receivables ($54.4m)	
Refer to Note 13 and Note 33.12 to the financial report	
The key audit matter	**How the matter was addressed in our audit**
The Group has a significant lease portfolio that includes sub-lease arrangements with franchisees where the Group has entered into the head lease agreement with the landlord. Where the franchise store sub-lease is assessed by the Group as a finance lease using AASB 16 *Leases*, the Group recognise a finance lease receivable. Following this, the impairment requirements of AASB 9 *Financial Instruments* apply to the net investment in these leases. The Group determined their expected loss provisioning amounts using a forward-looking expected credit loss impairment model. This involves significant additional judgement as the expected credit loss reflects information about past, current and future conditions. Overall, the relative size of balances has a significant financial impact on the Group's financial position and performance. We involved our senior audit team members in assessing this key audit matter.	Our procedures included: • Evaluating the appropriateness of the Group's lease accounting policies against accounting standard requirements, including for recognising expected credit losses on lease receivables and lease arrears. • Testing the existence of lease arrears, abatements and receivable amounts for a sample of franchise sublease balances by checking these amounts to underlying documentation such as executed lease agreements, landlord statements of lease arrears and applied abatements. • Meeting with management to understand the risk indicators used to identify and categorise the franchisee tenants into high, medium or low risk of default to determine the expected loss ratio for each category. We challenged management's judgements and assumptions in terms of the recoverability indicators adopted within the expected credit loss model using our knowledge of the Group, business and customers, and our industry experience. • Assessing the reasonableness of the Group's methodology and calculation of the expected credit loss allowance at year end against the requirements of AASB 9. • Evaluating the completeness of the model by performing a reconciliation against the lease liabilities recorded in external landlord statements and the Group's underlying records. • Checking a sample of lessee specific inputs included in the expected credit loss impairment assessment to underlying documentation of authoritative arrangements. • Testing the consistency of expected credit losses applied to lease receivables and lease arrears for a sample of franchise partners against broader debtor groups such as trade receivables from the same franchisee. • Evaluating the adequacy of the disclosures made in the financials against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Retail Food Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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

Opinion

In our opinion, the Remuneration Report of Retail Food Group Limited for the year ended 30 June 2023 complies with *Section 300A* of the *Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in pages 13 to 32 of the Directors' report for the year ended 30 June 2023.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

SBoard

Stephen Board
Partner

Brisbane
23 August 2023

ADDITIONAL STOCK EXCHANGE INFORMATION

Number of holders of equity securities as at 10 August 2023

Ordinary share capital

- 2,446,595,505 ordinary shares are held by 13,781 individual shareholders.

All issued ordinary shares carry one vote per share.

Distribution of holders of equity securities (1)

	Total holders fully paid ordinary shares	Fully paid ordinary shares	% Issued capital	Total holders options	Options
1 - 1000	4,174	1,830,865	0.07%	-	-
1,001 - 5,000	3,234	8,214,783	0.34%	-	-
5,001 - 10,000	1,501	11,512,699	0.47%	-	-
10,001 - 100,000	3,387	125,800,980	5.14%	-	-
100,001 and over	1,485	2,299,236,178	93.98%	-	-
	13,781	2,446,595,505	100.00%	-	-

The number of shareholders holding less than a marketable parcel of ordinary shares is 9,260.

Substantial shareholders (2)

Ordinary shareholders	Fully paid	
	Number	Percentage
Regal Funds Management Pty Ltd (and associates)	306,483,913	12.53%
Washington H. Soul Pattinson and Company Limited	166,710,681	6.81%
Castle Point Funds Management	163,368,552	6.68%
Thorney Opportunities LTD	127,350,000	5.21%

Twenty largest holders of quoted equity instruments (1)

Ordinary shareholders	Fully paid	
	Number	Percentage
CITICORP NOMINEES PTY LIMITED	362,537,040	14.82%
UBS NOMINEES PTY LTD	197,591,346	8.08%
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	194,736,387	7.96%
NATIONAL NOMINEES LIMITED	160,089,036	6.54%
SANDHURST TRUSTEES LTD <COLLINS ST VALUE FUND A/C>	117,211,188	4.79%
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	53,601,697	2.19%
BNP PARIBAS NOMS (NZ) LTD <DRP>	51,140,563	2.09%
MOLVEST PTY LTD <MOLVEST FAMILY A/C>	50,000,000	2.04%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	49,726,655	2.03%
BROADGATE INVESTMENTS PTY LTD	42,400,000	1.73%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	36,887,231	1.51%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	35,719,732	1.46%
HISHENK PTY LTD	34,000,000	1.39%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	23,774,058	0.97%
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	17,374,663	0.71%
ARCHERFIELD AIRPORT CORPORATION PTY LTD	16,000,000	0.65%
HORRIE PTY LTD <HORRIE SUPERANNUATION A/C>	16,000,000	0.65%
MIENGROVE PTY LTD	14,000,000	0.57%
MOLVER PTY LIMITED <MOLVER SUPER FUND A/C>	13,000,000	0.53%
MR NEIL PETER GOOSEN	12,170,224	0.50%
	1,497,959,820	61.21%

(1) Based on reports provided by the Company's share register, Computershare Investor Services.
(2) Based on the most recent substantial shareholder notice (Form 604) lodged with the Australian Securities Exchange by the shareholder.