Retail Food Group Limited

APPENDIX 4D (Rule 4.2A.3)
PRELIMINARY FINAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020
RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to the period ended 31 December 2019)

				1H21 A$'000	Restated 1H20 A$'000
Revenue and other income from continuing operations	*Down*	*(23.2%)*	*to*	60,495	78,732
Revenue and other income from discontinued operations	*Down*	*(75.4%)*	*to*	24,633	100,248
Total revenues and other income	***Down***	*(52.4%)*	*to*	**85,128**	**178,980**
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	***Down***	*(27.8%)*	*to*	**14,385**	**19,926**
Discontinued Operations and Disposal costs				(3,253)	(12,309)
AASB 15 & AASB 16				1,284	6,653
Business restructuring, impairment, provisioning and marketing expenses				(262)	(36,472)
Gain on debt forgiveness				-	71,754
Reported earnings before interest, tax, depreciation and amortisation (EBITDA)	***Down***	***(75.5%)***	***to***	**12,154**	**49,552**
Profit from continuing operations before income tax	***Down***	***(81.5%)***	***to***	**8,616**	**46,538**
Loss from discontinued operations before income tax				**(4,752)**	**(16,119)**
Profit before income tax	***Down***	***(87.3%)***	***to***	**3,864**	**30,419**
Income tax expense from continuing operations				**-**	**(17,915)**
Income tax benefit from discontinued operations				**-**	**1,374**
Profit for the period attributable to members of the parent entity	***Down***	***(72.2%)***	***to***	**3,864**	**13,878**
				1H21	**FY20**
Net Tangible Assets/(Liabilities) per security				(2.4) cents	(2.9) 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
Consolidated Financial Report
Half-Year Ended 31 December 2020

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The Directors of Retail Food Group Limited (hereinafter referred to as RFG, the Company or Group) submit herewith the Financial Report of the Company for the period ended 31 December 2020, in accordance with the provisions of the *Corporations Act 2001*.

Directors

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

Name	Particulars
Mr Peter George	Executive Chairman
Mr David Grant	Independent Non-Executive Director
Ms Kerry Ryan	Independent Non-Executive Director

Corporate governance

The Company recognises the importance of good corporate governance to RFG's shareholders and broader stakeholder community, including franchisees, regulators and consumers. The Company's practice is to publish its Corporate Governance Statement on the ASX website (www.asx.com.au) and via its website at www.rfg.com.au when releasing its Annual Report. The Company's Corporate Governance Statement in respect of FY20 was published on these platforms on 20 October 2020.

Principal activities

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

- Intellectual property ownership of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffees and It's A Grind Brand Systems;
- Development and 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, The Coffee Guy, Café2U, Gloria Jean's Coffees and It's A Grind Brand Systems throughout the world, whether directly managed and/or as licensor for all Brand Systems;
- Development and management of coffee roasting facilities, and the wholesale supply of coffee and allied products to the Group's Brand Systems and third-party accounts, under the Di Bella Coffee brand; and
- Development, management, and subsequent divestment, of the manufacturing business operating under the Dairy Country trading name.

The Dairy Country manufacturing business has been classified as a discontinued operation in these financial statements on the basis that disposal thereof was completed on 19 October 2020.

In the financial year ending 30 June 2020, the Group had classified Dairy Country as a continuing operation. Accordingly, the comparative financial information in these financial statements has been restated to include Dairy Country with other operations classified as discontinued operations in the 1H20. Discontinued operations in 1H20 previously included businesses operating under the Hudson Pacific Food Service (HPC) and Associated Food Service (AFS) trading names, each of which were disposed of on 3 January 2020.

Important Information

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

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

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

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

Impact of coronavirus (COVID-19)

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

Overview

Whilst unavoidably impacted by the continuing COVID-19 pandemic, the 6 months ending 31 December 2020 witnessed the continued transformational journey of the Group.

The Company made significant achievements in the FY20 year, successfully delivering on commitments to all stakeholders at commencement of the turnaround, including the recapitalisation of the Company, disposal of non-core businesses, significant downsizing of corporate operations, and redesign of the Group's approach to franchise network management, underpinned by a 'franchisee first' culture that acknowledges the fundamental link between RFG's success and that of its franchisees. During 1H21 the Company further focused its attention on RFG's core franchise and coffee businesses, disposing of the non-core Dairy Country cheese processing business, making the Company's exit from traditional foodservice operations. The 'right sizing' and reconfiguration of the Group's national office administration and support functions, and a significant restructure of Di Bella Coffee domestic operations, commenced in FY20, were also completed in the period.

The Group has achieved these outcomes whilst maintaining an unwavering commitment to supporting its franchisee community, including via:

(a) Increased customer driven product and marketing campaigns, particularly in 2Q21 as COVID-19 restrictions eased in most jurisdictions and the Group re-established more traditional marketing activities following deferrals throughout the 2H20 and initial stages of 1H21;

(b) Providing significant financial and other ongoing support in response to the emergence of COVID-19 and government measures introduced to limit its spread; and

(c) Ongoing engagement with the Group's extensive landlord portfolio to drive and secure improved leasing outcomes for franchisees, including COVID-19 related rent support for a large proportion of the Company's domestic network.

Overview (continued)

The FY20 redesign of the Group's approach to franchise network management continued in 1H21 with the 1Q21 consolidation of all franchisee facing functions under a dedicated internal retail division, IconicCo, which has been resourced with experienced management now under the leadership of RFG Head of Retail, Matthew Marshall.

IconicCo has been tasked with defining Brand System strategic direction, developing best practice systemisation across all functions, fostering RFG's 'franchisee first culture', and delivering enhanced results at franchisee and franchisor level.

These objectives have been supplemented by a 12 month program to enhance systemisation across all aspects of IconicCo's operations and develop the foundation for 'best in class' systems and processes to underpin the Group's drive to improve the financial health and profitability of RFG's domestic franchise network.

Complementing this activity has been the 1H21 establishment of a new platform for franchise partner engagement and support:

- the Brand System General Manager role has been redefined to represent the primary contact point for franchisees, ensuring feedback is delivered directly to executive management for prompt action, and facilitating timely and accurate insights regarding network sentiment and performance; and, underpinned by a comprehensive operational training.
- the 2Q21 transition of RFG's field support team structure from a generalist skillset to specialist coaches across seven core operational areas focused on driving the following key objectives: (a) more revenue into franchised outlets; (b) training franchise partners to become better retailers and to generate more profits; (c) helping franchise partners to build brand equity via enhanced customer experience; and (d) maximising franchise partner return on investment.

During 1H21, the Group was eligible for Government wage subsidy assistance programs available across its Australian and international operations. Proceeds received from the Australian Government's JobKeeper program and similar international programs totalled $4.0 million and were recorded in profit before tax during 1H21, with $3.8 million received in cash by 31 December 2020. The proceeds received by the Group from these programs were fully applied by the Group, in accordance with the respective Governments' objectives of keeping people employed, supporting eligible employees' return to usual and ordinary hours, and complementing the accelerated hiring of new franchisee support roles for the business.

Operationally, the impact of COVID-19 continued throughout 1H21, having both positive and negative impacts on the Group's business units. Brumby's Bakery and the QSR Division (Crust and Pizza Capers) and Drive-Thru stores enjoyed positive growth as customers returned to their local baker or sought out the home delivery and low contact service models. Regionally located Donut King and Gloria Jeans stores experienced growth in sales, as the regional areas appear to have been less impacted by COVID-19 restrictions than the metropolitan areas, particularly in the larger states of Victoria and NSW. The growth in a vast majority of regional stores indicates the ongoing potential of the store portfolio as the impact of the pandemic subsides.

Conversely, the Group's businesses predominantly situated within the shopping centre environment, commuter locations and broader metropolitan areas experienced sales declines on the previous corresponding period (PCP), including Donut King, Gloria Jean's and Michel's Patisserie stores, and Di Bella Coffee. At an international level, the majority of RFG's network continues to be negatively impacted by COVID-19 related trading restrictions of varying degrees.

Widespread 'work from home' practices have impacted customer traffic, and social distancing and other measures imposed contributed to the sales declines of stores. These measures included capacity restrictions on, or the complete prohibition of, the provision of dine-in services, and in some cases, such as food courts in Victoria, the forced closure of outlets. In a number of cases, franchisees elected to temporarily close their stores given the impact of COVID-19 measures on trade. As a consequence, 1H21 temporary store closures attributable to COVID-19 peaked at 36 outlets during early September 2020.

Whilst the vast majority of those stores which temporarily closed have now reopened, COVID-19 continued to impact on trading throughout the 1H21, particularly in NSW and Victoria where c.56% of the Group's domestic outlet population is based, and where the economy continues to recover from the more severe trading restrictions imposed during 2H20 and, in some cases, into the 2H21.

The foregoing conditions, together with the cumulative impact of underperforming outlet closures over the past 12 months contributed to a c.13.2% 1H21 reduction in total network sales versus PCP to c.$244 million. Circa 44% of this sales reduction is attributable to reduced performance within Victoria, where an extended lockdown was imposed by Government during a large portion of the 1H21.

Same Store Sales (SSS) during the same period were down 2.6% versus PCP at a network level, however, were flat when the impact of Victorian network performance is removed.

The Brumby's Bakery and QSR Brand Systems enjoyed improved operational outcomes, following increased customer demand for bread and bakery products, and in-home delivery services which were complemented by the 2Q21 implementation of the new Crust value model, which promises a 'premium pizza at affordable prices', across a large segment of that Brand System's network.

Overview (continued)

As noted above, one element of the various support measures implemented in support of domestic franchise partners has been the negotiation of rental relief for COVID-19 impacted outlets. Negotiations regarding relief arrangements are ongoing and remain a priority, and the Group anticipates a requirement for rent relief to prevail for the duration of the pandemic and a reasonable recovery period thereafter.

Whilst at 30 June 2020 rental concessions had been negotiated in respect of c.415 outlets, less than 30% of landlords had formalised that relief, as evidenced by rental statements, by 31 December 2020. This lack of formalised and tangible application of the 'rental code' and relief afforded by landlords has created significant uncertainty for the Group's franchisee community regarding rental payment obligations, with many franchisees having not yet received definitive rental invoicing.

As at 31 December 2020, landlords reported with respect to franchised store leases where the Group is head on lease (HOL) that there were gross lease arrears of c.$11.8 million. This balance does not yet include the application by landlords of COVID-19 rental relief in the form of rental abatements and deferrals, estimated to be c.$3.4 million. Given the ongoing COVID-19 impacts on trading and present uncertainty on relief measures, a provision of c.$5.3 million has been recognised with respect to lease receivable balances. Despite this, the Group continues to prioritise engagement with relevant stakeholders to procure more favourable leasing outcomes, including relief in response to the impacts of COVID-19, and franchise partner payment of rental arrears. Close engagement with franchise partners together with proactive credit management processes also provide confidence regarding payment of the vast majority of current arrears.

During the 1H21 considerable focus was applied to driving domestic organic outlet growth. Key elements of the Group's growth strategy included:

(a) Nurturing and growing the Company's 77 Multi-Store Owner (MSO) complement, where a dedicated role has been established to foster relationships and provide pathways for multi-outlet ownership and portfolio growth;
(b) Implementation of the Crust value model mentioned above;
(c) Expansion of the Gloria Jean's drive thru model, which has outperformed traditional outlets throughout the COVID-19 period; and
(d) Operational trial of the Donut King mobile van model, which provides opportunity to expand existing franchises into commercial and industrial areas leveraging the iconic Donut King brand and providing a strong point of difference within the mobile food and beverage market.

As reported at the Company's November 2020 Annual General Meeting, this has resulted in positive enquiry rates and lead, with expressions of interest having been received in connection with dozens of new and existing domestic store opportunities, including advanced discussions in relation to 15 new potential sites or territories within the Donut King, Crust and Gloria Jean's brands.

Momentum has however been subsequently curtailed by adverse reaction to the ACCC's December 2020 commencement of Federal Court proceedings against the Company and five of its related entities, which operate the Gloria Jean's, Michel's Patisserie, Donut King and Brumby's Bakery Brand Systems. Whilst the proceedings concern allegations regarding historical matters occurring under various senior executives no longer with the Group, and the ACCC has not pursued several of the broad and serious allegations that were raised during the course of its extensive investigation of the Company over almost three years, the ongoing nature of the ACCC proceedings and various media surrounding it has adversely affected business turnaround activity. The Company anticipates these circumstances will continue to influence domestic new outlet growth opportunity at least for the near term.

At an international level, the majority of RFG's network continues to be impacted by COVID-19 related trading restrictions of varying degrees. This has contributed to a c.46% decline versus PCP in licence fee revenues, and a c.62.7% decline versus PCP in wholesale coffee revenues, derived from that network during the 1H21.

As at 31 December 2020, 25 international outlets remained temporarily closed as a consequence of COVID-19 implications, and licensed networks across 34 countries remained subject to various trading restrictions. The Group continues to closely monitor international operations, noting the northern hemisphere's winter period, the ongoing impact of COVID-19 'waves' amongst various jurisdictions, and the potential scope for further government restrictions in response.

Despite these challenges, Master Franchise Partners reported 27 new outlets during the 1H21, offset by 54 closures (32 of which, being 28 stores and 4 vans, are considered attributable to COVID-19).

The impact of the COVID-19 pandemic on Di Bella Coffee performance throughout 1H21 was particularly evident in the Victorian market and across metropolitan areas, where reduced ordering volumes and closures amongst independent CBD based customers has been observed as work from home arrangements continue to impact sales and gross margins achieved for out-of-home coffee-based products.

Clearly the impact of the COVID-19 pandemic, both during the half-year and as a consequence of various lockdowns or other trading restrictions witnessed subsequent to 31 December 2020, demonstrates the ongoing uncertainty the Group considers is likely to prevail for some time.

Overview (continued)

The Company therefore notes uncertainty concerning, and maintains heightened monitoring of the potential impacts which might be attributable to the scheduled 2H21 cessation of COVID-19 assistance programs (including JobKeeper), and the potential for further franchised store closures. The Group continues to work with its franchisee community and other stakeholders to minimise these potential impacts where reasonably possible.

Notwithstanding the foregoing uncertainty, significant progress on RFG's turnaround journey has been made during the 1H21. Whilst there remains much work to do, including in respect of the rental arrears matters outlined above, and tempered by the ongoing distraction and litigation risk attributable to regulatory action in connection with historical matters, your Directors approach the future with cautious confidence.

1H21 Results

The following table summarises the Group's results for the half years ending 31 December 2020 and 31 December 2019:

Item	1H21	1H20 (1)	Change
Revenue (including discontinued operations)	$85.1m	$179.0m	($93.9m)
NPAT	$3.9m	$13.9m	($10.0m)
NPAT (Underlying)(2)	$12.0m	$7.5m	$4.5m
EBITDA	$12.2m	$49.6m	($37.4m)
EBITDA (Underlying)(2)	$14.4m	$19.9m	($5.5m)

(1) Comparatives for 1H20 where relevant have been restated for Discontinued Operations, and AASB 15 accounting. Refer to note 16 of the financial statements.
(2) These figures are not subject to audit or review.

1H21 Underlying EBITDA of $14.4 million, which excludes the contribution from discontinuing operations and the impact of AASB 15 and AASB 16, was $5.5 million below PCP and evidenced the significant impact of COVID-19 on the Group's performance.

Statutory revenue from continuing operations for 1H21 was $60.5 million, representing a decrease of $18.2 million on PCP.

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

- An $11.5 million decrease in Brand System segment revenues, excluding AASB 15 and AASB 16:
  - A $11.9 million decrease in Brand System and marketing revenues, consistent with the impact of COVID-19 on Brand System network sales, the reduction in trading stores and cessation of distribution revenues, compared to PCP; and
  - A $0.4 million increase in revenues from trading of company stores.
- A $5.4 million decrease in Di Bella Coffee revenue, primarily attributable to the impact of COVID-19 on domestic and international coffee customers and cycling of the loss of FY20 customers; and
- A $1.3 million decrease in revenues on PCP attributable to AASB 15 and AASB 16 related revenues.

Cash inflows from operating activities for 1H21 were $8.9 million (1H20: $2.6 million, cash outflow).

Operationally, net cash inflows were attributable to a return to more normalised operations in 1H21, and benefited from a $3.8 million inflow from the proceeds of JobKeeper payments received, whereas 1H20 included significant supplier payments made by the Group in relation to restructuring activity undertaken in that half-year, disposal of discontinued operations, and payment of deferred payables in December 2019 subsequent to completion of the Company's 1H20 recapitalisation. Gross cash inflows and gross cash outflows reduced in 1H21 compared to PCP, due to the sale of the Dairy Country business on 19 October 2020.

Restructuring costs

Restructuring costs from continuing operations net of provisioning recognised in prior periods for the half-year were $0.5 million, comprising consulting costs associated with corporate restructure and regulatory response activities, salary and associated costs of functions and roles identified as redundant, and residual costs of the wholesale coffee business restructuring program.

An additional $4.8 million of net costs and losses were recognised with respect to the trading and disposal of the Dairy Country business completed within 1H21, presented as discontinued operations within this report.

Contingent Liabilities

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

ACCC Investigation & Proceedings

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

On 15 December 2020 the ACCC commenced Federal Court proceedings (the Proceedings) against RFG and five of its related entities, which operate the Gloria Jean's, Michel's Patisserie, Brumby's Bakery and Donut King brand systems. The Proceedings have been commenced by way of a concise statement and allege contraventions of the Australian Consumer Law (ACL), the Franchising Code of Conduct (Code) and, by reason of the alleged contravention of the Code, the CCA, during the period 2015 to 2019. A copy of the ACCC's concise statement is available on the ACCC's website at https://www.accc.gov.au/media-release/accc-alleges-rfg-engaged-in-unconscionable-and-misleading-conduct.

The Proceedings concern allegations that are historical and which occurred under various senior executives who are no longer with RFG. In particular, the Proceedings concern alleged contravention of the ACL and Code in relation to the sale or licence of 42 corporate-owned stores as well as management of marketing funds. The ACCC has not pursued several of the broad and serious allegations that were raised during the course of the Investigation, including in relation to implementation of the Michel's Patisserie 'Fresh to Frozen' model, the level of training and support provided to franchisees, and the competitiveness of the price of goods sourced on behalf of franchisees.

In the Proceedings, the ACCC is seeking declarations, injunctions, pecuniary penalties, disclosure and adverse publicity orders, a compliance program order, non-party redress orders and costs.

The Company continues to review the allegations made in the Proceedings.

It is currently not possible to determine the potential outcome or financial impact of the Proceedings for the Group. However, if the ACCC is successful in the Proceedings this could result in the imposition of potentially significant penalties and other outcomes as sought by the ACCC.

The Group intends to defend the Proceedings.

Possible Class Actions

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

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

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

Divisional Operating Review

The Group is managed through five major reportable segments under AASB 8, as follows:

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

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

Franchise Operations - Domestic

Underlying segment EBITDA for Franchise operations in 1H21 was $14.7 million and included $1.0 million of EBITDA contribution from AASB 15 and AASB 16.

EBITDA from underlying operations (excluding AASB 15 and AASB 16) was $13.7 million, representing a decrease of $4.8 million on PCP attributable to the impact of COVID-19 on trading results, and the reduction of store numbers experienced in 2H20 and 1H21.

Factoring the impact of COVID-19, weighted Same Store Sales (SSS) for 1H21 compared to PCP resulted in a decline of 1.0% across all Brand Systems (ex-Michel's Patisserie), and a decline of 2.6% including Michel's Patisserie.

As previously discussed, this result was considerably impacted by significant customer count declines amongst those Brand Systems predominantly situated within shopping centre environments and most impacted by COVID-19 measures, particularly within NSW and Victoria. Of those stores suffering turnover declines of more than 30% nationally, c.79% of the decline has come from metro based locations within these states, whereas c.74% of those coffee based stores experiencing 1H21 growth were located within regional areas, or amongst those States or Territories least impacted by the pandemic, including Queensland, W.A., S.A., N.T. and Tasmania.

Conversely, Brumby's Bakery and the QSR Division respectively recorded positive SSS for 1H21 of +11.7% and +6.7% versus PCP, having benefited from the COVID-19 period as Brumby's staple bread offer appealed to consumers, and QSR's delivery orders increased, complemented by the implementation of Crust's new value model.

1H21 outlet closures comprised 62 domestic traditional outlets, and 18 mobile vans, including exiting non-trading sites. As at 31 December 2020, domestic sites totalled 948.

Two new outlets were established domestically during the period, along with 2 new concept Donut King trial vans. In addition, the Group continued to progress further initiatives to support a return to new outlet growth in the future, including the development of best practice systemisation in connection with franchisee life-cycle, focus on securing new sites for proliferation of the Gloria Jean's Drive Thru model, and enhancing focus, support and incentivisation measures in connection with the Company's multi-store franchise partner complement which has been identified as a key pillar upon which future network growth will be pursued.

Franchise operations - International

During the 1H21, there was a net reduction of 2 international territory licences as legacy and or non-performing arrangements, where development quotas had either not been achieved or it was considered that the relevant territory was not viable long-term, were brought to an end.

Master Franchise Partners reported 22 new stores, and 5 new vans, within international territories, offsetting the reported closure of 47 stores and 7 vans, 32 of which (28 stores/4 vans) were attributable to the impact of COVID-19.

As at 31 December 2020, international operations comprised 59 international territory licenses across 46 countries, and a network population of 604 outlets.

Di Bella Coffee

Underlying 1H21 segment EBITDA for Di Bella Coffee's wholesale coffee operations was $1.1 million, reflecting decreased earnings on independent coffee channel sales impacted by reduced trading attributable to local COVID-19 measures, and a 2H20/1Q21 customer decline in the independent contract roasting sector, offset by overhead cost reduction benefits of the wholesale coffee restructuring program undertaken in FY20.

COVID-19 and the measures imposed by government in response contributed to reduced sales revenues as a large number of independent food service and contract roasting customers temporarily or permanently closed their businesses, restricted trading to take away service, or suffered customer traffic declines that impacted sales volumes, particularly in CBD locations. Gross margin on sales were also negatively impacted in the period, as reduced production volumes resulted in increased costs per unit produced.

COVID-19 also posed a number of practical challenges given high demand for distribution services as consumers gravitated to online retail models, and national distribution partners suffered periodic impacts to their ability to maintain a consistent DIFOT (Delivered In Full On Time) performance throughout 1H21.

During 1H21 Di Bella Coffee commenced a further restructuring program focused on driving efficiencies amongst its international operations. This activity included the outsourcing of New Zealand based coffee production, coupled with the closure of the Group's Auckland roasting facility, projected to deliver annualised savings of c.$300k.

Discontinued Operations

As previously noted, disposal of the Dairy Country business was completed on 19 October 2020, marking the Group's exit from traditional foodservice operations. Dairy Country's results have therefore been excluded from the underlying performance assessment of the Group. Statutory trading results of the Dairy Country business are recorded as discontinued operations.

Subsequent Events

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 1H21 period.

Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 12 of the half-year financial report.

Rounding off of amounts

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

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

RETAIL FOOD GROUP LIMITED

Mr Peter George
Executive Chairman

Robina, 24 February 2021

KPMG

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 review of Retail Food Group Limited for the half-year ended 31 December 2020 there have been:

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

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

KPMG

KPMG

Stephen Board
Partner

Brisbane
24 February 2021

Independent Auditor's Review Report

To the shareholders of Retail Food Group Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Retail Food Group Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Retail Food Group Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2020;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Retail Food Group Limited (the Company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

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

Emphasis of matter – restatement of comparative balances

We draw attention to Note 16 of the Half-year Financial Report, which describes the restatement in respect of prior periods associated with initial and renewal franchise fees. The Group has restated its comparatives to appropriately reflect the expected credit losses taken in the prior period as a reduction to unearned revenue. Our conclusion is not modified in respect of this matter.

The annual financial report of Retail Food Group Limited for the year ended 30 June 2020 was audited by another auditor who issued an unmodified opinion on that financial report on 28 August 2020. The Half-year financial report of Retail Food Group Limited for the half year ended 31 December 2019 was reviewed by another auditor who issued an unmodified review conclusion on that financial report on 27 February 2020.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001; and*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

Stephen Board
Partner

Brisbane
24 February 2021

DIRECTORS' DECLARATION

In the opinion of the Directors of Retail Food Group Limited ("the Company"):

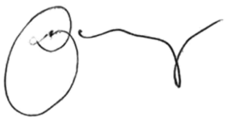
(1) the condensed consolidated financial statements and notes set out on pages 16 to 36, are in accordance with the Corporations Act 2001 including:

  (a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the six month period ended on that date and
  (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001 and

(2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

RETAIL FOOD GROUP LIMITED



Mr Peter George
Executive Chairman

Robina, 24 February 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

Consolidated	Notes	1H21 $'000	Restated [1] 1H20 $'000
Continuing operations			
Revenue	4	52,509	72,353
Cost of sales	5	(16,672)	(21,740)
Gross profit		35,837	50,613
Other revenue	4	7,986	6,379
Other gains and losses	5	1,153	66,094
Selling expenses		(1,333)	(708)
Marketing expenses		(6,323)	(8,771)
Occupancy expenses		(370)	(6,211)
Administration expenses	5	(9,313)	(19,670)
Operating expenses		(7,922)	(15,784)
Finance costs		(1,865)	(6,470)
Other expenses	5	(9,234)	(18,934)
Profit before income tax		8,616	46,538
Income tax (expense)/benefit		-	(17,915)
Profit for the period from continuing operations	5	8,616	28,623
Loss from discontinued operations	12	(4,752)	(14,745)
Profit for the period		3,864	13,878
Other comprehensive loss, net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations		(120)	(174)
Other comprehensive loss for the period, net of tax		(120)	(174)
Total comprehensive income for the period		3,744	13,704
Total comprehensive income is attributable to:			
Equity holders of the parent		3,744	13,704
Earnings per share			
From continuing operations:			
Basic (cents per share)	11	0.4	5.3
Diluted (cents per share)	11	0.4	5.3
Total:			
Basic (cents per share)	11	0.2	2.6
Diluted (cents per share)	11	0.2	2.6

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

(1) Refer to note 16.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

Consolidated	Notes	1H21 $'000	FY20 $'000
Current assets			
Cash and cash equivalents	6	43,058	40,248
Trade and other receivables		9,170	20,084
Finance lease receivables	7	30,201	23,831
Other financial assets		3,123	2,523
Inventories		5,656	10,951
Current tax assets		49	26
Other		2,183	9,064
Total current assets		93,440	106,727
Non-current assets			
Trade and other receivables		19	22
Finance lease receivables	7	40,306	52,040
Other financial assets		979	1,534
Property, plant and equipment		22,435	39,045
Intangible assets		230,815	238,088
Other		10	39
Total non-current assets		294,564	330,768
Total assets		388,004	437,495
Current liabilities			
Trade and other payables		9,420	43,806
Borrowings		9,560	8,482
Lease liabilities	7	50,599	43,003
Provisions		7,196	11,757
Derivative financial instruments		-	1,892
Unearned income		4,880	6,190
Other		634	608
Total current liabilities		82,289	115,738
Non-current liabilities			
Borrowings		39,361	45,127
Lease liabilities	7	70,332	81,052
Provisions		2,392	3,982
Unearned income		13,270	15,423
Other		384	88
Total non-current liabilities		125,739	145,672
Total liabilities		208,028	261,410
Net assets		179,976	176,085
Equity			
Issued capital	9	615,145	614,935
Reserves		6,872	6,863
Retained earnings	10	(442,041)	(445,713)
Total equity		179,976	176,085

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

		Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
Consolidated	Notes	$'000	$'000	$'000	$'000
Balance at 1 July 2019 (Reported)		428,640	5,105	(449,409)	(15,664)
Impact of restatement [1]		-	-	9,158	9,158
Balance at 1 July 2019 (Restated)		428,640	5,105	(440,251)	(6,506)
Opening adjustment for adoption of AASB 16		-	-	75	75
Profit for the period [1]		-	-	13,878	13,878
Other comprehensive loss		-	(174)	-	(174)
Total comprehensive income/(loss)		-	(174)	13,953	13,779
Issue of ordinary shares		193,525	-	-	193,525
Share issue costs		(10,328)	-	-	(10,328)
Related income tax		3,098	-	-	3,098
Recognition of share-based payments		-	55	-	55
Transfer from retained earnings to marketing fund reserve		-	845	(845)	-
Transfer from equity-settled employee benefits reserves		-	(60)	60	-
Balance at 31 December 2019 (Restated)		614,935	5,771	(427,083)	193,623
Balance as at 1 July 2020		614,935	6,863	(445,713)	176,085
Profit for the period	10	-	-	3,864	3,864
Other comprehensive loss		-	(120)	-	(120)
Total comprehensive income/(loss)		-	(120)	3,864	3,744
Recognition of share-based payments		-	147	-	147
Transfer from retained earnings to marketing fund reserve	10	-	192	(192)	-
Transfer from equity-settled employee benefits reserves	9	210	(210)	-	-
Balance at 31 December 2020		615,145	6,872	(442,041)	179,976

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

(1) Refer to note 16.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

Consolidated	Notes	1H21 $'000	1H20 $'000
Cash flows from operating activities			
Receipts from customers		93,260	175,721
Payments to suppliers and employees		(78,777)	(171,113)
Interest and other costs of finance paid		(5,540)	(7,167)
Net cash (used in)/provided by operating activities		8,943	(2,559)
Cash flows from investing activities			
Interest received		22	77
Repayment of advances to other entities		319	483
Payments for property, plant and equipment		(1,272)	(483)
Proceeds from sale of property, plant and equipment		69	465
Payments for intangible assets		-	(245)
Payments for business (net of cash acquired)		-	(600)
Proceeds from sale of business	12	3,112	-
Net cash (used in)/provided by investing activities		2,250	(303)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		-	193,525
Share issue costs		-	(11,771)
Lease payments		(3,873)	(6,292)
Proceeds from borrowings		-	3,000
Repayment of borrowings		(4,510)	(142,001)
Debt issue costs		-	(2,698)
Net cash (used in)/provided by financing activities		(8,383)	33,763
Net increase in cash and cash equivalents		2,860	30,899
Cash and cash equivalents at the beginning of the period		40,248	13,263
Effects of exchange rate changes on cash and cash equivalents		(50)	2
Cash and cash equivalents at end of period	6	43,058	44,164

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contents of the notes to the financial statements

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

The Group has carefully considered the impacts of COVID-19 in preparing its financial statements for the period ended 31 December 2020. The severe disruption to the retail food and beverage sector caused by Government imposed COVID-19 restrictions, and the franchised store lease arrears position at 31 December 2020 discussed below, were deemed indicators of impairment, and therefore required assets held by the Group to be tested for impairment.

The key impacts on the financial statements, including the application of critical estimates and judgements, are as follows:

Receivables and other financial assets

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

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

Lease assets and liabilities

As at 31 December 2020, landlords reported with respect to franchised store leases where the Group is head on lease (HOL) there were lease arrears accrued over the COVID-19 period of $11.8 million. The lease arrears balances reported to the Group by landlords are on a gross basis, and do not yet include the application by landlords of COVID-19 rental relief in the form of rental abatements and deferrals, estimated to be $3.4 million benefit to the respective franchised stores. $0.9 million of rental abatements were confirmed by landlords as being applied against franchisee rental arrears at 31 December 2020.

The Group has recognised a current lease liability at 31 December 2020 for the $11.8 million, and a corresponding gross lease receivable of $11.8 million from the respective franchise partners occupying the stores. An expected credit loss provision (ECL) of $5.3 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 $2.1 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 and the uncertain duration of COVID-19. Refer to Note 7.

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 1H21 actual and potential impacts of COVID-19, including referring to independent expert long-term forecasts for the markets in which the Group operates. The Group assessed the carrying values of indefinite life intangible assets and goodwill were not further impaired as at 31 December 2020.

The actual results achieved by the Group's cash generating units for the half year were comparable to the forecasts used in the 30 June 2020 impairment models and the key assumptions made at 31 December 2020 are consistent with those made at 30 June 2020. Refer to the 30 June 2020 financial report for further details.

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 31 December 2020.

1. Significant changes in the reporting period (continued)

Restatement of prior periods

The Group has restated the Group's performance and financial position for prior periods as a result of reclassifying the Dairy Country business as a discontinued operation, and reassessment of accounting for adoption of AASB 15 *Revenue from contracts with customers*. Refer to Note 16.

Discontinued operations

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

The consolidated statement of profit or loss and other comprehensive income for the comparative period is also restated to include the results of the Dairy Country business with other discontinued operations. The Dairy Country manufacturing business has been classified as a discontinued operation in these financial statements on the basis the disposal of the Dairy Country business was completed on 19 October 2020.

In the financial year ending 30 June 2020, the Group had classified Dairy Country as a continuing operation. Accordingly, the comparative financial information in these financial statements has been restated to include Dairy Country with other discontinued operations in 1H20. Discontinued operations in 1H20 previously included businesses trading under the Hudson Pacific Food Service (HPC), and Associated Food Service (AFS) trading names, which were disposed of on 3 January 2020. Refer note 12.

Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. The Group has a net current asset position of $11.2 million at 31 December 2020.

As reported at 31 December 2020, the Group had $36.1 million in unrestricted cash and senior debt and borrowings of $49.8 million, resulting in a sustainable net debt position of $13.7 million. 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, whilst remaining compliant with all lending covenants for at least 12 months from the date of this report. There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of its impact and the speed of economic recovery. In the event the effects of COVID-19 continue for an extended period and result in significant financial impacts to the Group, this may impact the Group's ability to pay its debts as and when they fall due in the longer term.

For a detailed discussion about the Group's performance and financial position please refer to our 1H21 Results on pages 7 to 10.

2. General information

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

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

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

- Intellectual property ownership of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffees and It's A Grind Brand Systems;
- Development and management of the Donut King, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffees and It's A Grind Brand Systems throughout the world, whether directly managed and/or as licensor for all Brand Systems;
- Development and management of the coffee roasting facilities and the wholesale supply of coffee and allied products to the existing Brand Systems and third-party accounts under the Di Bella Coffee business; and
- Development, management, and subsequent divestment, of the manufacturing business operating under the Dairy Country trading name.

3. Segment information

3.1 Description of segments and principal activities

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

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

- Bakery/Café Division (incorporating the Michel's Patisserie, Donut King and Brumby's Bakery Brand Systems);
- QSR Division (incorporating the Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Coffee Retail Division (incorporating the Gloria Jean's Coffees, Esquires, It's A Grind, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating wholesale coffee operations); and
- Manufacturing and Distribution (incorporating the Dairy Country business). Manufacturing and Distribution previously included businesses operating under the Hudson Pacific Food Service (HPC) and Associated Food Service (AFS) trading names, which were disposed of on 3 January 2020. The Manufacturing and Distribution segment is classified as discontinued operations in the 1H21 interim financial period, and the 1H20 comparative period.

3.2 Segment information provided to the Chief Operating Decision Makers

Segment Revenue

Revenue from external parties reported to the CODMs is measured in a manner consistent with that in the segment note. Sales between segments are carried out at arm's length and are eliminated on consolidation and identified as Inter-segment revenue as presented in Note 3.3.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Segment information (continued)

3.3 Segment revenue

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

Segment	Bakery Cafe		QSR Systems		Coffee Retail Systems		Di Bella Coffee		Manufacturing and Distribution		Discontinued Operations (2)		Total Continuing Operations	
	1H21 $'000	Restated 1H20 $'000	1H21 $'000	Restated 1H20 $'000	1H21 $'000	Restated 1H20 $'000	1H21 $'000	1H20 $'000	1H21 $'000	1H20 $'000	1H21 $'000	Restated 1H20 $'000	1H21 $'000	Restated 1H20 $'000
External revenue	13,914	17,976	6,058	8,938	18,274	27,212	8,802	14,182	24,633	94,347	(24,633)	(100,248)	47,048	62,407
Impact of AASB 15 & AASB 16	2,417	3,982	508	405	2,786	2,613	45	52	-	-	-	-	5,756	7,052
External revenue - Marketing Funds	2,385	4,040	2,790	2,722	1,002	1,363	-	-	-	-	-	-	6,177	8,125
External revenue - Corporate stores	666	396	-	66	848	686	-	-	-	-	-	-	1,514	1,148
Inter-segment revenue	59	27	-	-	108	40	-	-	-	-	-		167	67
Segment revenue (1)	19,441	26,421	9,356	12,131	23,018	31,914	8,847	14,234	24,633	94,347	(24,633)	(100,248)	60,662	78,799
Operating EBITDA	6,212	7,890	3,331	3,750	4,142	6,834	825	1,452	961	1,532	(1,086)	(1,532)	14,385	19,926
Impact of AASB 15 & AASB 16	591	3,144	853	256	(442)	2,520	282	733	755	1,610	(755)	(1,610)	1,284	6,653
Underlying Segment EBITDA	6,803	11,034	4,184	4,006	3,700	9,354	1,107	2,185	1,716	3,142	(1,841)	(3,142)	15,669	26,579
Marketing Funds EBITDA													192	845
Restructuring and Provisioning													(454)	(37,317)
Gain on debt forgiveness													-	71,754
Depreciation & amortisation													(4,926)	(8,853)
Finance costs													(1,865)	(6,470)
Profit/(loss) before tax from continuing operations													8,616	46,538
Income tax (expense)/benefit													-	(17,915)
Profit/(loss) after tax for the year from continuing operations													8,616	28,623

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

	1H21 $'000	Restated 1H20 $'000
Revenue for the period – Statutory	60,495	78,732
Inter-segment revenue: eliminated on consolidation	167	67
Total segment revenue	60,662	78,799

(2) External revenue from discontinued operations represents external revenue from the Manufacturing and Distribution segment along with external revenue amounts that are also generated by the Manufacturing and Distribution business which are allocated to other segments of the Group. This allocation arises as the external customers are those of the relevant brand systems.

3. Segment information (continued)

3.4 Geographical information

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

4. Revenue and other revenue

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

Consolidated	1H21 $'000	Restated 1H20 $'000
Revenue from sale of goods	25,462	35,469
Revenue from sale of franchise agreements	24,489	34,216
Revenue from sale of distribution rights	2,558	2,668
	52,509	72,353
Other revenue	7,986	6,379
	60,495	78,732

5. Profit for the period from continuing operations

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

Consolidated	1H21 $'000	Restated 1H20 $'000
Cost of sales	16,672	21,740
Gain on lease termination (2)	(1,138)	-
Loss/(gain) on disposal of assets (2)	(15)	5,660
Write-down of property, plant and equipment to fair value less costs to sell (1)	-	7,866
Inventory related write-downs and provisioning (1)	-	378
Gain on debt forgiveness (2)	-	(71,754)
Impairment loss/(gain) on trade and other receivables (1)	(803)	567
Impairment loss on lease assets (1)	6,709	1,593
Impairment loss/(gain) on other asset classes (1)	-	(849)
Restructuring and provisioning (3)	3	19,009
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment (1)	4,704	8,538
Amortisation - finite life intangible assets (1)	222	315
Total depreciation and amortisation expense	4,926	8,853
Employee benefits expenses:		
Equity settled share based payments	147	-
Government wage subsidies	(3,961)	-
Post-employment benefits (defined contribution plans)	973	1,206
Other employee benefits (wages and salaries)	14,277	18,616
Total employee benefits expense	11,436	19,822

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

(2) Amounts are included in other gains and losses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(3) Amount is included in other expenses and administration expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

6. Cash and cash equivalents

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

6.1 Reconciliation of cash and cash equivalents

Consolidated	1H21 $'000	FY20 $'000
Cash and bank balances	43,058	40,248
Less: Restricted cash	(6,988)	(6,326)
	36,070	33,922

6.2 Restricted cash

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

7. Leases

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

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

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

Consolidated	Notes	31 December 2020 $'000	1 July 2020 $'000
Finance lease receivable			
Current			
Lease receivable		41,751	31,247
Allowance for expected credit loss		(11,550)	(7,416)
		30,201	23,831
Non-current			
Lease receivable		48,107	56,062
Allowance for expected credit loss		(7,801)	(4,022)
		40,306	52,040
		70,507	75,871
Right-of-use (ROU) assets			
Land & buildings		19,153	22,283
Vehicles & equipment		130	986
		19,283	23,269
Lease liabilities			
Current		50,599	43,003
Non-current		70,332	81,052
		120,931	124,055

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

Consolidated	1H21 $'000
Balance at the beginning of the period	11,438
Reclassification to 'Right-of-use assets'	(681)
Reclassification from 'Right-of-use assets'	3,819
Additional lease impairment recognised during the period	2,137
Net movement of impaired lease receivable	(2,710)
Expected credit loss on rental arrears & deferrals	5,348
Balance at the end of the period	19,351

7. Leases (continued)

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

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

	1H21 $'000	FY20 $'000
Within 1 year	32,563	37,238
Between 1 and 2 years	23,762	27,177
Between 2 and 3 years	15,097	17,236
Later than 3 years	15,669	20,353
	87,091	102,004

(1) Lease payment receivable represents undiscounted expected cashflows.

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

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

	1H21 $'000	1H20 $'000
Operating lease income	2,596	4,495
Finance lease interest income	2,018	2,669
Interest expense (finance lease)	(2,018)	(2,669)
Interest expense (operating leases)	(1,074)	(1,349)
Depreciation expense of ROU assets	(4,171)	(6,055)
Impairment charges of ROU assets	(1,935)	(406)
Expected credit loss - lease receivables	(4,774)	(1,495)
Gain/loss on lease modification	1,138	-

The total cash outflow for leases during the half-year to 31 December 2020 was $3.9 million.

8. Uncertain tax positions

The Australian Taxation Office (ATO) has conducted a review of the Group's consolidated tax returns for the financial years 2015 to 2018. An alternate view to that taken by the Company has been taken by the ATO with respect to the deductibility of lease surrender payments claimed by the Group in those years. The Group and its advisors have submitted a legal position paper supporting the Group's view which is currently being considered by the ATO. Certainty around this tax position is expected within the 2021 financial year. The Group has not recognised additional tax liabilities with relation to this matter as it considers it probable that the tax authority will ultimately accept the Group's position.

9. Issued capital

Consolidated	1H21 $'000	FY20 $'000
2,120,095,198 fully paid ordinary shares (FY20: 2,117,995,198)	615,145	614,935
	615,145	614,935

Consolidated	1H21 No. '000	1H21 $'000
Fully paid ordinary shares (1)		
Balance at beginning of period	2,117,995	614,935
Transfer from equity-settled employee benefits reserve	2,100	210
Balance at end of period	2,120,095	615,145

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

10. Retained earnings

Consolidated	1H21 $'000	FY20 $'000
Balance at beginning of period	(445,713)	(440,251)
Net profit/(loss) attributable to members of the parent entity	3,864	(3,990)
Opening adjustment for adoption of AASB 16	-	75
Transfer from equity-settled employee benefits reserves	-	60
Net profit attributable to marketing funds reclassed to other reserves	(192)	(1,607)
Balance at end of period	(442,041)	(445,713)

11. Earnings per share

Consolidated	1H21 $'000	Restated 1H20 $'000
Basic earnings per share		
From continuing operations	0.4	5.3
From discontinued operations	(0.2)	(2.7)
Basic (cents per share)	0.2	2.6
Diluted earnings per share		
From continuing operations	0.4	5.3
From discontinued operations	(0.2)	(2.7)
Diluted (cents per share)	0.2	2.6

11.1 Basic earnings per share

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

Consolidated	1H21 $'000	Restated 1H20 $'000
Profit/(loss) for the period		
From continuing operations	8,616	28,623
From discontinued operations	(4,752)	(14,745)
Earnings used in the calculation of basic EPS from continuing and discontinuing operations	3,864	13,878

Consolidated	1H21 No. '000	1H20 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS [1]	2,119,422	542,175

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

11.2 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	1H21 $'000	Restated 1H20 $'000
Profit/(loss) for the period		
From continuing operations	8,616	28,623
From discontinued operations	(4,752)	(14,745)
Earnings used in the calculation of basic EPS from continuing and discontinuing operations	3,864	13,878

Consolidated	1H21 No. '000	1H20 No. '000
Weighted average number of ordinary shares for the purpose of diluted EPS [1]	2,131,422	542,175

Performance rights:

Performance rights granted to employees under RFG's Performance Rights Plan are considered to be potential ordinary shares. These have been included in the calculation of diluted earnings per share.

(1) Refer to note 11.1 for calculation of weighted average number of ordinary shares for the purpose of basic EPS.

12. Discontinued operations

On 11 September 2020, Retail Food Group (RFG) announced its entry into a Business Sale Agreement ("BSA") to dispose of the business and assets of its subsidiary, Dairy Country Pty Ltd (Dairy Country), to Fonterra Brands (Australia) Pty Ltd (Fonterra). Completion of the transaction occurred and was disclosed to the market on 19 October 2020, with effect from that date. Dairy Country was part of the Group's Manufacturing and Distribution Division.

At 31 December 2019, the Manufacturing and Distribution Division (Excluding Dairy Country) was classified as Held for Sale and Discontinued Operations, as the Board had resolved procurement, warehousing and distribution businesses conducted under the Hudson Pacific Food Services (HPC) and Associated Food Service (AFS) brands within this division were not core operations of the Group, and resolved to dispose of these businesses. On 3 January 2020, these businesses were successfully divested.

The results of discontinued operations for the comparative period ended 31 December 2019 have been restated to include Dairy Country.

Financial information relating to discontinued operations is set out below:

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

Consolidated	$'000
Trade and other receivables	12,349
Inventories	4,261
Property, plant and equipment	15,033
Intangible assets	6,786
Total assets	38,429
Trade and other payables	13,372
Provisions	1,328
Other liabilities	2,946
Total liabilities	17,646
Net Assets disposed	20,783

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

Consolidated	1H21 $'000	Restated 1H20 $'000
Revenue	24,633	100,248
Expenses	(25,439)	(115,951)
Loss before income tax from operations	(806)	(15,703)
Loss on disposal of business	(3,946)	(416)
Attributable tax benefit	-	1,374
Net loss attributable to discontinued operations	(4,752)	(14,745)

Cash flow information
During 1H21, net cash inflow from operating activities of discontinued operations was $0.2 million (1H20: $3.0 million, cash outflow), while proceeds on sale was included in cash flows from investing activities.

12. Discontinued operations (continued)

	1H21	Restated 1H20
Earnings per share		
From discontinuing operations:		
Basic (cents per share)	(0.2)	(2.7)
Diluted (cents per share)	(0.2)	(2.7)

Details of the sale:
The BSA was completed via a net settlement of the agreed purchase consideration receivable from Fonterra of $16.8 million with amounts payable by the Group to Fonterra of $13.7 million at the date of disposal, resulting in net cash inflows of $3.1 million.

Consideration received or receivable:	1H21 $'000
Consideration	19,225
Net Working Capital adjustments	(2,388)
Total disposal consideration	16,837
Carrying Amount of net assets sold	20,783
Loss on sale before income tax	(3,946)
Income tax expense on loss	-
Loss on sale after income tax	(3,946)

13. Events after the reporting period

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

Interim Dividend

The Directors have resolved that no dividend will be declared or paid with respect to the 1H21 period.

14. Summary of significant accounting policies

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

14.1 Basis of preparation

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

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

This consolidated interim financial report for the half-year reporting period ended 31 December 2020 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

14.2 Discontinued operations

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

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

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

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

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

15. Contingent Liabilities

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

ACCC Investigation & Proceedings

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

15. Contingent Liabilities (continued)

On 15 December 2020 the ACCC commenced Federal Court proceedings (the Proceedings) against RFG and five of its related entities, which operate the Gloria Jean's, Michel's Patisserie, Brumby's Bakery and Donut King brand systems. The Proceedings have been commenced by way of a concise statement and allege contraventions of the Australian Consumer Law (ACL), the Franchising Code of Conduct (Code) and, by reason of the alleged contravention of the Code, the CCA, during the period 2015 to 2019. A copy of the ACCC's concise statement is available on the ACCC's website at https://www.accc.gov.au/media-release/accc-alleges-rfg-engaged-in-unconscionable-and-misleading-conduct.

The Proceedings concern allegations that are historical and which occurred under various senior executives who are no longer with RFG. In particular, the Proceedings concern alleged contravention of the ACL and Code in relation to the sale or licence of 42 corporate-owned stores as well as management of marketing funds. The ACCC has not pursued several of the broad and serious allegations that were raised during the course of the Investigation, including in relation to implementation of the Michel's Patisserie 'Fresh to Frozen' model, the level of training and support provided to franchisees, and the competitiveness of the price of goods sourced on behalf of franchisees.

In the Proceedings, the ACCC is seeking declarations, injunctions, pecuniary penalties, disclosure and adverse publicity orders, a compliance program order, non-party redress orders and costs.

The Company continues to review the allegations made in the Proceedings.

It is currently not possible to determine the potential outcome or financial impact of the Proceedings for the Group. However, if the ACCC is successful in the Proceedings this could result in the imposition of potentially significant penalties and other outcomes as sought by the ACCC.

The Group intends to defend the Proceedings.

Possible Class Actions

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

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

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

16. Prior Period Restatements

Accounting for AASB 15 Revenue from contracts with customers

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

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

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

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

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

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

As such, the unearned income for the period ended 31 December 2019 has been restated to reflect the Group's best estimate of the amount of variable consideration that was highly probable. In reflecting these adjustments in the prior period, consolidated statement of profit or loss and other comprehensive income has been restated.

16. Prior Period Restatements (continued)

Discontinued operations

On 11 September 2020, Retail Food Group (RFG) announced its entry into a Business Sale Agreement ("BSA") to dispose of the business and assets of its subsidiary, Dairy Country Pty Ltd (Dairy Country), to Fonterra Brands (Australia) Pty Ltd (Fonterra). Completion of this transaction occurred and was disclosed to the market on 19 October 2020, with effect from that date. Dairy Country was part of the entity's Manufacturing and Distribution Division.

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

Consolidated statement of profit or loss and other comprehensive income	1H20 Reported	Discontinued operations adjustments	AASB 15 adjustments	1H20 Restated
	$'000	$'000	$'000	$'000
Revenue	151,417	(72,177)	(508)	78,732
Expenses	(106,037)	73,843	-	(32,194)
Profit/(loss) before income tax	45,380	1,666	(508)	46,538
Attributable tax (expense)/benefit	(18,237)	224	98	(17,915)
Profit/(loss) for the period	27,143	1,890	(410)	28,623
Loss from discontinued operations	(12,855)	(1,890)	-	(14,745)
Profit/(loss) for the period	14,288	-	(410)	13,878

Consolidated statement of financial position	31 December 2019 Reported	AASB15 opening balance adjustment	AASB 15 adjustments	31 December 2019 Restated
	$'000	$'000	$'000	$'000
Unearned income	(36,756)	9,158	(508)	(28,106)
Total liabilities	(36,756)	9,158	(508)	(28,106)
Retained losses	(435,831)	9,158	(410)	(427,083)
Total Equity	184,875	9,158	(410)	193,623

17. Prior Period Reclassifications

Franchisee lease exit and assistance provision

The Group has reclassified $4.5 million of current provision held in relation to franchisee lease exit and assistance at 30 June 2020 from provisions to expected credit loss on finance lease receivables.

Deferred tax balances

As at 31 December 2020, the Group's deferred tax asset and liability balances have been offset in the consolidated statement of financial position. The Group has reclassified comparative balances at 30 June 2020 to offset $82.0 million of deferred tax asset and liability balances.

RETAILFOODGROUP

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