

Retail Food Group Limited

APPENDIX 4E (Rule 4.3A)
PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 2 July 2021
RESULTS FOR ANNOUNCEMENT TO THE MARKET
(All comparisons to the period ended 30 June 2020)

				FY21 A\$'000	Restated FY20 A\$'000
Revenue and other income from continuing operations	Down	(14.3%)	to	117,586	137,219
Revenue and other income from discontinued operations	Down	(80.5%)	to	24,705	126,730
Total revenues and other income	Down	(46.1%)	to	142,291	263,949
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	Down	(15.0%)	to	26,935	31,672
Discontinued Operations and Disposal costs				(4,407)	(11,935)
AASB 15 & AASB 16				6,939	8,515
Business restructuring, impairment, provisioning and marketing expenses				(12,901)	(67,743)
Gain on debt forgiveness				-	71,754
Reported earnings before interest, tax, depreciation and amortisation (EBITDA)	Down	(48.7%)	to	16,566	32,263
Profit from continuing operations before income tax	Down	(56.7%)	to	8,152	18,846
Loss from discontinued operations before income tax				(5,983)	(18,428)
Profit before income tax	Up	419.0%	to	2,169	418
Income tax expense from continuing operations				(708)	(1,423)
Income tax benefit/(expense) from discontinued operations				-	(2,985)
Profit/(loss) for the year attributable to members of the parent entity	Up	136.6%	to	1,461	(3,990)
Net Tangible Assets/(Liabilities) per security				FY21 (2.5) cents	FY20 (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

Annual financial report

Financial year ended - 2 July 2021

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CORPORATE DIRECTORY

Directors

Mr Peter George
Executive Chairman

Mr David Grant
Independent Non-Executive Director

Ms Kerry Ryan
Independent Non-Executive Director

Mr Anthony Mark Connors LLB

Company Secretary

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

National Australia Bank Limited
Level 18, 259 Queen Street
Brisbane QLD 4000

Westpac Banking Corporation
Level 7, 260 Queen Street
Brisbane QLD 4000

Stock exchange listings

Retail Food Group Limited (ASX: RFG) shares are listed on the
Australian Securities Exchange

Website Address

www.rfg.com.au

DIRECTORS' REPORT

The Directors of Retail Food Group Limited (referred to hereafter as the Company) submit herewith the Annual Report of the Company for the financial year ended 2 July 2021 in accordance with the provisions of the *Corporations Act 2001*.

Information about the Directors

Name	Particulars
Mr Peter George	Executive Chairman, Bachelor of Commerce/Bachelor of Laws. Mr George joined the Board of RFG as a non-executive Director on 25 September 2018. He was appointed Executive Chairman on 7 November 2018, and subsequently assumed CEO responsibilities on 3 December 2018. Mr George has had a successful 30-year career as a senior executive and non-executive Director, including extensive professional experience of corporate turnarounds. Mr George was recruited to the Board as a turnaround specialist and has previously led the restructuring and merger of PMP Limited as Managing Director from 2012-2017 and was Executive Chairman of Nylex Limited from 2004-2008. He is currently a non-executive Director of Isentia Group Limited where he also sits as the Chair of the Audit and Risk Committee. He was also a non-executive Director and Chair of the Audit and Risk Committee of Asciano Limited from 2007 – 2016, and non-executive Director of Optus Communications from 1994 - 1998.
Mr David Grant	Independent Non-Executive Director, Bachelor of Commerce (Accounting, Finance & Systems), Graduate of the Australian Institute of Company Directors, Chartered Accountants Australia & New Zealand. Mr Grant was appointed a non-executive Director on 25 September 2018. He is an experienced public company director with a broad financial and commercial resume. He is currently a non-executive Director of Event Hospitality and Entertainment Limited, The Reject Shop Limited and A2B Australia Limited. Former directorships include iiNet Limited, Consolidated Rutile Limited and Murray Goulburn Cooperative Limited (including its associated listed unit trust). Mr Grant has deep experience chairing key board subcommittees, especially in relation to audit and risk, and assumed Chairmanship of RFG's Audit & Risk Management Committee contemporaneously with his appointment to the Board. He is also Chairman of RFG's Nominations & Remuneration Committee. Mr Grant's executive career included extensive food industry experience through a range of accounting, finance and commercial roles with Goodman Fielder Limited, including the position of Group M&A Director. He was also Chief Financial Officer of Iluka Resources Limited.
Ms Kerry Ryan	Independent Non-Executive Director, Bachelor of Laws, Bachelor of Arts, Fellow of the Australian Institute of Company Directors, Fellow of the Governance Institute of Australia. Ms Ryan was appointed to the Board on 27 August 2015. She is an experienced non-executive director across a range of industries, including professional services, sport, health and fitness, and education. Ms Ryan's professional background is in commercial law. She is a former partner at international law firm, Norton Rose Fulbright, where she worked predominantly in the consumer markets area. She has substantial international experience, including on-the-ground experience in Asia, and has worked with many well-known retail, food and beverage brands in relation to their international business dealings. Ms Ryan is an external member of the audit committee of the Parliament of Victoria, and is currently on the board of the Richmond Football Club and Aligned Leisure, which runs the Club's health and fitness business and its education arm, the Richmond Institute of Sports Leadership (in conjunction with Swinburne University of Technology). In the not-for-profit sector, she serves on the boards of Mental Health First Aid International and Kids First Australia.

DIRECTORS' REPORT

Directorships of other listed companies

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

Name	Company	Period of Directorship
Mr Peter George	Isentia Group Limited	15 April 2021 to present
Mr David Grant	Event Hospitality and Entertainment Limited	25 July 2013 to present
	The Reject Shop Limited	1 May 2020 to present
	A2B Australia Limited	2 June 2020 to present
	MG Unit Trust (special purpose funding vehicle for the Murray Goulburn Cooperative Limited - de-listed 3 July 2020)	27 October 2017 to 26 June 2020

Directors' shareholdings

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

Directors	Fully paid ordinary shares Number
Mr Peter George ⁽¹⁾	2,100,000
Mr David Grant	1,100,000
Ms Kerry Ryan	1,189,579

- (1) Contemporaneously with the date of this report, the Board (excluding Peter George) approved the vesting of 3,960,000 performance rights previously granted to Peter George. On vesting each performance right will convert to one fully paid ordinary share in the Company. Those shares will remain subject to the disposal restrictions detailed in the remuneration report of this Directors report.

Remuneration of Directors and Key Management Personnel

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

Share options granted to Directors and senior executive management

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

Performance rights granted to Directors and senior executive management

During the financial year, there were no performance rights granted to the Directors or senior executive management of the Company as part of their remuneration.

Directors' meetings

The following table sets out the number of Directors' meetings, including meetings of standing Committees of Directors, held during the financial year and the number of meetings attended by each Director, while they were a Director or Committee member. During the financial year, 16 Board meetings, 7 Audit & Risk Management Committee meetings and 4 Nominations & Remuneration Committee meetings were held.

Directors	Board of Directors		Audit & Risk Management Committee		Nominations & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr Peter George	16	16	7	7	4	4
Mr David Grant	16	16	7	7	4	4
Ms Kerry Ryan	16	16	7	7	4	4

DIRECTORS' REPORT

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 will detail the Company's observance of the Corporate Governance Principles & Recommendations (4th Edition) via its website at www.rfg.com.au when releasing its Annual Report.

Principal activities

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

- Intellectual property ownership of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffees and It's A Grind Brand Systems;
- Development and or management of the Donut King, 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 cheese processing business operating under the Dairy Country trading name.

The Dairy Country 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 FY20. Discontinued operations in FY20 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 certain 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.

DIRECTORS' REPORT

Important Information (continued)

Impact of coronavirus (COVID-19)

The COVID-19 pandemic and the measures undertaken to contain it have materially changed the global economic outlook, causing large-scale economic disruption in all markets the Group operates in. The economic disruption 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

The financial year ending 2 July 2021 was characterised by the following key underlying themes:

- A continuation of the Group's transformational journey and steadfast focus on building upon those initiatives implemented in prior periods to establish a firm platform for a return to consistent future profitability and growth; and
- Agile management of the ongoing and unavoidable impact of the COVID-19 pandemic and the challenges created by it; underpinned by
- A 'franchisee first' culture that acknowledges the fundamental link between RFG's success and that of its franchise partners.

During FY21, the Company advanced its transformation via disposal of the non-core Dairy Country cheese processing business, completing the Group's exit from traditional food service operations and delivering upon its strategic commitment to focus on RFG's core franchise and coffee businesses. 'Right sizing' and reconfiguration of the Group's national office administration and support functions was also completed during the period. Additionally, whilst a significant restructure of Di Bella Coffee domestic operations was completed in the 1H21, the Group embarked on further restructuring activity of that business in the 2H21 to better align operations with the evolving COVID-19 commercial environment in which it now operates.

In terms of RFG's Brand System operations, an unwavering commitment to supporting the Group's franchise partner community, complemented by further investment in the Company's systems, brands and people, drove further positive outcomes. Key initiatives during FY21 included:

- (a) Customer driven product and marketing campaigns, which increased in number and frequency as COVID-19 restrictions eased in most jurisdictions and the Group re-established more traditional marketing activities following activity deferrals throughout the 2H20 and initial stages of FY21. This was particularly evident in 2H21, where the investment in product innovation and marketing campaigns helped to capitalise on new customer shopping habits;
- (b) The provision of significant financial, operational and other ongoing support to the Group's franchise partner community in response to COVID-19 and government measures introduced to limit its spread;
- (c) Ongoing engagement with the Group's extensive landlord portfolio to drive and secure improved leasing outcomes for franchise partners, including COVID-19 related rent support for a large proportion of the Company's domestic network most impacted by COVID-19 trading restrictions;
- (d) Establishment of a new training facility on the Gold Coast, Australia, with capability to host and train franchise partners across all brands and International Territories, including capability for remote training via video conference delivery; and
- (e) Further refinement and trial of strategic initiatives, now in the course of implementation or final testing phases, to further support and drive future Brand System performance, including the Donut King mobile van concept, Gloria Jean's Coffees menu reinvigoration, and new outlet growth initiatives associated with the Gloria Jean's Coffees Drive Thru and Crust Gourmet Pizza brand systems.

These achievements accompany the significant outcomes delivered in FY20, which included the successful delivery of various commitments to all stakeholders at commencement of the Group's turnaround in 2019, including the recapitalisation of the Company, disposal of non-core businesses, significant downsizing of corporate operations, and a fundamental redesign of the Group's approach to franchise network management.

As indicated in the Company's 1H21 Report, the FY20 redesign of RFG's approach to franchise network management continued in FY21 with the consolidation of all franchise partner facing functions under a dedicated internal Retail Division. Resourced with experienced management under the leadership of RFG Head of Retail, Matthew Marshall, the Retail Division 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 franchise partner and franchisor level.

These objectives have been supplemented by a wide-ranging program to enhance systemisation across all aspects of the Retail Division's operations and develop a 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. This program has to date included the further evolution of the Company's customer relationship management infrastructure, reporting and data analytical infrastructure, credit management systems, franchise partner recruitment processes, product development procedures and approach to network communications.

DIRECTORS' REPORT

Overview (continued)

Complementing this activity has been the FY21 establishment of a new platform for franchise partner engagement and support, including:

- Redefining the Brand System General Manager role to represent the primary contact point for franchise partners and a hub for co-ordination of support between various Support Office and in-field functions so as to ensure growth opportunities can be swiftly identified and acted upon, feedback is delivered directly to executive management for prompt action, and timely and accurate insights regarding network sentiment and performance are better facilitated; and, following comprehensive operational training
- The 2021 transition of RFG's field support team structure from a generalist skillset to specialist coaches across 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.

This platform has both facilitated, and underpins, the 1H22 implementation of the Group's new Partnership Program, which represents an initiative designed to provide each Franchise Partner unique customer and performance insights which assist identification of growth opportunities and operational efficiencies; facilitates development of tailored business plans established in consultation with Brand System management and supported by customised support delivered by in-field specialists or Support Office expertise; and to recognise and reward positive outcomes, outperformance and commitment to Brand System values and standards.

The Group was eligible for Government wage subsidy and operating expense assistance programs available across its Australian and international operations during FY21. \$4.1 million of assistance received from the Australian Government's JobKeeper program and similar international programs was recorded in profit before tax during FY21. Cash received in FY21 with respect to these various Government assistance claims was \$4.6 million, which included proceeds from amounts receivable from assistance claimed in the FY20 year, and assistance advances received by international business units. The proceeds received by the Group from these programs were fully applied by the Group, consistent with the respective Governments' objectives of keeping people employed, in supporting eligible employees' return to usual and ordinary hours, and complementing the accelerated hiring of new franchise partner support roles for the business.

Operationally, COVID-19's unavoidable impact continued throughout FY21, having both positive and negative impacts on the Group's business units.

Brumby's Bakery, the QSR Division (Crust and Pizza Capers) and Gloria Jean's Coffees Drive Thru outlets enjoyed positive growth as customers returned to their local baker or sought out home delivery and low contact service models. Regionally located Donut King and Gloria Jean's Coffees stores, less impacted by COVID-19 restrictions than metropolitan areas, also experienced growth in sales, particularly in the larger states of Victoria and NSW, demonstrating the ongoing potential of RFG's store portfolio as the impact of the pandemic subsides.

Conversely, Brand System outlets and wholesale customers predominantly situated within the shopping centre environment, commuter locations and broader metropolitan areas, experienced sales declines versus pre-pandemic performance, including Donut King, Gloria Jean's Coffees and Michel's Patisserie outlets, and Di Bella Coffee customers.

In these environments, a clear trend has emerged where trading results amongst CBD and metropolitan (metro) locations are most negatively impacted by COVID-19 restrictions and are strongly influenced by widespread 'work from home' practices, increased preferences for takeaway and home delivery options, and reduced 'dwell' times amongst declining shopping centre customer traffic. COVID-19 related Government measures have included capacity restrictions on, or the complete prohibition of, the provision of dine-in services, and in some cases, the forced closure of outlets (both fixed and mobile). In a number of cases, franchise partners also elected to temporarily close their outlets given the impact of COVID-19 measures on trade. This trend continued across FY21 as the various State Governments implemented lock-down protocols and trading restrictions. The vast majority of outlets which temporarily closed throughout FY21 subsequently reopened, however, as at the date of this report approximately 40 outlets remain temporarily closed as a consequence of restrictions in place in response to the 'Delta' wave. The Group continues to monitor and support stores impacted by recent and ongoing trading restrictions.

FY21 permanent domestic outlet closures comprised 85 domestic traditional outlets, including exiting sites that ceased trading prior to FY21, and 13 mobile vans.

The above conditions, together with the cumulative impact of underperforming outlet closures over the past 12 months contributed to a c.3.9% reduction in FY21 total network sales versus PCP to c.\$495 million. Circa 59% of this reduction is attributable to reduced performance within Victoria, where an extended lockdown was imposed by the State Government during a large portion of FY21.

Despite the ongoing challenges of trading restrictions attributable to COVID-19, the overall performance of RFG's entire domestic Brand System network was relatively pleasing and demonstrates capacity for positive turnaround outcomes when viewed against FY20 performance. Same Store Sales (SSS) were up 3.2% versus PCP at a network level, and up 5.0% versus PCP when the impact of Victorian network performance is removed.

The Group's FY21 investment in product innovation and marketing campaigns, particularly in the 2H21, sought to capitalise on or respond to new customer shopping habits. Having regard to the CBD, metro and commuter hub trends referred to above, particularly within shopping centre locations, RFG's Brand Systems have successfully executed on targeted incremental spend per transaction despite Customer Count (CC) decline of 2.4% versus PCP, with Average Transaction Values (ATV) increasing 5.7% on PCP.

DIRECTORS' REPORT

Overview (continued)

A key 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.

In February 2021 the Group reported that, whilst rental concessions had been negotiated in respect of a significant number of franchised outlets as at 30 June 2020, less than 30% of landlords had formalised that relief, as evidenced on rental statements, by 31 December 2020. The lack of formalised and tangible application of the 'Code of Conduct for Commercial Tenancies' variously adopted by State Governments in response to COVID-19's 'first wave', and the relief afforded by landlords, created significant uncertainty for the Group's franchise partner community regarding rental payment obligations, which continued for the majority of FY21.

Via close engagement and leverage of the Group's portfolio, the Group was able to negotiate additional abatements and deferrals in connection with franchised store leases throughout FY21, and by the end of the financial year, an increased number of landlords had provided formal notification of rental abatements and deferral granted.

Gross lease arrears reported to the Group by landlords at 31 December 2020, with respect to franchised store leases where the Group is head on lease (HOL), were c.\$11.8 million. That arrears position was reduced during 2H21 to \$9.0 million as at 2 July 2021, reflecting payments towards arrears by franchise partners and the application of aforementioned rental abatements evidenced by updated rental statements. This amount includes \$0.8 million of amounts on deferred payment arrangements agreed with landlords. Notwithstanding the foregoing reduction in the lease arrears position, the Group has retained a provision of c.\$6.4 million against lease receivable balances from franchise partner with respect to the lease arrears position as at the end of FY21.

Given the aforesaid provision, together with the various COVID-19 related restrictions which have persisted throughout 1Q22 and continue to impact a large proportion of the Group's domestic network population, the Company continues to prioritise engagement with relevant stakeholders to procure more favourable leasing outcomes (including additional relief in response to the ongoing impacts of COVID-19 and franchise partner payment of rental arrears), leveraging the recent reintroduction, in NSW and Victoria, of previously expired Government mandated rules to regulate rental arrangements within heavily impacted COVID-19 environments.

Close engagement with franchise partners together with proactive credit management processes also provide confidence regarding continuing payment by franchise partners towards the current arrears.

During FY21, considerable focus was also applied to laying an enhanced platform for, and otherwise driving, domestic organic outlet growth. Key elements of the Group's strategy include:

- (a) Nurturing 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, and rigorous assessment of new outlet growth opportunities within larger existing territories to capture increased customer footprints, enhance delivery times and facilitate fresher product at delivery, and overall asset growth for franchise partners;
- (c) Expansion of the Gloria Jean's Coffees Drive Thru model, which has outperformed traditional outlets throughout the COVID-19 pandemic, via new site identification and novel footprint concepts designed to reduce capital investment costs, capitalise on customer convenience trends in high traffic locations, and provide genuine relocation solutions for existing franchise partners situated in high rent locations;
- (d) Successful operational trial of the Donut King mobile van model, which provides a low-cost opportunity to expand existing franchises into commercial and industrial areas leveraging the iconic Donut King brand, represents a strong point of difference within the mobile food and beverage market, and provides a compelling new franchise or conversion opportunity for existing mobile or potential new franchise partners;
- (e) A focus on expanding Brumby's Bakery within regional areas, including the state of South Australia which has reverted to RFG stewardship following mutual agreement to exit the former Master Franchise Partner which was linked to c.22 Brumby's Bakery outlets, predominantly operating from non-traditional and sub-optimal locations within a petrol and convenience model; and
- (f) The 2H21 implementation and resourcing of a dedicated structure to manage growth of the Company's corporate store operations, ensuring quality sites are secured and maintained within the network irrespective of franchise partner involvement.

Whereas the Group experienced positive enquiry rates and received expressions of interest in connection with dozens of new and existing domestic store opportunities during 1H21, this momentum was 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 the impact of business turnaround activity.

DIRECTORS' REPORT

Overview (continued)

These circumstances continued to restrict domestic new outlet growth opportunity for the duration of FY21, and were compounded by the recurrent Government trading restrictions implemented in response to COVID-19. The Group remains committed to new outlet growth, as evidenced by the various initiatives outlined above, and has invested considerable resources to drive positive outcomes in this aspect of its business.

At an international level, the majority of RFG's network was impacted throughout FY21 by COVID-19 related trading restrictions of varying degrees. This contributed to a c.51% decline versus PCP in international revenues derived from that network. As at the end of FY21, c.15 outlets remained temporarily closed, and 17 countries remained subject to various trading restrictions, as a consequence of COVID-19.

Despite these challenges, Master Franchise Partners reported 43 new outlets (comprising 35 outlets and 8 vans) during FY21, offset by 84 closures (the majority of which are considered attributable to COVID-19).

A highlight for the Group's International Division during FY21 was the relocation of its USA operations to a new national office situated in Chicago. Now more geographically aligned with the Group's USA network which is predominantly situated within the North America Mid-West, the new national office was formally opened by Gloria Jean's Coffees' original founder, Gloria Jean Kvetko.

The Group continues to closely monitor all international operations, noting the ongoing impact of COVID-19 'waves' amongst various jurisdictions, and the potential scope for further government restrictions in response.

Consistent with other aspects of the Group's business, the impact of the COVID-19 pandemic on Di Bella Coffee performance throughout FY21 was particularly evident in the Victorian market and across other metropolitan and CBD 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.

Having regard to the evolving COVID-19 influenced environment in which Di Bella Coffee operates, and the resulting decline in production volumes attributable thereto, management commenced additional restructuring activity in respect of the Coffee Division during FY21 including: (a) cessation of direct coffee roasting activities in the USA and New Zealand markets, (b) establishment of a Dubai based contract roasting solution to more efficiently service the Group's international network; and (c) the non-renewal of marginal major supermarket supply contracts. Further restructuring of Di Bella Coffee's domestic operations to extract further efficiency opportunities continues.

Clearly the impact of the COVID-19 pandemic, both during FY21 and as a consequence of various lockdowns or other trading restrictions introduced throughout various Australian States subsequent to 2 July 2021, demonstrates the ongoing uncertainty the Group considers is likely to prevail for some time. This is particularly the case within NSW, Victoria and Queensland where trading restrictions associated with various lockdowns implemented throughout 1Q22 continue to have a deleterious effect on domestic network performance within those regions, especially amongst outlets situated in shopping centres that have experienced significant customer count declines during lockdown periods.

Having regard to the foregoing uncertainty, the Group maintains heightened monitoring of the potential impacts which might be attributable to the COVID-19 pandemic, and the potential for further franchised store closures as a consequence. The Group continues to work with its franchise partner community and other stakeholders to minimise these potential impacts where reasonably possible.

Notwithstanding the foregoing uncertainty, significant progress on RFG's turnaround journey was made during FY21. 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 continue to approach the future with cautious confidence.

DIRECTORS' REPORT

FY21 Results

Item	FY21	FY20 ⁽¹⁾	Change
Revenue (including discontinued operations)	\$142.3m	\$264.0m	(\$121.7m)
NPAT	\$1.5m	(\$4.0m)	\$5.5m
NPAT (Underlying) ⁽²⁾	\$23.2m	\$18.8m	\$4.4m
EBITDA	\$16.6m	\$32.3m	(\$15.7m)
EBITDA (Underlying) ⁽²⁾⁽³⁾	\$26.9m	\$31.7m	(\$4.8m)

- (1) Comparatives for FY20 where relevant have been restated for Discontinued Operations. Refer to note 33 to the financial statements for statutory results restatements.
- (2) These figures are not subject to audit or review. Underlying NPAT results include a \$nil income tax expense as the Group has carried forward tax losses.
- (3) Underlying EBITDA excludes the impact of restructuring costs, impairment charges, gain on debt forgiveness, AASB 15 and AASB 16 and discontinued operations.

FY21 Underlying EBITDA of \$26.9 million was \$4.8 million below PCP and evidenced progress of the Company's turnaround strategy despite the significant impact of COVID-19 on the Group's performance.

Statutory revenue from continuing operations for FY21 was \$117.6 million, representing a decrease of \$19.6 million on PCP.

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

- An \$8.2 million decrease in Brand System segment revenues, excluding AASB 15 and AASB 16:
 - o A \$10.8 million decrease in Brand System external and marketing revenues, consistent with the reduction in stores under the Group's programmed store closure program and the impact of COVID-19 on Brand System network sales, compared to PCP; offset by
 - o A \$2.6 million increase in revenues from trading of company stores.
- A \$6.4 million decrease in Di Bella Coffee revenue, primarily attributable to the impact of COVID-19 on domestic and international coffee customers, and exiting low margin supermarket supply contracts during the year;
- A \$5.0 million decrease in revenues on PCP attributable to AASB 15 and AASB 16 related revenues.

Cash inflows from operating activities for FY21 were \$11.0 million (FY20: \$3.9 million, cash outflow). Operationally, net cash inflows were attributable to a return to more normalised operations in FY21, and benefited from a \$4.6 million inflow from the proceeds of JobKeeper payments and other government programs received. Gross cash inflows and gross cash outflows reduced in FY21 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 year were \$12.1 million (FY20: \$69.6 million), comprising consulting costs associated with corporate restructure and regulatory response activities, salary and associated costs of functions and roles identified as redundant, and costs of the wholesale coffee business restructuring program.

An additional \$6.0 million of net costs and losses were recognised with respect to the trading and disposal of the Dairy Country business completed in 1H21, presented as discontinued operations within this report.

Contingent Liabilities

The proceedings commenced by the ACCC in 1H21 against certain members of the Group have not, to date, been resolved or finally determined. In addition, the Group may potentially be the subject of class action claims, none of which has, however, yet been commenced. Provisions for costs incurred but unpaid as at balance date have been raised in line with the Group's accounting policy.

ACCC Investigations

The Australian Competition and Consumer Commission (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 on 15 December 2020. The Proceedings 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 Competition & Consumer Act, during the period 2015 to 2019 in relation to the sale or licence of 42 corporate-owned stores as well as management of marketing funds. The claims the subject of the Proceedings are, therefore, historical in nature and relate to a period which occurred under former RFG leadership.

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.

Since commencing the Proceedings, the ACCC has filed a Statement of Claim, and the Group has filed its Defence.

DIRECTORS' REPORT

Contingent Liabilities (continued)

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 is defending 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.

RFG has had no contact with any plaintiff law firm in relation to either threatened class action, and 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. If 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 Coffees, Esquires, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating Wholesale Coffee operations); and
- Manufacturing and Distribution Division (incorporating cheese processing operations under the Dairy Country trading name).

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

Franchise Operations - Domestic

Segment EBITDA for Franchise Operations in FY21 was \$31.7 million and included \$6.0 million of EBITDA contribution from AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases).

EBITDA from underlying operations (excluding AASB 15 and AASB 16) was \$25.7 million, representing a decrease of \$3.8 million on PCP attributable to the impact of COVID-19 on trading results, and the reduction of trading store numbers experienced in 2H20 and 1H21.

Factoring the impact of COVID-19, Same Store Sales (SSS) for FY21 compared to PCP resulted in +3.2% growth across all Brand Systems.

Brumby's Bakery and the QSR Division respectively recorded FY21 SSS growth of +9.1% and +4.3% versus PCP, having benefited from the COVID-19 period during which:

- Brumby's Bakery successfully re-engaged local communities leveraging the brand's fresh baked promise and quality product offer, complemented by a focus on key seasonal events and the introduction of a new loyalty program, to respectively drive Customer Count (CC) and Average Transaction Value (ATV) by +2.8% and +6.1% on PCP;
- The Queensland-centric Pizza Capers performed strongly, delivering SSS growth of +12.4% on PCP; and
- Crust Gourmet Pizza benefitted from the 2Q21 implementation of a new value model promising 'premium pizza at affordable prices', which led to c.600,000 additional pizzas being sold, and CC growth of +6.7%, versus PCP, contributing to SSS growth for that Brand System of +3.2% versus FY20.

These respectable performances were offset by the considerable impact of 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. During FY21, of those same stores suffering turnover declines of more than 25% nationally, c.86% of the decline has come from metro based locations within the above States, whereas c.44% of those coffee based stores which experienced FY21 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.

FY21 outlet closures comprised 85 domestic traditional outlets, and 13 mobile vans, including exiting non-trading sites. As at 2 July 2021, domestic sites totalled 943 including non-trading sites.

DIRECTORS' REPORT

Franchise Operations - Domestic (continued)

14 new outlets were established domestically during the year, predominantly via the Group's Multi-Site Owner franchise partner complement, along with 3 new concept Donut King trial vans. In addition, the Group continued to progress further initiatives to support a return to enhanced new outlet growth in the future, including the development of best practice systemisation in connection with franchise partner 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 FY21, there was a net reduction of 4 international territory licences as 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. Three existing Master Franchise Agreements were renewed during the period.

Master franchise partners reported 35 new stores, and 8 new vans, within licensed international territories, offsetting the reported closure of 70 stores and 14 vans, the majority of which were attributable to the impact of COVID-19.

As at 2 July 2021, international operations comprised 57 international territory licenses across 44 countries, and a network population of 590 outlets.

Di Bella Coffee

Underlying FY21 segment EBITDA for Di Bella Coffee's wholesale coffee operations was \$2.1 million, reflecting decreased earnings on independent coffee channel sales impacted by reduced trading attributable to local COVID-19 measures, and a customer decline in the independent contract roasting sector, offset by overhead cost reduction benefits of the wholesale coffee restructuring program commenced in FY20 and further prosecuted during FY21.

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 year, as reduced production volumes resulted in increased costs per unit produced.

During FY21 the Group commenced additional restructuring activities focused on driving cost and operational efficiencies amongst its domestic and international manufacturing operations. This activity included the closure of New Zealand and North American coffee roasting facilities, and outsourcing of wholesale coffee production in those countries, coupled with the reduction in scale and cost base of the domestic coffee roasting facilities.

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

Subsequent to 2 July 2021, the New South Wales, Queensland, Victoria and South Australian State Governments implemented additional COVID-19 related measures undertaken to contain outbreaks of the virus. The extent of adverse financial effects arising from these recently imposed restrictions, many of which remain in place, remains uncertain as at the date of this report.

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

Group liquidity and outlook

The financial statements have been prepared on the basis that the Group will continue as a going concern. The Group has a net current asset position of \$1.4 million at 2 July 2021.

As at 2 July 2021, the Group had \$29.2 million in unrestricted cash and senior debt, ancillary facilities and financial guarantees of \$48.2 million, resulting in a sustainable net debt position of \$19.0 million.

Dividend

The Directors have resolved that no dividend will be declared or paid with respect to the FY21 year.

DIRECTORS' REPORT

Environmental regulations

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

In circumstances where the nature of the Group's operations requires, the Group is committed to compliance with all prescribed environmental laws and regulations. The Company also recognises the important role all businesses can play in positively influencing change within the environments in which they operate. Consistent with this philosophy, during FY21 the Company adopted its *Policy Regarding Modern Slavery Practices* which represents an important step towards implementing and maintaining more effective systems and controls to reduce the risk of modern slavery occurring with the Group's business and supply chain.

Indemnification of Officers and Auditors

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

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

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

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 32 to the financial statements. Certain non-recurring consulting services were provided by KPMG to the Group in FY21, prior to their appointment as Company auditor on 27 November 2020.

The Directors are satisfied that the provision of non-audit services, during FY21, 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:

- 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 28 of the financial report.

Rounding off of amounts

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

DIRECTORS' REPORT

Remuneration report (audited)

The Directors present the Retail Food Group Limited 2021 Remuneration Report, outlining key aspects of the Company's remuneration policy and framework, and remuneration awarded during FY21.

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and its senior executive management (together KMP) for the financial year ended 2 July 2021.

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

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

1. Key Management Personnel

RFG has identified the following personnel as Key Management Personnel during the year ended 2 July 2021:

Executive and Non-executive Directors

Mr Peter George
Mr David Grant
Ms Kerry Ryan

Position

Executive Chairman
Independent Non-Executive Director
Independent Non-Executive Director

Senior executive management

Mr Anthony Mark Connors
Mr Peter McGettigan
Mr Matthew Marshall
Mr Damian Zammit
Ms Nicola Swarbrick
Ms Jessica Buchanan

Position

Company Secretary, Director Corporate Services
Chief Financial Officer
Head of Retail - Appointed 18 November 2020 (formerly Head of Growth)
Director of Retail Operations
Head of Growth - Appointed 3 March 2021
Head of Retail - Departed 17 November 2020

The role of 'Head of Retail' was held by Jessica Buchanan until she ceased employment with the Company effective 17 November 2020.

Matthew Marshall held the role of Head of Growth until 18 November 2020, at which time he was promoted to the role of Head of Retail.

Nicola Swarbrick was appointed to the role of Head of Growth, reporting to the Head of Retail, effective 3 March 2021.

All other KMP were also KMP during FY20 and the scope of these roles have not changed.

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

Remuneration Policy

Overview

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

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

- 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
- Ensure sustainable value for all stakeholders, including the Group's franchise partner community.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

Remuneration Policy (continued)

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.

Whilst this Remuneration Report is primarily intended to address the 2021 financial year, the Company takes this opportunity to flag recently adopted remuneration initiatives which are effective from commencement of FY22.

As important historical context, Retail Food Group 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 this 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, whilst the turn-around is not yet complete, your Board is approaching the future with cautious 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, effective from 1 July 2021, a Senior Management Incentive Program comprising:

- An annual short term incentive plan under which participants can earn an award equivalent to 10% of their (pre superannuation) base salary, which is half denominated in cash and half denominated 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.
- A one off, long term incentive plan under which participants are 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' (pre superannuation) 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 to 30 June 2021. Each performance right granted under the plan will, on vesting, convert to one fully paid ordinary share in RFG.

As at the date of this report, the Senior Management Incentive Program extends to 29 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 will be reported in the Company's Remuneration Report for the 2022 financial year and beyond.

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

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

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

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

These initiatives included the Non-Executive Directors and Executive Chairman electing to take a 20% temporary reduction in base remuneration effective from 26 March 2020. The Non-Executive Directors elected to maintain this initiative throughout FY21 with normal remuneration levels reinstated effective 1 July 2021. Normal remuneration levels for the Executive Chairman were reinstated effective 31 August 2020 in recognition of the additional workload associated with navigating the Company's path during these uncertain times.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

Remuneration Policy (continued)

Role of Nominations & Remuneration Committee:

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

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

On 3 October 2019 the Board resolved to merge the Remuneration Committee with the Company's Nominations Committee. The resultant Nominations & Remuneration Committee now discharges the above responsibilities, and did so for the entirety of FY21.

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

Fixed Compensation

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

Performance-linked Compensation

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

Short-term Incentive Bonus

No short-term incentive bonuses were paid to senior executives during the FY21 year.

Long-term Incentive Bonus

Performance Rights Plan

In August 2015 the Directors approved and adopted the Original Performance Rights Plan. In August 2019, the Directors confirmed that all performance rights relating to the plan had either lapsed or been forfeited.

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

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

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

Executive Share Option Plan

There are no options issued under the Group's Executive Share Option Plan during the year to and as at 2 July 2021 (2020: nil). There are also no options issued and exercisable under this plan at 2 July 2021.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

Remuneration Policy (continued)

Performance Rights Plan

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

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

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

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

Details on Rights that were granted as compensation to the Executive Chairman and Head of Retail during the previous reporting period 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
Jessica Buchanan ⁽²⁾	3,000,000	FY22	Group Normalised EBITDA and Top Line Growth	1 April 2020	\$0.04
	3,000,000	FY23	Critical operational systems and processes and USA / Gloria Jeans International	1 April 2020	\$0.04
	3,000,000	FY24	Managerial Effectiveness and Development	1 April 2020	\$0.04

- (1) The number of Rights which may vest will be determined by the Board as soon as practical following release of audited accounts in respect to the financial year in which the relevant measurement period falls, 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) 1,519,737 performance rights granted on 1 April 2020 were cancelled and 7,480,263 performance rights granted on 1 April 2020 were forfeited upon the departure of Ms Buchanan on 17 November 2020.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

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

Aspect	Details
Number of Performance Rights	<p>A total of 15,000,000 Performance Rights - eligible to vest in three tranches as follows:</p> <ul style="list-style-type: none">• Tranche 1: 3,000,000 Performance Rights;• Tranche 2: 5,000,000 Performance Rights; and• Tranche 3: 7,000,000 Performance Rights.
Measurement Period	<p>The measurement period in respect of each tranche of Performance Rights is as follows:</p> <ul style="list-style-type: none">• 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	<p>Vesting occurs in the financial year subsequent to the performance period and is conditional upon board approval.</p> <p>The criteria for vesting is structured to reflect both financial outcomes and qualitative indicators which pertain to sustainable improvements in the Company's business. These criteria are directly referable to the roadmap of key initiatives and deliverables the Board has established in connection with the turnaround of RFG over the period of Mr Georges' anticipated tenure through to 30 June 2022.</p> <p>The criteria the Board (excluding Mr George) has identified for vesting of the performance rights includes:</p> <ul style="list-style-type: none">• (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. <p>The Board (excluding Mr George) retains discretion to modify vesting in the case that the circumstances that prevailed over the relevant measurement period materially differed from those expected at the time the vesting scale/conditions were determined.</p> <p>¹ Where appropriate, criteria which are subject to commercial sensitivity have been described in generic terms. Further details regarding the key features of the aforesaid Rights are detailed in the Company's Notice of Meeting in respect to its 2019 Annual General Meeting, released to the ASX on 29 October 2019.</p>
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.
Termination of Employment	<p>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.</p> <p>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.</p>

DIRECTORS' REPORT

Remuneration report (audited) (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

Aspect	Details
Disposal Restrictions	<p>Shares acquired on exercise of vested Performance Rights will be subject to disposal restrictions until all of the following cease to restrict disposals:</p> <ul style="list-style-type: none">a) The Company's share trading policy;b) The insider trading provisions of the Corporations Act 2001 (Cth)c) The Specified Disposal Restrictions. <p>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.</p>

The assessed fair value at grant date of the Performance Rights granted to Mr George was \$0.10 per Performance Right. The fair value at grant date has been independently determined.

Total share-based payment expense during the year, arising from the Performance Rights granted to Mr George, was \$452 thousand.

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

Aspect	Details
Number of Performance Rights	<p>A total of 9,000,000 Performance Rights - eligible to vest in three tranches as follows:</p> <ul style="list-style-type: none">• Tranche 1: 3,000,000 Performance Rights;• Tranche 2: 3,000,000 Performance Rights; and• Tranche 3: 3,000,000 Performance Rights.
Measurement Period	<p>The measurement period in respect of each tranche of Performance Rights is as follows:</p> <ul style="list-style-type: none">• Tranche 1: The period commencing 1 April 2020 and ending 30 June 2022;• Tranche 2: The period commencing 1 July 2021 and ending 30 June 2023; and• Tranche 3: The period commencing 1 July 2022 and ending 30 June 2024.
Vesting Conditions	<p>The criteria for vesting is structured to reflect both financial outcomes and qualitative indicators which pertain to sustainable improvements in the Company's business.</p> <p>The criteria the Board has identified for vesting of the performance rights includes:¹</p> <ul style="list-style-type: none">• (Metric 1) 35% to the achievement of certain underlying Group Normalised EBITDA performance criteria.• (Metric 2) 25% to the achievement of certain top line growth related criteria which includes targets in relation to Same Store Sales (SSS) growth and Domestic Franchise Network growth.• (Metric 3) 20% to the achievement of criteria associated with critical operational systems and processes, which include targets in relation to Franchise Life-Cycle, Property, and Product Quality Assurance systems, processes and metrics.• (Metric 4) 10% to the achievement of growth metrics relating to the Group's USA and Gloria Jean's Coffees International operations.• (Metric 5) 10% to the achievement of managerial effectiveness and development metrics. <p>The Board retains discretion to modify vesting in the case that the circumstances that prevailed over the relevant measurement period materially differed from those expected at the time the vesting scale/conditions were determined.</p> <p>¹ Where appropriate, criteria which are subject to commercial sensitivity have been described in generic terms. Further details regarding the key features of the aforesaid Rights are detailed in the Appendix 3G released to the ASX on 2 April 2020.</p>
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

Aspect	Details
Termination of Employment	<p>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.</p> <p>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.</p>
Disposal Restrictions	<p>Shares acquired on exercise of vested Performance Rights will be subject to disposal restrictions until all of the following cease to restrict disposals:</p> <ul style="list-style-type: none"> a) The Company's share trading policy; b) The insider trading provisions of the Corporations Act 2001 (Cth); c) The Specified Disposal Restrictions. <p>The Specified Disposal Restrictions attaching to the shares acquired on exercise of Performance Rights are as follows:</p> <ul style="list-style-type: none"> a) Tranche 1 Rights which convert to shares may not be sold or otherwise disposed of until 30 September 2022, regardless of whether Ms Buchanan remains an employee of the Company or not; b) Tranche 2 and 3 Rights which convert to shares may not be sold or otherwise disposed of until 30 September 2023, regardless of whether Ms Buchanan remains an employee of the Company or not.

The assessed fair value at grant date of the Performance Rights granted to Ms Buchanan was \$0.04 per Performance Right. The fair value at grant date has been independently determined.

Total share-based payment expense during the year, arising from these performance rights, was (\$29) thousand.

Details of performance rights affecting current and future remuneration

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

	Instrument		Grant date	% achieved in year	% not achieved in year	Financial years in which grants measured	Maximum value yet to vest ⁽¹⁾
Peter George	Rights	3,000,000	6 December 2019	70%	30%	FY20	-
	Rights	5,000,000	6 December 2019	80%	20%	FY21	-
	Rights	7,000,000	6 December 2019	0%	0%	FY22	\$442,581
Jessica Buchanan	Rights	3,000,000	1 April 2020	0%	100%	FY21	-
	Rights	3,000,000	1 April 2020	0%	100%	FY22	-
	Rights	3,000,000	1 April 2020	0%	100%	FY23	-

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

DIRECTORS' REPORT

Remuneration report (audited) (continued)

Remuneration Policy (continued)

Performance Rights Plan (continued)

Performance Rights Plan

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

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

The tables below show a reconciliation of performance rights held by each Key Management Personnel for the FY21 year, including the movement during the reporting period, by number of Rights over ordinary shares in the Company, held directly, indirectly or beneficially, by each key management person.

FY21 Executive	Grant Date	Balance at the start of the year	Number of rights granted during FY21	Number of Rights Vested	Vested %	Number of Rights Forfeited or Lapsed	Forfeited or Lapsed %	Balance of unvested rights at the end of the year
Peter George ⁽¹⁾	6 December 2019	15,000,000	-	2,100,000	14%	900,000	6%	12,000,000
Jessica Buchanan ⁽²⁾	1 April 2020	9,000,000	-	-	0%	9,000,000	100%	-

(1) 2,100,000 ordinary shares have been issued on vesting of 2,100,000 performance rights granted in accordance with the terms set out in the explanatory notes to RFG's 2019 Notice of Annual general meeting released to ASX on 29 October 2019.

(2) 1,519,737 performance rights granted on 1 April 2020 were cancelled and 7,480,263 performance rights granted on 1 April 2020 were forfeited. Refer to notice issued 27 November 2020.

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 2 July 2021 is provided in accordance with the requirements of the Corporations Act as follows:

Metrics	FY17	FY18	FY19	FY20	FY21
Share price at start of financial year	\$5.53	\$4.70	\$0.54	\$0.13	\$0.07
Share price at end of financial year	\$4.70	\$0.54	\$0.13	\$0.07	\$0.07
Interim dividend	14.75 cps	-	-	-	-
Final dividend	15.00 cps	-	-	-	-
Basic EPS (Underlying)	43.7 cps	18.4 cps	5.9 cps	1.4 cps	1.1 cps
Basic EPS ⁽¹⁾	35.7 cps	(169.5 cps)	(81.7 cps)	(0.3 cps)	0.1 cps
Diluted EPS ⁽¹⁾	35.7 cps	(169.5 cps)	(81.7 cps)	(0.3 cps)	0.1 cps

(1) EPS figures are as historically reported.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration of Directors and Senior Executive Management

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

FY21 Name	Short-term Benefits			Long-term Benefits			Termination Benefits	Total
	Salary & fees ⁽¹⁾	Bonus	Other ⁽⁶⁾	Super-annuation	Performance Rights	Other ⁽²⁾		
	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors								
Ms Kerry Ryan	89,526	-	-	8,329	-	-	-	97,855
Mr David Grant	110,042	-	-	10,238	-	-	-	120,280
Executive Director								
Mr Peter George	586,719	-	25,410	21,694	452,054	-	-	1,085,877
Senior Executive Management								
Mr Peter McGettigan	439,671	-	1,800	21,694	-	8,796	-	471,961
Mr Anthony Mark Connors	340,021	-	1,800	21,694	-	22,708	-	386,223
Mr Matthew Marshall ⁽⁴⁾	389,165	-	16,500	21,694	-	-	-	427,359
Mr Damian Zammit	336,567	-	1,298	21,702	-	-	-	359,567
Ms Nicola Swarbrick ⁽⁵⁾	83,379	-	-	6,508	-	-	-	89,887
Former								
Ms Jessica Buchanan ⁽³⁾	197,239	-	706	21,694	(28,536)	-	240,900	432,003
	2,572,329	-	47,514	155,247	423,518	31,504	240,900	3,471,012

- (1) Salary and fees include Short-term benefits as per Corporations Regulation 2M.3.03(1) Item 6 comprising of cash salary and annual leave entitlements.
- (2) Other long-term benefits as per Corporations Regulation 2M.3.03(1) Item 8. The amounts disclosed in this column represent the movements in the associated long service leave provisions.
- (3) On 17 November 2020 Jessica Buchanan ceased employment as Head of Retail.
- (4) On 18 November 2020 Matthew Marshall was appointed as Head of Retail.
- (5) On 3 March 2021 Nicola Swarbrick was appointed as Head of Retail Growth and as a result of this appointment, is now considered to be a KMP from this date.
- (6) Other short-term benefits include allowances and benefits paid or provided to individuals as part of their respective employment contract.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

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

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

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

- (1) Salary and fees include Short-term benefits as per Corporations Regulation 2M.3.03(1) Item 6 comprising of cash salary and annual leave entitlements.
- (2) Other long-term benefits as per Corporations Regulation 2M.3.03(1) Item 8. The amounts disclosed in this column represent the movements in the associated long service leave provisions.
- (3) Jessica Buchanan resigned as Non-Executive Director on 1 August 2019. On 1 December 2019 Jessica Buchanan was appointed Head of Retail.
- (4) On 1 December 2019 Damian Zammit was appointed as Head of Operations and as a result of this appointment, is now considered to be a KMP from this date.
- (5) On 17 January 2020 Matthew Marshall was appointed as Head of Growth and as a result of this appointment, is now considered to be a KMP from this date.

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

	Fixed		Short-term Incentive		Long-term Incentive	
	FY21 %	FY20 %	FY21 %	FY20 %	FY21 %	FY20 %
Non-Executive Directors						
Ms Kerry Ryan	100.0	100.0	-	-	-	-
Mr David Grant	100.0	100.0	-	-	-	-
Executive Director						
Mr Peter George	58.4	45.2	-	23.0	41.6	31.8
Senior Executive Management						
Mr Peter McGettigan	100.0	90.0	-	10.0	-	-
Mr Anthony Mark Connors	100.0	86.6	-	13.4	-	-
Mr Damian Zammit	100.0	100.0	-	-	-	-
Mr Matthew Marshall ⁽²⁾	100.0	100.0	-	-	-	-
Ms Nicola Swarbrick ⁽³⁾	100.0	-	-	-	-	-
Former						
Ms Jessica Buchanan ⁽¹⁾	106.6	91.8	-	-	(6.6)	8.2

- (1) On 17 November 2020 Jessica Buchanan departed as Head of Retail.
- (2) On 18 November 2020 Matthew Marshall was appointed as Head of Retail.
- (3) On 3 March 2021 Nicola Swarbrick was appointed as Head of Retail Growth and as a result of this appointment, is now considered to be a KMP from this date.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

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

3. Key Management Personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY21	Balance 1 July 2020	Granted as Compensation	Received on Vesting of Rights ⁽³⁾	Net Other Change	Balance 2 July 2021	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Mr David Grant	550,000	-	-	550,000	1,100,000	-
Ms Kerry Ryan	210,000	-	-	979,579	1,189,579	-
Executive Director						
Mr Peter George	-	-	2,100,000	-	2,100,000	-
Senior Executive Management						
Mr Peter McGettigan	186,542	-	-	(36,542)	150,000	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Mr Damian Zammit	-	-	-	-	-	-
Mr Matthew Marshall	-	-	-	-	-	-
Ms Nicola Swarbrick ⁽¹⁾	-	-	-	-	-	-
Former						
Ms Jessica Buchanan ⁽²⁾	11,628	-	-	(11,628)	-	-
	1,153,737	-	2,100,000	1,481,409	4,735,146	-

- (1) On 3 March 2021 Nicola Swarbrick was appointed as Head of Retail Growth and as a result of this appointment, is now considered to be a KMP from this date.
- (2) On 17 November 2020 Jessica Buchanan departed as Head of Retail.
- (3) The performance rights vested and shares were issued in FY21. With respect of the FY21 performance period, rights will vest and shares will be issued in FY22.

Details of the Performance Rights Plan are contained in Note 23.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

3. Key Management Personnel equity holdings (continued)

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

- (1) Resigned from the Board on 1 August 2019. Was appointed the position of Head of Retail effective 1 December 2019.
- (2) On 1 December 2019 Damian Zammit was appointed as Head of Operations and as a result of this appointment, is now considered to be a KMP from this date.
- (3) On 17 January 2020 Matthew Marshall was appointed as Head of Growth and as a result of this appointment, is now considered to be a KMP from this date.

Details of the Performance Rights Plan are contained in Note 23.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

4. Key terms of employment contracts

Non-Executive Directors

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

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

Role	FY21	FY20
Chairman ⁽¹⁾	-	-
Non-executive Director ⁽³⁾	\$ 110,000	\$ 110,000
Audit & Risk Management Committee Chairman	\$20,000	\$20,000
Nomination & Remuneration Committee Chairman ⁽²⁾	\$17,500	\$17,500
Committee Member*	\$10,000	\$10,000

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

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

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

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

As noted above, in light of the emergence of COVID-19 and its impact on the Group, its franchise partners and customers, the Non-Executive Directors and Executive Chairman elected to take a 20% temporary reduction in base remuneration effective from 26 March 2020. That reduction applied throughout FY21 to the Non-Executive Directors, as elected by them, with normal remuneration levels to be reinstated effective 1 July 2021. Normal remuneration levels for the Executive Chairman were reinstated effective 31 August 2020 in recognition of the additional workload associated with navigating the Company's path during these uncertain times.

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

DIRECTORS' REPORT

Remuneration report (audited) (continued)

4. Key terms of employment contracts (continued)

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

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

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

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

5. Loans to Key Management Personnel

There were no loans outstanding at the end of the financial year (FY20: \$nil) to Directors or Senior Executive Management or their related parties.

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

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

Consolidated	FY21 \$	FY20 \$
Consolidated loss includes the following expenses arising from transactions with key management personnel of the Group or their related parties:		
Consulting services	11,501	277,971
	<u>11,501</u>	<u>277,971</u>

During FY21, the Group engaged the services of production agency, Light up Gold Pty Ltd, being related parties of Mr Peter George. \$11,501 was billed to the Group during FY21 (FY20: \$16,295) and there was no balance payable as at 2 July 2021 (FY20: nil).

During FY20, the Group ceased to engage the services of marketing consulting firm, Brands R People 2 Pty Ltd, being related parties of Ms Jessica Buchanan. No amounts were billed to the Group during FY21 (FY20: \$261,676).

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
25 August 2021



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 year ended 2 July 2021 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
25 August 2021

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 2 JULY 2021

Consolidated	Notes	FY21 \$'000	Restated ⁽¹⁾ FY20 \$'000
Continuing operations			
Revenue from contracts with customers	2	109,098	126,403
Cost of sales	5	(31,378)	(39,022)
Gross profit		<u>77,720</u>	<u>87,381</u>
Other revenue	2	8,488	10,816
Other gains and losses	5	1,118	67,383
Selling expenses		(4,651)	(1,423)
Marketing expenses		(14,438)	(12,079)
Occupancy expenses		(155)	(6,630)
Administration expenses		(22,826)	(31,325)
Operating expenses	5	(17,892)	(26,958)
Finance costs	3	(3,582)	(8,930)
Other expenses	5	(15,630)	(59,389)
Profit before income tax		<u>8,152</u>	<u>18,846</u>
Income tax expense	4	(708)	(1,423)
Profit for the year from continuing operations		<u>7,444</u>	<u>17,423</u>
Loss from discontinued operations	27	(5,983)	(21,413)
Profit/(loss) for the year		<u>1,461</u>	<u>(3,990)</u>
Other comprehensive loss, net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations	20	(114)	(233)
Other comprehensive loss for the year, net of tax		<u>(114)</u>	<u>(233)</u>
Total comprehensive profit/(loss) for the year		<u>1,347</u>	<u>(4,223)</u>
Total comprehensive profit/(loss) is attributable to:			
Equity holders of the parent		<u>1,347</u>	<u>(4,223)</u>
Earnings per share			
From continuing operations:			
Basic (cents per share)	6	0.4	1.3
Diluted (cents per share)	6	0.4	1.3
Total:			
Basic (cents per share)	6	0.1	(0.3)
Diluted (cents per share)	6	0.1	(0.3)

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

(1) Refer to Note 33.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 2 JULY 2021

Consolidated	Notes	FY21 \$'000	FY20 \$'000
Current assets			
Cash and cash equivalents	7	34,649	40,248
Trade and other receivables	8	7,148	20,084
Lease receivables	13	24,922	23,831
Other financial assets	9	1,541	2,523
Inventories	10	4,287	10,951
Current tax assets	4	-	26
Other	11	4,361	9,064
Total current assets		76,908	106,727
Non-current assets			
Trade and other receivables	8	-	22
Lease receivables	13	37,161	52,040
Other financial assets	9	576	1,534
Property, plant and equipment	12	20,972	39,045
Intangible assets	14	230,705	238,088
Other	11	3,443	39
Total non-current assets		292,857	330,768
Total assets		369,765	437,495
Current liabilities			
Trade and other payables	15	9,248	43,806
Borrowings	18	9,812	8,482
Lease liabilities	13	45,297	43,003
Current tax liabilities	4	708	-
Provisions	16	6,045	11,757
Derivative financial instruments	24	-	1,892
Unearned income	17.1	3,727	6,190
Other	17.2	647	608
Total current liabilities		75,484	115,738
Non-current liabilities			
Borrowings	18	34,592	45,127
Lease liabilities	13	63,682	81,052
Provisions	16	6,479	3,982
Unearned income	17.1	11,508	15,423
Other	17.2	164	88
Total non-current liabilities		116,425	145,672
Total liabilities		191,909	261,410
Net assets		177,856	176,085
Equity			
Issued capital	19	615,145	614,935
Reserves	20	6,191	6,863
Retained earnings	21	(443,480)	(445,713)
Total equity		177,856	176,085

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 2 JULY 2021

Consolidated	Notes	Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2019		428,640	5,105	(440,176)	(6,431)
Transfer from equity-settled employee benefits reserves		-	(60)	60	-
Loss for the year	21	-	-	(3,990)	(3,990)
Transfer from retained earnings to marketing fund reserve	20, 21	-	1,607	(1,607)	-
Other comprehensive income	20	-	(233)	-	(233)
Total comprehensive (loss)/income		-	1,314	(5,537)	(4,223)
Issue of ordinary shares	19	193,525	-	-	193,525
Share issue costs	19	(10,328)	-	-	(10,328)
Recognition of share-based payments	20	-	444	-	444
Related income tax	19	3,098	-	-	3,098
Balance at 30 June 2020		614,935	6,863	(445,713)	176,085
Balance at 1 July 2020		614,935	6,863	(445,713)	176,085
Profit for the year	21	-	-	1,461	1,461
Transfer from retained earnings to marketing fund reserve	20, 21	-	(772)	772	-
Other comprehensive loss	20	-	(114)	-	(114)
Total comprehensive (loss)/income		-	(886)	2,233	1,347
Transfer from equity-settled employee benefits reserves	19	210	(210)	-	-
Share issue costs		-	-	-	-
Recognition of share-based payments	20	-	424	-	424
Related income tax		-	-	-	-
Balance at 2 July 2021		615,145	6,191	(443,480)	177,856

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 2 JULY 2021

Consolidated	Notes	FY21 \$'000	FY20 \$'000
Cash flows from operating activities			
Receipts from customers		142,781	329,566
Payments to suppliers and employees		(128,532)	(324,093)
Interest and other costs of finance paid		(3,218)	(9,417)
Net cash used in operating activities	7	11,031	(3,944)
Cash flows from investing activities			
Interest received		41	116
Repayment of advances to other entities		1,212	782
Disposal of discontinued operations		3,112	1,475
Payments for property, plant and equipment		(2,662)	(1,681)
Proceeds from sale of property, plant and equipment		216	31
Payments for intangible assets		-	(286)
Payments for business (net of cash acquired)		-	(600)
Net cash provided by/(used in) investing activities		1,919	(163)
Cash flows from financing activities			
Proceeds from issue of equity securities		-	193,525
Share issue costs		-	(11,771)
Lease payments		(9,176)	(10,201)
Proceeds from borrowings		277	5,012
Repayment of borrowings		(9,535)	(142,775)
Debt issue costs		-	(2,698)
Net cash provided by/(used in) financing activities		(18,434)	31,092
Net increase/(decrease) in cash and cash equivalents		(5,484)	26,993
Effects of exchange rate changes on cash and cash equivalents		(115)	(8)
Cash and cash equivalents at the beginning of the year		40,248	13,263
Cash and cash equivalents at end of year	7	34,649	40,248

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

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

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 year ended 2 July 2021. The severe disruption to the retail food and beverage sector caused by Government imposed COVID-19 restrictions, and the franchised store lease arrears position 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 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 credit losses against > 76% of receivables and other financial assets that are + 30 days past due.

Lease assets and liabilities

As at 2 July 2021, 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 \$9.0 million. This amount includes \$0.8 million of amounts on deferred payment arrangements with the landlords. 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 2 July 2021 for \$9.0 million, and a corresponding gross lease receivable of \$9.0 million from the respective franchise partners occupying the stores. An expected credit loss provision (ECL) of \$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 \$2.5 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 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 FY21 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 impaired as at 2 July 2021.

The actual results achieved by the Group's cash generating units for the year were comparable to the forecasts used in the 30 June 2020 impairment models. 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 2 July 2021.

Other significant changes in the reporting period

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.

NOTES TO THE FINANCIAL STATEMENTS

Significant changes in the reporting period (continued)

In the financial year ending 30 June 2020, the Group had classified Dairy Country as a continuing operation. Accordingly, the comparative financial performance information in these financial statements has been restated to include Dairy Country with other discontinued operations in FY20. Discontinued operations in FY20 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 27.

Restatement of prior periods

The Group has restated the Group's performance for prior periods as a result of reclassifying the Dairy Country business as a discontinued operation. Refer to Note 33.

Contingent liabilities

The Group has disclosed contingent liabilities with respect of the current ACCC proceedings and possible Class Actions, the outcomes of which remain uncertain. 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. 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.

For a detailed discussion about the Group's performance and financial position please refer to our FY21 Results on pages 9 to 11.

NOTES TO THE 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 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 FY21 financial statements, and the FY20 comparative year.

1.2 Segment information provided to the Chief Operating Decision Makers

Segment Revenue

Revenue from external parties reported to the CODMs is measured in a manner consistent with that in the segment note. Sales between segments are carried out at arm's length and are eliminated on consolidation and identified as Inter-segment revenue as presented in Note 1.3.

Segment EBITDA

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Segment information (continued)

1.3 Segment revenue

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

Segment	Bakery Cafe		QSR Systems		Coffee Retail Systems ⁽¹⁾		Di Bella Coffee		Manufacturing and Distribution		Discontinued Operations ⁽³⁾		Total Continuing Operations	
	FY21 \$'000	FY20 \$'000	FY21 \$'000	FY20 \$'000	FY21 \$'000	FY20 \$'000	FY21 \$'000	FY20 \$'000	FY21 \$'000	FY20 \$'000	FY21 \$'000	Restated FY20 \$'000	FY21 \$'000	Restated FY20 \$'000
External revenue	26,213	28,381	11,568	14,891	34,371	45,259	16,327	22,888	24,705	120,861	(24,705)	(126,728)	88,479	105,552
Impact of AASB 15 & AASB 16	4,831	8,401	964	1,220	5,112	6,432	213	105	-	2	-	(2)	11,120	16,158
External revenue - Marketing Funds	5,682	6,094	5,486	5,345	2,142	2,118	-	-	-	-	-	-	13,310	13,557
External revenue - Corporate stores	2,367	664	-	65	2,057	1,121	253	102	-	-	-	-	4,677	1,952
Inter-segment revenue	80	42	-	-	174	175	(254)	(102)	-	-	-	-	-	115
Segment revenue ⁽²⁾	39,173	43,582	18,018	21,521	43,856	55,105	16,539	22,993	24,705	120,863	(24,705)	(126,730)	117,586	137,334
Operating EBITDA	11,150	12,762	6,090	7,232	8,503	9,557	1,192	2,121	1,086	3,870	(1,086)	(3,870)	26,935	31,672
Impact of AASB 15 & AASB 16	489	1,684	1,444	1,277	4,057	4,182	949	1,372	1,163	4,082	(1,163)	(4,082)	6,939	8,515
Underlying Segment EBITDA	11,639	14,446	7,534	8,509	12,560	13,739	2,141	3,493	2,249	7,952	(2,249)	(7,952)	33,874	40,187
Marketing Funds EBITDA													(772)	1,837
Restructuring and provisioning													(12,129)	(69,580)
Gain on debt forgiveness													-	71,754
Depreciation & amortisation													(9,239)	(16,422)
Finance costs													(3,582)	(8,930)
Profit before tax from continuing operations													8,152	18,846
Income tax (expense)/benefit													(708)	(1,423)
Profit/(loss) after tax for the year from continuing operations													7,444	17,423

(1) Coffee Retail Systems	Domestic		International Franchising	
	FY21 \$'000	FY20 \$'000	FY21 \$'000	FY20 \$'000
External revenue	27,508	31,238	6,863	14,021
Impact of AASB 15 & AASB 16	2,794	6,432	2,318	-
External revenue - Marketing Funds	2,142	2,118	-	-
External revenue - Corporate stores	2,057	1,121	-	-
Inter-segment revenue	174	175	-	-
Segment revenue	34,675	41,084	9,181	14,021
Operating EBITDA	6,144	5,740	2,359	3,817
Impact of AASB 15 & AASB 16	1,839	4,261	2,218	(79)
Underlying Segment EBITDA	7,983	10,001	4,577	3,738

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

Revenue for the year – Statutory

Inter-segment revenue: eliminated on consolidation

Total segment revenue

FY21 \$'000	Restated FY20 \$'000
117,586	137,219
-	115
117,586	137,334

(3) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Segment information (continued)

1.4 Geographical information

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

2. Revenue and other revenue

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

Consolidated	FY21 \$'000	Restated FY20 \$'000
Revenue from the sale of goods	48,288	59,425
Revenue from franchise agreements	54,936	61,660
Revenue from the sale of distribution rights	5,874	5,318
	<u>109,098</u>	<u>126,403</u>
Operating lease income	5,608	7,296
Other revenue	2,880	3,520
	<u>8,488</u>	<u>10,816</u>
	<u>117,586</u>	<u>137,219</u>

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

FY21	Bakery/Cafe	OSR	Coffee Retail	Di Bella Coffee	Manufacturing & Distribution	Discontinued Operations	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from the sale of goods	8,016	-	24,106	16,166	24,471	(24,471)	48,288
Revenue from the sale of franchise agreements	23,108	15,304	16,524	-	-	-	54,936
Revenue from the sale of distribution rights	3,985	1,130	722	37	-	-	5,874
Operating lease income	3,123	145	1,897	443	-	-	5,608
Other revenue	861	1,439	433	147	234	(234)	2,880
TOTAL	39,093	18,018	43,682	16,793	24,705	(24,705)	117,586

FY20	Bakery/Cafe	OSR	Coffee Retail	Di Bella Coffee	Manufacturing & Distribution	Discontinued Operations	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from the sale of goods	9,516	3,166	30,531	22,106	120,769	(126,663)	59,425
Revenue from the sale of franchise agreements	26,090	15,839	19,732	(1)	-	-	61,660
Revenue from the sale of distribution rights	3,386	1,154	446	331	(11)	12	5,318
Operating lease income	4,520	(235)	3,027	(16)	(25)	25	7,296
Other revenue	28	1,597	1,194	675	130	(104)	3,520
TOTAL	43,540	21,521	54,930	23,095	120,863	(126,730)	137,219

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 17.1.

NOTES TO THE FINANCIAL STATEMENTS

2. Revenue and other revenue (continued)

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to initial fees (for which revenue is deferred) is \$15.2 million (2020: \$21.6 million). Refer to note 17.1.

Management expects that \$4.2 million of the transaction price allocated to unsatisfied performance obligations as of 2 July 2021 will be recognised as revenue during the next reporting period. The remaining amounts will be recognised from 2 July 2022 onwards.

Significant judgements

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

3. Finance costs

Consolidated	FY21 \$'000	Restated FY20 \$'000
Finance lease interest	5,628	6,980
Bank interest	1,395	7,827
Interest expense from continuing operations	7,023	14,807
Finance lease interest income	(3,747)	(5,114)
Other finance costs ⁽¹⁾	306	(763)
Total finance costs/(income) from continuing operations	3,582	8,930

(1) Other finance costs include (gain)/loss on valuation of derivative financial instruments \$0.2 million (FY20: \$1.2 million), which were terminated in the FY21 year.

4. Income taxes

4.1 Income tax recognised in profit or loss

Consolidated	FY21 \$'000	FY20 \$'000
Current tax:		
In respect of prior periods	708	311
	708	311
Deferred tax:		
In respect of the current year	-	1,112
	-	1,112
Total Income tax expense recognised in the current year relating to continuing operations	708	1,423

NOTES TO THE FINANCIAL STATEMENTS

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	FY21 \$'000	FY20 \$'000
Profit/(loss) from continuing operations before income tax expense	8,152	18,846
Income tax expense calculated at 30% (FY20: 30%)	2,446	5,654
Effect of:		
Expenses that are not deductible in determining taxable (loss)	755	(28)
Non-deductible impairment of goodwill	-	810
Loan forgiveness - syndicated lenders, not assessable ⁽¹⁾	-	(21,526)
Reduction in brought forward losses associated with loan forgiveness ⁽¹⁾	-	21,526
Capital loss on loan forgiveness with New Zealand subsidiary ⁽²⁾	-	4,356
Non-assessable gain associated with New Zealand entity loan forgiveness ⁽²⁾	-	(4,404)
Non-assessable income	-	(667)
Tax adjustments in respect of prior years	708	311
(Recognition)/De-recognition of carried forward tax losses	(1,405)	3,854
Tax losses attributable to discontinued operations	(1,796)	(8,512)
Other	-	49
Income tax expense/(benefit) recognised in profit or loss (relating to continuing operations)	708	1,423

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

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

The tax rate used for the FY21 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	FY21 \$'000	FY20 \$'000
Share issue costs	19	-	3,098
Total income tax recognised directly in equity		-	3,098

4.3 Current tax assets

Consolidated	Notes	FY21 \$'000	FY20 \$'000
Current tax assets		-	26
Current tax liabilities		(708)	-
		(708)	26

NOTES TO THE FINANCIAL STATEMENTS

4. Income taxes (continued)

4.4 Deferred tax balances

Consolidated FY21	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
	\$'000	\$'000	\$'000	\$'000
Temporary differences				
Intangible assets	(51,162)	2,115	-	(49,047)
Unrealised exchange differences	323	(388)	-	(65)
Leases - ROU asset	(7,006)	1,940	-	(5,066)
Leases - receivable	(24,117)	5,491	-	(18,626)
Leases - liability	37,216	(7,587)	-	29,629
Fixed assets	1,940	(718)	-	1,222
Employee benefits	1,017	(327)	-	690
Provisions	5,873	(2,602)	-	3,271
Doubtful debts	5,258	(1,782)	-	3,476
Unearned income	6,484	(1,887)	-	4,597
Share issue costs	2,568	(681)	-	1,887
Other	2,724	(935)	-	1,789
	(18,882)	(7,361)	-	(26,243)
Unused tax losses and credits				
Tax losses/(credits) ⁽¹⁾	18,882	7,361	-	26,243
	18,882	7,361	-	26,243
	-	-	-	-

(1) Unused tax losses reconciliation

	Unused tax losses	Tax benefit at 30%
	\$'000	\$'000
Balance at 1 July 2020 - recognised	62,941	18,882
Balance at 1 July 2020 - unrecognised	21,560	6,468
Losses generated in the year ended 2 July 2021	19,783	5,935
Total unused losses at 2 July 2021	104,284	31,285
Balance at 2 July 2021 - recognised	87,477	26,243
Balance at 2 July 2021 - unrecognised	16,807	5,042

- (1) The Group has unused tax losses for which no deferred tax asset has been recognised in the amount of \$16.8 million (FY20: \$21.6 million). The potential tax benefit of these tax losses at the corporate tax rate of 30% (FY20: 30%), equates to \$5.0 million (FY20: \$6.5 million). These tax losses can be carried forward indefinitely until such time as the Group generates taxable profits against which these losses can be offset.

NOTES TO THE FINANCIAL STATEMENTS

4. Income taxes (continued)

4.4 Deferred tax balances (continued)

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

NOTES TO THE FINANCIAL STATEMENTS

4. Income taxes (continued)

4.4 Deferred tax balances (continued)

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

Consolidated	Notes	FY21 \$'000	FY20 \$'000
Deferred tax assets		72,965	81,959
Deferred tax liabilities		(72,965)	(81,959)
		-	-

4.5 Tax consolidation

Relevance of tax consolidation to the Group

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

4.6 Uncertain Tax Position

An agreement has been reached with the ATO with respect to the deductibility of lease surrender payments for the financial years 2015 to 2018. Lease surrender payments are treated as deductible over 5 years. Amendments to prior year returns to adopt this treatment has resulted in \$0.7m of tax payable as above. The Group and its advisors have submitted a request for remission of any penalties and interest on the \$0.7m which is currently being considered by the ATO. Certainty around the penalty and interest on the \$0.7m is expected within the 2022 financial year.

NOTES TO THE FINANCIAL STATEMENTS

5. Profit for the year from continuing operations

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

Consolidated	FY21 \$'000	Restated FY20 \$'000
Cost of sales	31,378	39,022
Other gains and losses:		
Gain on lease termination	(1,017)	(1,677)
Loss/(gain) on disposal of assets	(101)	6,049
Gain on debt forgiveness	-	(71,754)
Total other gains and losses	(1,118)	(67,382)
Operating expenses:		
Wages	16,290	23,271
Franchise partner assistance	616	2,788
Repairs and maintenance	855	565
Other	131	333
Total operating expenses	17,892	26,957
Other expenses:		
Impairment loss on lease assets	7,904	3,029
Impairment loss on trade and other receivables	1,560	6,414
Inventory related write-downs and provisioning	(468)	611
Impairment loss/(gain) on property, plant and equipment	(535)	6,225
Impairment loss on intangible assets	-	24,700
Provision increase/(decrease) & business restructuring	(2,789)	2,329
Depreciation of property, plant and equipment	8,932	15,842
Amortisation - other	306	580
Other	719	(340)
Total other expenses	15,629	59,390
Employee benefits expense:		
Equity settled share based payments	424	444
Government wage subsidies	(4,064)	(2,139)
Post-employment benefits (defined contribution plans)	1,995	2,156
Other employee benefits (wages and salaries)	28,198	34,457
Total employee benefits expense ⁽¹⁾	26,553	34,918

- (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.

NOTES TO THE FINANCIAL STATEMENTS

6. Earnings per share

Consolidated	FY21 \$'000	FY20 \$'000
Basic earnings per share		
From continuing operations	0.4	1.3
From discontinued operations	(0.3)	(1.6)
Basic (cents per share)	0.1	(0.3)
Diluted earnings per share ⁽¹⁾		
From continuing operations	0.4	1.3
From discontinued operations	(0.3)	(1.6)
Diluted (cents per share)	0.1	(0.3)

(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	FY21 \$'000	Restated FY20 \$'000
Profit/(loss) for the year		
From continuing operations	7,444	17,423
From discontinued operations	(5,983)	(21,413)
Earnings used in the calculation of basic EPS from continuing and discontinued operations	1,461	(3,990)

Consolidated	2021 No. '000	2020 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	2,119,757	1,325,778

Calculation of weighted average number of fully paid ordinary shares	Fully paid ordinary shares issued	Weighted shares ⁽¹⁾
FY21	No. '000	No '000
Balance at beginning of period	2,117,995	2,117,995
Shares issued upon vesting of performance rights	28 August 2020 2,100	1,762
Total	2,120,095	2,119,757

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

NOTES TO THE FINANCIAL STATEMENTS

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	FY21 \$'000	Restated FY20 \$'000
Profit/(loss) for the year		
From continuing operations	7,444	17,423
From discontinued operations	(5,983)	(21,413)
Earnings used in the calculation of diluted EPS from continuing and discontinued operations	1,461	(3,990)
Consolidated	2021 No. '000	2020 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS ⁽¹⁾	2,119,757	1,325,778
Adjustments for calculation of diluted EPS – Performance rights	8,160	2,626
Weighted average number of ordinary shares for the purpose of diluted EPS	2,127,917	1,328,404

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

NOTES TO THE FINANCIAL STATEMENTS

Operations

Assets and liabilities

7. Cash and cash equivalents

7.1 Reconciliation to Consolidated Statement of Cash Flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting 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	FY21 \$'000	FY20 \$'000
Cash and bank balances	34,649	40,248
Less: Restricted cash	(5,417)	(6,326)
	<u>29,232</u>	<u>33,922</u>

7.2 Restricted cash

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

7.3 Financing facilities

At 2 July 2021, the Group had unused facilities as detailed in the following table. Further details can be found in Notes 18 and 24.

Consolidated	FY21 \$'000	FY20 \$'000
Secured bank loan facility:		
Amount used (before deducting debt issue costs)	<u>44,779</u>	<u>53,279</u>
Secured ancillary bank facilities (guarantees):		
Amount used	2,648	2,897
Amount unused	<u>1,352</u>	<u>1,103</u>
	<u>4,000</u>	<u>4,000</u>
Secured ancillary bank facilities (other):		
Amount used	-	-
Amount unused	<u>1,000</u>	<u>1,000</u>
	<u>1,000</u>	<u>1,000</u>

NOTES TO THE FINANCIAL STATEMENTS

7. Cash and cash equivalents (continued)

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

Consolidated	FY21 \$'000	FY20 \$'000
Profit/(loss) for the year	1,461	(3,990)
Depreciation of non-current assets	10,028	20,602
Amortisation of intangible assets	587	1,703
Loss on disposal of property, plant and equipment	3,845	6,949
Impairment loss on property, plant and equipment	3,098	13,647
Write-down/(write back) of inventory to net realisable value	(465)	3,052
Impairment loss on intangible assets	-	24,700
Impairment loss/(write back) on trade and other receivables	1,572	(669)
Non-cash employee benefits expense share based payments	424	444
Unrealised foreign exchange (gain)/loss	(218)	(92)
Interest income	(41)	(119)
Non-cash operating lease income	(5,340)	(7,270)
Non-cash interest expense	5,827	7,492
Debt forgiveness	-	(71,754)
Non-cash finance lease income	(3,747)	(5,114)
(Gain)/loss on lease modifications	(1,031)	(3,853)
Impairment charges on lease receivables	4,389	2,225
Lease expenses recognised within financing cash flows	3,578	4,737
Non-cash restructuring and provisioning	(4,558)	4,587
Contingent consideration deemed remuneration	-	600
Other	809	(559)
Increase/(decrease) in Current tax liability	734	168
Increase/(decrease) in Deferred tax balances	-	4,098
Movements in working capital:		
(Increase)/decrease in Trade and other receivables	(917)	14,711
(Increase)/decrease in Inventories	1,994	1,590
(Increase)/decrease in Other assets	6,075	1,780
Increase/(decrease) in Trade and other payables	(7,084)	(15,257)
Increase/(decrease) in Provisions	(2,280)	876
Increase/(decrease) in Other liabilities	(7,709)	(9,228)
Net cash generated by operating activities	11,031	(3,944)

7.5 Non-cash investing and financing activities

Acquisition of property, plant and equipment by means of finance leases was nil (FY20: nil).

NOTES TO THE FINANCIAL STATEMENTS

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 1 July 2020	7,500	1,447	(465)	45,779	(652)	124,055
Recognition of lease arrears	-	-	-	-	-	9,026
Repayment of borrowings	(5,000)	(1,035)	-	(3,500)	-	-
Proceeds from borrowings	-	277	-	-	-	-
Debt forgiveness	-	(412)	-	-	-	-
Amortisation of deferred borrowing costs	-	-	465	-	-	-
Reclassification of debt	7,500	-	(465)	(7,500)	465	-
Lease liability additions	-	-	-	-	-	27,359
Lease liability terminations	-	-	-	-	-	(7,123)
Lease liability - reduction ⁽¹⁾	-	-	-	-	-	(44,220)
Lease Liability - effect of movement in exchange rates	-	-	-	-	-	(118)
Balance at 2 July 2021	10,000	277	(465)	34,779	(187)	108,979

(1) Includes \$9.2 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	FY21 \$'000	FY20 \$'000
Current		
Trade receivables	14,107	28,866
Allowance for impairment	(10,737)	(13,045)
	<u>3,370</u>	<u>15,821</u>
Accrued income	2,213	3,104
Sundry debtors	1,109	694
Other	456	465
	<u>7,148</u>	<u>20,084</u>
Non-current		
Sundry debtors	-	22
	<u>7,148</u>	<u>20,106</u>

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

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

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

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, all trade receivables of the Group are considered to share the same risk profile. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience along with current and forward-looking economic factors which are expected to significantly affect the ability of the customers to settle the receivables. Additional impairment has been recognised against trade receivables that are at risks of payment default while stores are unable to trade as a result of COVID-19 trading restrictions.

NOTES TO THE FINANCIAL STATEMENTS

8. Trade and other receivables (continued)

8.1 Trade receivables (continued)

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.

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
2 July 2021					
Expected loss rate	23%	77%	91%	100%	
Gross carrying amount - trade receivables	4,158	549	575	8,825	14,107
Loss allowance	964	422	526	8,825	10,737
30 June 2020					
Expected loss rate	3%	93%	97%	99%	
Gross carrying amount - trade receivables	16,129	798	1,550	10,389	28,866
Loss allowance	476	745	1,507	10,317	13,045

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	FY21 \$'000	FY20 \$'000
Balance at the beginning of the year	13,045	25,215
Reclassification to 'Other' receivables	(891)	(841)
Reclassification from 'Lease receivables - allowance for expected credit loss' ⁽¹⁾	942	-
Reclassification from 'ROU asset - accumulated impairment' ⁽¹⁾	274	-
Increase in loss allowance recognised in profit or loss during the year	1,861	8,214
Receivables written-off during the year as uncollectible	(4,494)	(20,163)
Reclassification (to)/from 'Assets classified as held for sale'	-	620
Balance at the end of the year	10,737	13,045

- (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.

NOTES TO THE FINANCIAL STATEMENTS

9. Other financial assets

Consolidated	FY21 \$'000	FY20 \$'000
Current		
Loans and receivables carried at amortised cost		
Vendor finance ⁽¹⁾	421	573
Other ⁽²⁾	1,120	1,950
	<u>1,541</u>	<u>2,523</u>
Non-current		
Loans and receivables carried at amortised cost		
Vendor finance ⁽¹⁾	100	-
Other ⁽²⁾	476	1,534
	<u>576</u>	<u>1,534</u>
	<u>2,117</u>	<u>4,057</u>

- (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). These balances include individually impaired loan receivables amounting to \$2.8 million (FY20 impairment: \$3.2 million). The impairment recognised represents the difference between the carrying amount of these loan receivables and the present value of the estimated recoverable amount. During the year \$1.4 million of vendor finance receivables that were impaired in prior periods were written-off as uncollectable.
- (2) Other represents all trade receivables under formal or contractual payment arrangements. Recoverability of these other receivables are assessed on the same basis as trade receivables (Note 8).

NOTES TO THE FINANCIAL STATEMENTS

10. Inventories

Consolidated	FY21 \$'000	FY20 \$'000
Stock held for wholesale supply	4,113	10,846
Equipment held for resale	-	95
Stores held for resale	174	10
	<u>4,287</u>	<u>10,951</u>

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$31.4 million (FY20 restated: \$39.0 million).

11. Other assets

Consolidated	FY21 \$'000	FY20 \$'000
Current		
Prepayments	3,263	3,589
Inventory held on behalf of third party	-	5,475
Receivables - make-good ⁽¹⁾	1,710	-
Allowance for expected credit loss	(612)	-
	<u>4,361</u>	<u>9,064</u>
Non-current		
Prepayments	107	39
Receivables - make-good ⁽¹⁾	4,200	-
Allowance for expected credit loss	(864)	-
	<u>3,443</u>	<u>39</u>
	<u>7,804</u>	<u>9,103</u>

- (1) Receivables - make-good relate to the provision recognised for make-good costs associated with franchise store leases that are not impaired. The Group expects that the Franchise Partner will pay the make-good cost at the end of the lease term.

NOTES TO THE FINANCIAL STATEMENTS

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 1 July 2019	903	64,102	1,524	38,052	104,581
Add: FY19 Assets previously classified as held for sale	1,797	23,861	798	-	26,456
Additions	6	1,535	92	16,699	18,332
Disposals	(1,207)	(26,046)	(1,170)	(6,736)	(35,159)
Reclassification of inventories	-	(1,123)	-	-	(1,123)
Reclassification of right-of-use assets	-	-	-	(8,693)	(8,693)
Effect of movements in exchange rates	(6)	29	-	-	23
Balance as at 1 July 2020	1,493	62,358	1,244	39,322	104,417
Additions	327	2,335	-	7,428	10,090
Disposals	(1,173)	(31,605)	(610)	(9,905)	(43,293)
Reclassification of inventories	-	207	-	-	207
Reclassification of right-of-use assets ⁽¹⁾	-	-	-	(10,551)	(10,551)
Reclassification of lease receivables ⁽²⁾	-	-	-	10,441	10,441
Effect of movements in exchange rates	(5)	(456)	-	(148)	(609)
Balance as at 2 July 2021	642	32,839	634	36,587	70,702
Accumulated depreciation and impairment					
Balance as at 1 July 2019	(151)	(42,843)	(434)	-	(43,428)
Add: FY19 Assets previously classified as held for sale	(491)	(7,275)	(794)	-	(8,560)
Reclassification of inventories	-	151	-	-	151
Reclassification of right-of-use assets	-	-	-	1,546	1,546
Disposals	815	14,683	941	2,729	19,168
Depreciation charge	(296)	(7,155)	(245)	(12,906)	(20,602)
Impairment losses	(127)	(5,679)	(419)	(7,422)	(13,647)
Balance as at 1 July 2020	(250)	(48,118)	(951)	(16,053)	(65,372)
Reclassification of right-of-use assets	-	-	-	3,128	3,128
Disposals	614	19,910	456	4,123	25,103
Depreciation charge	(46)	(2,290)	(112)	(7,580)	(10,028)
Impairment losses	(595)	1,130	-	(3,633)	(3,098)
Reclassification to 'trade receivable-loss allowance' ⁽³⁾	-	-	-	274	274
Effect of movements in exchange rates	2	352	-	(91)	263
Balance as at 2 July 2021	(275)	(29,016)	(607)	(19,832)	(49,730)
Net book value					
As at 30 June 2020	1,243	14,240	293	23,269	39,045
As at 2 July 2021	367	3,823	27	16,755	20,972

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

(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.

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	Notes	FY21 \$'000	FY20 \$'000
Finance lease receivables			
Current			
Lease receivable		33,679	31,247
Allowance for expected credit loss ⁽¹⁾		(9,344)	(7,416)
		<u>24,335</u>	<u>23,831</u>
Non-current			
Lease receivable		44,584	56,062
Allowance for expected credit loss		(7,454)	(4,022)
		<u>37,130</u>	<u>52,040</u>
Operating lease receivables ⁽²⁾			
Current			
Lease receivable - ROU assets		2,564	-
Allowance for expected credit loss		(1,977)	-
		<u>587</u>	<u>-</u>
Non-current			
Lease receivable - ROU assets		84	-
Allowance for expected credit loss		(53)	-
		<u>31</u>	<u>-</u>
		<u>62,083</u>	<u>75,871</u>
Right-of-use (ROU) assets			
Land & buildings		16,652	22,283
Vehicles & equipment		103	986
		<u>16,755</u>	<u>23,269</u>
Lease liabilities			
Current		45,297	43,003
Non-current		63,682	81,052
		<u>108,979</u>	<u>124,055</u>

(1) Refer to note 34.

(2) 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.

NOTES TO THE FINANCIAL STATEMENTS

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	FY21 \$'000
Balance at 1 July 2020 (Reported)	6,921
Impact of reclassification	4,517
Balance at 1 July 2020 (Reclassified)	11,438
Reclassification from 'right-of-use assets'	3,128
Additional lease impairment recognised during the period	(1,158)
Reclassification to 'trade receivables - loss allowance' ⁽³⁾	(942)
Expected credit loss on rental arrears & deferrals	6,362
Balance at the end of the year	18,828

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

Minimum lease payments receivable ⁽⁴⁾ on franchise store sub-leases for continuing operations are as follows:

	FY21 \$'000
Within 1 year	38,976
Between 1 and 2 years	21,160
Between 2 and 3 years	13,604
Between 3 and 4 years	7,814
Between 4 and 5 years	3,256
Later than 5 years	2,607
	87,417
Unearned finance income	(6,506)
	80,911

(4) Lease payment receivable represents undiscounted expected cashflows.

Maturity analysis of lease payments for operating leases, showing the undiscounted lease payments to be received after the reporting date:

	FY21 \$'000
Within 1 year	9,612
Between 1 and 2 years	7,741
Between 2 and 3 years	5,190
Between 3 and 4 years	3,203
Between 4 and 5 years	1,790
Later than 5 years	2,517
	30,053

NOTES TO THE FINANCIAL STATEMENTS

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:

	FY21 \$'000	FY20 \$'000
Operating lease income	5,340	7,270
Finance lease interest income	3,747	5,114
Interest expense (finance lease)	(3,747)	(5,114)
Interest expense (operating leases)	(2,080)	(2,378)
Depreciation expense of ROU assets - land & buildings	(7,065)	(12,131)
Depreciation expense of ROU assets - vehicles & equipment	(515)	(775)
Impairment charges of ROU assets - land & buildings	(2,841)	(7,340)
Impairment charges of ROU assets - vehicles & equipment	(674)	(82)
Gain on lease modification	1,031	3,853
Impairment charges of Lease Receivables	(4,389)	(5,256)

The total cash outflow for leases in FY21 was \$9.2 million (FY20: \$10.2 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 35 for accounting policies for AASB 16.

NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets

14.1 Intangible assets

Consolidated	Notes	Indefinite Life			Finite Life	Total
		Goodwill	Brand Networks	Intellectual Property Rights	Other	
		\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount						
Balance as at 1 July 2019		254,859	429,544	5,337	4,984	694,724
Add: FY19 Assets previously classified as held for sale		18,293	-	-	11,300	29,593
Additions		-	-	-	286	286
Exchange differences		(95)	(57)	-	(20)	(172)
Balance as at 1 July 2020		273,057	429,487	5,337	16,550	724,431
Exchange differences		-	-	-	(10)	(10)
Disposals		-	-	-	(11,300)	(11,300)
Balance as at 2 July 2021		273,057	429,487	5,337	5,240	713,121
Accumulated amortisation and impairment						
Balance as at 1 July 2019		(185,227)	(249,190)	-	(4,119)	(438,536)
Add: FY19 Assets previously classified as held for sale		(18,293)	-	-	(3,111)	(21,404)
Amortisation expense		-	-	-	(1,703)	(1,703)
Impairment losses		(2,700)	(22,000)	-	-	(24,700)
Balance as at 1 July 2020		(206,220)	(271,190)	-	(8,933)	(486,343)
Amortisation expense		-	-	-	(587)	(587)
Disposals		-	-	-	4,514	4,514
Balance as at 2 July 2021		(206,220)	(271,190)	-	(5,006)	(482,416)
Net book value						
As at 30 June 2020		66,837	158,297	5,337	7,617	238,088
As at 2 July 2021		66,837	158,297	5,337	234	230,705

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.

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 FY22 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 does not exceed the recoverable value of the assets and therefore no further impairment is recognised.

NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets (continued)

14.3 Useful Life

Brand Networks

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

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	FY21 \$'000	FY20 \$'000
Bakery/Café Systems	37,168	37,168
QSR Systems	12,431	12,431
Coffee Retail Systems	17,238	17,238
Di Bella Coffee	-	-
	<u>66,837</u>	<u>66,837</u>

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

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

Indefinite life intangibles allocation	FY21 \$'000	FY20 \$'000
Donut King Brand System	36,037	36,037
Brumby's Bakery Brand System	20,552	20,552
Michel's Patisserie Brand System	5,010	5,010
Crust Gourmet Pizza Bars Brand System	41,932	41,932
Café2U Brand System	5,670	5,670
Gloria Jeans Brand System	44,783	44,783
Di Bella Coffee	9,650	9,650
	<u>163,634</u>	<u>163,634</u>

14.7 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 FY22 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.

NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets (continued)

14.7 Key assumptions used for calculating recoverable amounts (continued)

Impact of COVID-19 on key assumptions

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In the FY21 year as a result of COVID-19 the Group experienced reduced revenues in franchise and coffee operations, temporary and permanent closures of franchised stores, international territories and coffee customers, and incurred additional costs and experienced reduced cash inflows from the provision of franchise partner and customer support initiatives.

Year 1 cash-flows

The Group determined the recoverable amount of each CGU and operating segment based on a scenario that includes assumptions and cash flow forecasts to reflect actual impacts of COVID-19 experienced by the Group to date as discussed, and future potential impacts of COVID-19. FY22 year one cash flow projections are based on internal forecasts. The Group prepared a range of forecast scenarios for the FY22 year, and selected the lower case scenario for the purposes of impairment testing, which anticipates reduced revenues in franchise and coffee operations, temporary and permanent closures of franchised stores, international territories and coffee customers, and ongoing provision of franchise partner and customer support initiatives prevailing across the year.

Years 2 cash-flow growth

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

Years 3 to 5 cash-flow growth

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

Terminal growth

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

The lower case scenario adopted for impairment testing incorporating the internal forecasting and growth rates nominated assumes the extent and duration of recovery to the FY21 EBITDA base by end FY26.

Discount rates

In determining the appropriate discount rates for impairment testing, the Group utilised independent experts to calculate the 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:

Cash-generating unit	Average EBITDA growth rate years 3 - 5	Long term growth rate	FY21 Pre-tax discount rate	FY20 Pre-tax discount rate
<i>Operating Segments for Goodwill testing</i>				
Bakery/Café Systems	1.8%	1.2%	12.20%	13.79%
QSR Systems	2.0%	2.0%	12.10%	14.40%
Coffee Retail Systems	1.8%	1.3%	12.40%	14.40%
Di Bella Coffee	4.0%	2.0%	11.80%	14.80%
<i>Brand Systems</i>				
Donut King Brand System	2.5%	2.0%	12.00%	13.79%
Brumby's Bakery Brand System	1.0%	0.5%	12.70%	13.79%
Michel's Patisserie Brand System	2.0%	1.0%	11.90%	13.79%
Crust Gourmet Pizza Bars Brand System	2.0%	2.0%	12.10%	14.40%
Café 2U Brand System	1.6%	0.5%	12.80%	14.40%
Gloria Jeans Brand System	2.0%	2.0%	12.00%	14.40%
Di Bella Coffee Brand System	4.0%	2.0%	11.80%	14.80%

The reduction in discount rates on those used in FY20 are attributable to: a) a decrease in the base cost of debt/risk free rate; b) a revised debt/equity weighting in the determination of the Group's weighted average cost of capital upon adoption of AASB 16 Leases; c) a reduced market risk premium applied to discount rates, subsequent to the successful recapitalisation of the Group in FY20; and d) additional risk included in the year 1 underlying earnings projections and cash flows.

NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets (continued)

Significant estimate: Impact of reasonably possible changes in key assumptions

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

In 2018 to 2020 years, the Group significantly reduced the carrying values of intangible assets, recognising \$429.4 million impairment against the carrying value of the assets in those financial years. This significant reduction in carrying values prior to the 2021 year has lowered the sensitivity of the respective cash-generating units recoverable amounts to negative changes in earnings assumptions, and the quantum of potential intangible asset impairment in future periods.

Notwithstanding the foregoing, the recoverable amounts in cash-generating units continue to be sensitive to a range of assumptions, in particular the growth rates in the cash-flow forecasts.

The following table outlines the headroom, growth rates and sensitised growth rates which would trigger impairment in the following cash-generating units:

Cash-generating unit	Headroom	Average growth rate years 2 – 5 to trigger impairment
<i>Brand System</i>		
Di Bella Coffee Brand System	\$0.5m	2.5%
Michel's Patisserie Brand System	\$0.6m	(2.0%)

The following table outlines the cash-generating units where sensitivity scenarios of a decrease in growth rates, or an increase in the discount rate would trigger impairment:

Sensitivity scenario	Cash-generating unit impaired	Impairment
1% reduction in growth rates - years 2 - 5 and terminal rate	Di Bella Coffee Brand System	\$1.0m
1% increase in discount rate	Di Bella Coffee Brand System	\$0.9m

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other payables

Consolidated	FY21 \$'000	FY20 \$'000
Current		
Trade payables ⁽¹⁾	4,773	35,291
Accruals and other creditors	4,504	8,080
Goods and services tax (GST) payable	(29)	435
	<u>9,248</u>	<u>43,806</u>

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

The carrying 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	FY21 \$'000	FY20 \$'000
Current		
Employee benefits	2,186	3,217
Make-good	2,072	1,669
Other provisions ⁽¹⁾	<u>1,787</u>	<u>6,871</u>
	<u>6,045</u>	<u>11,757</u>
Non-current		
Employee benefits	147	171
Make-good	5,526	1,216
Other provisions	<u>806</u>	<u>2,595</u>
	<u>6,479</u>	<u>3,982</u>
	<u>12,524</u>	<u>15,739</u>

	Employee benefits	Make-good	Other
Consolidated	\$'000	\$'000	\$'000
Balance at 1 July 2020 (Reported)	3,388	2,885	13,983
Impact of reclassification ⁽¹⁾	-	-	(4,517)
Balance at 1 July 2020 (Reclassified)	<u>3,388</u>	<u>2,885</u>	<u>9,466</u>
Movement in provisions	295	4,734	(978)
Payments made/provisions released	<u>(1,350)</u>	<u>(21)</u>	<u>(5,895)</u>
Balance at 2 July 2021	<u>2,333</u>	<u>7,598</u>	<u>2,593</u>

(1) Refer to Note 34.

NOTES TO THE FINANCIAL STATEMENTS

17. Other liabilities

17.1 Unearned income

Consolidated	FY21 \$'000	FY20 \$'000
Current		
Unearned income	3,727	6,190
Non-current		
Unearned income	11,508	15,423
	<u>15,235</u>	<u>21,613</u>

The following table shows the movement in unearned income:

Consolidated	FY21 \$'000
Balance at the beginning of the year	21,613
Additions	225
Decrease in unearned income recognised in profit or loss during the year from:	
- Franchise agreements	(5,734)
- Distribution agreements	(869)
Balance at the end of the year	<u>(15,235)</u>

17.2 Other Liabilities

Consolidated	FY21 \$'000	FY20 \$'000
Current		
Retention bonds and deposits	647	608
Non-current		
Retention bonds and deposits	164	88
	<u>811</u>	<u>696</u>

NOTES TO THE FINANCIAL STATEMENTS

Capital

18. Borrowings

Consolidated	FY21 \$'000	FY20 \$'000
Secured at amortised cost		
Current		
Bank loans ⁽¹⁾	10,000	7,500
Loans from other parties	277	1,447
Borrowing costs (deferred)	(465)	(465)
	<u>9,812</u>	<u>8,482</u>
Secured at amortised cost		
Non-current		
Bank loans ⁽¹⁾	34,779	45,779
Borrowing costs (deferred)	(187)	(652)
	<u>34,592</u>	<u>45,127</u>
	<u>44,404</u>	<u>53,609</u>

- (1) As at 2 July 2021, the Group's total gross debt decreased to \$44.8 million (FY20: \$53.3 million). Current bank loans represent the maximum quarterly loan principle repayments as required under the senior lending facility.

The Group's senior debt facilities mature in November 2022.

The Group is compliant with all debt covenants as at 2 July 2021.

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.

NOTES TO THE FINANCIAL STATEMENTS

19. Issued capital

Consolidated	FY21 \$'000	FY20 \$'000
2,120,095,198 fully paid ordinary shares (FY20: 2,117,995,198)	615,145	614,935
	615,145	614,935

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

Consolidated	FY21 No. '000	FY21 \$'000	FY20 No. '000	FY20 \$'000
Fully paid ordinary shares ⁽¹⁾				
Balance at beginning of year	2,117,995	614,935	182,745	428,640
Share issue costs	-	-	-	(10,328)
Related income tax	-	-	-	3,098
Transfer from equity-settled employee benefits reserve	2,100	210	1,935,250	193,525
Balance at end of year	2,120,095	615,145	2,117,995	614,935

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

20. Reserves

Equity-settled employee benefits reserve	FY21 \$'000	FY20 \$'000
Balance at beginning of year	444	60
Transfers to retained earnings ⁽¹⁾	-	(60)
Recognition of share-based payments	424	444
Transfer from equity-settled employee benefits reserve	(210)	-
Balance at end of year	658	444

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

The equity-settled employee benefits reserve arises on the grant of performance rights to Directors, executives and senior executive management in accordance with the provisions of RFG's Performance Rights Plan. Amounts are transferred out of the reserve and into issued capital when the rights vest. Further information about share-based payments to employees is set out in Note 23.

Foreign Currency Translation reserve	FY21 \$'000	FY20 \$'000
Balance at beginning of year	1,117	1,350
Exchange difference on translation of foreign operations	(114)	(233)
Balance at end of year	1,003	1,117

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	FY21 \$'000	FY20 \$'000
Balance at beginning of year	5,302	3,695
Surplus during the period transferred from retained earnings	(772)	1,607
Balance at end of year	4,530	5,302

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

Total Reserves	6,191	6,863
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NOTES TO THE FINANCIAL STATEMENTS

21. Retained earnings

Consolidated	FY21 \$'000	FY20 \$'000
Balance at beginning of year	(445,713)	(440,251)
Net profit/(loss) attributable to members of the parent entity	1,461	(3,990)
Opening adjustment for adoption of AASB 16	-	75
Transfer from equity-settled employee benefits reserves	-	60
Net profit/(loss) attributable to marketing funds reclassified to other reserves	772	(1,607)
Balance at end of year	(443,480)	(445,713)

22. Dividends

Company	FY21		FY20	
	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 FY21.

Company	FY21 \$'000	FY20 \$'000
Adjusted franking account balance	50,279	50,279

23. Share-based payments

23.1 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. On 1 April 2020, an additional 9,000,000 performance rights was issued to Ms Jessica Buchanan, Head of Retail of the Company, which were subsequently cancelled or forfeited upon her departure on 17 November 2020. The RFGRP is designed to provide long-term incentives for selected senior executives to deliver long-term shareholder returns. Under the plan, participants are granted rights which only vest if certain performance standards are met.

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

NOTES TO THE FINANCIAL STATEMENTS

23. Share-based payments (continued)

23.1 Performance Rights Plan (continued)

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

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

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

Fair value of rights granted

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

23. Share-based payments (continued)

23.1 Performance Rights Plan (continued)

(i) Reconciliation of performance rights

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

	Number of rights FY21
Balance as at 30 June 2020	24,000,000
Granted during the year	-
Vested during the year	(2,100,000)
Forfeited during the year	(9,900,000)
Balance as at 2 July 2021	12,000,000

(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	FY21 \$'000	FY20 \$'000
Debt ⁽¹⁾	45,056	54,726
Cash and bank balances	(29,232)	(33,922)
Net debt	15,824	20,804
Equity ⁽²⁾	177,856	176,085
Net debt to equity (gearing) ⁽³⁾	9%	12%

(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.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.3 Categories of financial instruments

Consolidated	FY21 \$'000	FY20 \$'000
Financial assets		
Loans and receivables		
Trade and other receivables	7,148	20,106
Lease receivables	62,083	75,871
Other financial assets	2,117	4,057
Cash and cash equivalents	34,649	40,248
Financial liabilities		
Trade payables	4,773	35,291
Other payables	4,475	8,515
Retention bonds and deposits	811	696
Loans (at amortised cost)	44,404	53,609
Lease liabilities	108,979	124,055
Derivative financial instruments - current	-	1,892

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 on a monthly basis in relation to the risks and policies implemented to mitigate risk exposure.

24.5 Derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period. The Group have no derivative financial instruments at the end of this financial year as it has settled its interest rate swap contracts in full by August 2020.

	FY21 \$'000	FY20 \$'000
Current liabilities		
Interest rate swap contracts - cash flow hedges	-	1,892
	-	1,892

24.6 Market risk

The Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates (refer Note 24.8) and interest rates (refer Note 24.7).

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

24.7 Interest rate risk management

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

At 2 July 2021, the Group's weighted average interest rate is 1.9% and total debt at variable interest rates is \$44.8 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.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.7 Interest rate risk management (continued)

	Impact on post-tax profit		Impact on other components of equity	
Sensitivity	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Interest rates - increase by 100 basis points (1%)	(313)	130	-	-
Interest rates - decrease by 100 basis points (1%)	313	(130)	-	-

24.8 Foreign exchange risk

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

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

	Assets		Liabilities	
Exposure	FY21 \$'000	FY20 \$'000	FY21 \$'000	FY20 \$'000
US Dollar	5,465	2,783	787	1,198
Euro	1	8	-	1
New Zealand Dollar	937	666	44	182

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.

	FY21		FY20	
Impact of Sensitivity to Profit or Loss	10%	-10%	10%	-10%
US Dollar	(298)	364	(101)	123
Euro	-	-	-	1
New Zealand Dollar	(57)	69	(31)	38
Total increase/(decrease)	(355)	433	(132)	162

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.9 Credit risk

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

Credit risk management

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

Trade receivables consist of a large number of unrelated customers. Ongoing credit evaluation is performed on the financial conditions of accounts receivable and, where appropriate, additional collateral is obtained for balances identified as "at risk". Often this collateral is in the form of franchised outlets. 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 \$80.9 million due from franchise partners at 2 July 2021 and has recorded a total allowance for ECL of \$18.8 million. Included in these receivables are amounts of \$9.0 million due from franchise partners in relation to past due arrears over the COVID-19 period. An ECL provision of \$6.4m 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.

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	FY21 \$'000	FY20 \$'000
Contingent liabilities		
Financial guarantees	814	814
Rental guarantees	2,648	2,897
	<u>3,462</u>	<u>3,711</u>

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.

24.10 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and undrawn borrowing facilities, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Note 7.3 sets out details of additional undrawn facilities that the Group had at 2 July 2021. Note 18 sets out details of the Group's borrowings at 2 July 2021.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.10 Liquidity risk management (continued)

Liquidity and interest rate risk tables

The following table details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The information has been presented based on the 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
FY21					
Non-derivatives					
Trade payables	-	4,773	-	-	4,773
Other payables	-	4,475	-	-	4,475
Retention bonds and deposits	-	647	164	-	811
Bank loans	1.9	10,803	35,048	-	45,851
Loan from other parties	1.0	276	-	-	276
Rental guarantee contracts	1.2	2,680	-	-	2,680
Financial guarantee contracts	-	814	-	-	814
Lease liabilities	-	45,297	62,451	1,231	108,979
		69,765	97,663	1,231	168,659
FY20					
Non-derivatives					
Trade payables	-	35,291	-	-	35,291
Other payables	-	8,515	-	-	8,515
Retention bonds and deposits	-	608	88	-	696
Bank loans	2.2	8,501	47,121	-	55,622
Loan from other parties	2.8	1,478	-	-	1,478
Rental guarantee contracts	1.2	2,932	-	-	2,932
Financial guarantee contracts	-	814	-	-	814
Lease liabilities	-	43,003	79,558	1,494	124,055
		101,142	126,767	1,494	229,403
Derivatives					
Interest rate swaps					
- (inflow)	0.1	(108)	-	-	(108)
- outflow	2.5	2,030	-	-	2,030
		1,922	-	-	1,922

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 \$3.5 million (FY20: \$3.7 million).

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.10 Liquidity risk management (continued)

Liquidity and interest rate risk tables (continued)

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

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Over 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000
FY21					
Cash and cash equivalents	-	29,232	-	-	29,232
Loans and receivables	-	8,689	576	-	9,265
Lease receivables	2.5	24,922	36,156	1,005	62,083
		62,843	36,732	1,005	100,580
FY20					
Cash and cash equivalents	-	33,922	-	-	33,922
Loans and receivables	-	22,607	1,557	-	24,164
Lease receivables	5.3	23,831	20,210	31,830	75,871
		80,360	21,767	31,830	133,957

The Group has access to financing facilities, as described in Note 7.3, of which \$2.4 million was unused at the end of the reporting period (FY20: \$2.1 million). Note 18 sets out details of the Group's borrowings at 2 July 2021.

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

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.11 Fair value of financial instruments

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

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

Recognised fair value measurements

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 2 July 2021.

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

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

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

<i>Recurring fair value measurements</i> At 2 July 2021	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities					
Derivatives - interest rates swaps		-	-	-	-
Total financial liabilities		-	-	-	-

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

Specific valuation techniques used to value financial instruments include:

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

NOTES TO THE FINANCIAL STATEMENTS

Group structure

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	FY21 %	FY20 %	Entity	FY21 %	FY20 %
Addiction Holdings Pty Ltd ⁽²⁾	100	100	Gloria Jean's Coffees International China*	100	100
Adonai International Unit Trust ⁽²⁾	100	100	Gloria Jean's Coffees International Pty Limited*	100	100
Associated Foodservice Distributors Pty Ltd ⁽²⁾	100	100	Gloria Jean's Coffees International (UK) Pty Ltd*	100	100
Associated Smallgoods Distributors Pty. Ltd. ⁽²⁾	100	100	Gloria Jean's Coffees UK Limited*	100	100
ACN 159 149 872 Pty Ltd ⁽²⁾	100	100	Gloria Jean's Gourmet Coffees Corp. (GJ Stores, GJ Ecommerce)*	100	100
BB's Cafe System Pty Ltd ⁽²⁾	100	100	Gloria Jean's Gourmet Coffees Franchising Corp (GJ Franchising, GJ Ad Fund, GJ Gift Card)*	100	100
bb's New Zealand Limited ^Δ	100	100	Gourmet Foods Australia Pty Limited ⁽²⁾	100	100
BDP Franchise Pty Ltd ⁽²⁾	100	100	HDCZ (NZ) Limited ^Δ	100	100
BDP System Pty Ltd ⁽²⁾	100	100	Hot Dog Construction Zone (Aust) Pty Ltd ⁽²⁾	100	100
Booming Pty Ltd ⁽²⁾	100	100	A.C.N. 125 810 059 Pty Ltd ⁽²⁾	100	100
Brumby's Bakeries Corporate Retail Division Pty Ltd ⁽²⁾	100	100	International Franchisor Pty Ltd ⁽²⁾	100	100
Brumby's Bakeries Holdings Pty Ltd ⁽²⁾	100	100	Jireh Group Pty Limited ⁽²⁾	100	100
Brumby's Bakeries Pty Ltd ⁽²⁾	100	100	Jireh International Retail Pty Limited ⁽²⁾	100	100
Brumby's Bakeries System (NZ) Limited ^Δ	100	100	Jireh International Unit Trust ⁽²⁾	100	100
Brumby's Bakeries System Pty Ltd ⁽²⁾	100	100	Jonamill Pty. Limited ⁽²⁾	100	100
Cafe2U (NZ) Limited ^Δ	100	100	Maranatha Import Export India Private Limited*	100	100
Cafe2U International Pty. Ltd. ⁽²⁾	100	100	MEMGMT Pty Ltd ⁽²⁾	100	100
Cafe2U Pty Limited ⁽²⁾	100	100	Michel's Patisserie (S.A.) Pty. Limited ⁽²⁾	100	100
Caffe Coffee (NZ) Limited ^Δ	100	100	Michel's Patisserie (VQ) Pty Ltd ⁽²⁾	100	100
Caper Construction Pty Ltd ⁽²⁾	100	100	Michel's Patisserie (VOL) Pty Ltd ⁽²⁾	100	100
Capercorp Pty Ltd ⁽²⁾	100	100	Michel's Patisserie (W.A.) Pty. Limited ⁽²⁾	100	100
Capers Gourmet Kitchen Pty Ltd ⁽²⁾	100	100	Michel's Patisserie Corporate Retail Division Pty Ltd ⁽²⁾	100	100
CGP (NZ) Limited ^Δ	100	100	Michel's Patisserie Management Pty Ltd ⁽²⁾	100	100
CGP Systems Pty Ltd ⁽²⁾	100	100	Michel's Patisserie Operations Pty Ltd ⁽²⁾	100	100
Coffee Houses CRD Pty Ltd ⁽²⁾	100	100	Michel's Patisserie System Pty Ltd ⁽²⁾	100	100
C-Store Trading Pty Ltd ⁽²⁾	100	100	Michel's Patisserie Systems (NZ) Limited ^Δ	100	100
DBC Services Pty Ltd ⁽²⁾	100	100	Mules Enterprises Pty Ltd ⁽²⁾	100	100
DCM System Pty Ltd ⁽²⁾	100	100	Patisserie Delights Pty Ltd ⁽²⁾	100	100
Di Bella Coffee Domestic GJC Supply Pty Ltd previously Jireh International and Warehouse Distribution Pty. Limited ⁽²⁾	100	100	Pizza Capers Franchise Pty Ltd (formally PCGK Holdings Pty Ltd) ⁽²⁾	100	100
Di Bella Coffee International Network Supply Pty Ltd previously Gloria Jean's Coffees Supply Pty Limited ⁽²⁾	100	100	Pizza Corporate Retail Division Pty Ltd ⁽²⁾	100	100
Di Bella Coffee Network Supply Pty Ltd previously Caffe Coffee Pty Ltd ⁽²⁾	100	100	Praise IAG Franchisor, LLC (IAG Franchising, IAG Ad Fund, IAG Ecommerce)*	100	100
Di Bella Coffee Retail and Wholesale Pty Ltd previously Espresso Enterprises Pty Ltd ⁽²⁾	100	100	Praise IAG Stores, LLC*	100	100
Di Bella Coffee Supply Holdings Pty Ltd previously Roasting Australia Holdings Pty. Limited ⁽²⁾	100	100	Praise Operations Company, LLC*	100	100
Di Bella Coffee, LLC (previously Maranatha Import Export, LLC)*	100	100	PRCH Holdings Pty Ltd ⁽²⁾	100	100

NOTES TO THE FINANCIAL STATEMENTS

25. Subsidiaries (continued)

Entity	FY21 %	FY20 %	Entity	FY21 %	FY20 %
DK China Pty Ltd ⁽²⁾	100	100	Regional Franchising Systems Pty Ltd ⁽²⁾	100	100
Donquay Pty Limited ⁽²⁾	100	100	Retail Food Group Limited ⁽¹⁾	100	100
Donut King (NZ) Limited ^Δ	100	100	Retail Food Group USA, Inc (previously Praise International North America Inc)*	100	100
Donut King Corporate Retail Division Pty Ltd ⁽²⁾	100	100	RFG (NZ) Limited ^Δ	100	100
Donut King Franchise Pty Ltd ⁽²⁾	100	100	RFG Finance Pty Ltd ⁽²⁾	100	100
Donut King System Pty Ltd ⁽²⁾	100	100	RFGA Equitech Pty Ltd ⁽²⁾	100	100
ECH System (NZ) Limited ^Δ	100	100	RFGA Holdings (Aust) Pty Ltd ⁽²⁾	100	100
Espresso Concepts Pty Ltd ⁽²⁾	100	100	RFGA Holdings Pty Ltd ⁽²⁾	100	100
Espresso Kick Pty Ltd ⁽²⁾	100	100	RFGA Management Pty Ltd ⁽²⁾	100	100
Esquires Coffee Houses System Pty Ltd ⁽²⁾	100	100	Roasted Addiqtion Pty Ltd ⁽²⁾	100	100
Freezer Rental Pty Ltd ⁽²⁾	100	100	Systems Franchisor Pty Ltd ⁽²⁾	100	100
GJCI Malaysia SDN BHD*	100	100	TCG Franchising Limited ^Δ	100	100
Gloria Jean's Coffees Australasia Pty Limited ⁽²⁾	100	100	TCG IProp Pty Ltd ⁽²⁾	100	100
Gloria Jean's Coffees Holdings Pty Ltd ⁽²⁾	100	100	WDM Holdings Pty Ltd ⁽²⁾	100	100

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

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

NOTES TO THE FINANCIAL STATEMENTS

26. Parent entity disclosures

26.1 Financial position

Parent entity	FY21 \$'000	FY20 \$'000
Assets		
Current assets	17,939	18,344
Non-current assets	230,705	238,088
Total assets	248,644	256,432
Liabilities		
Current liabilities	10,412	9,290
Non-current liabilities	34,591	45,127
Total liabilities	45,003	54,417
Equity		
Issued capital	615,145	614,935
Retained earnings	(412,161)	(413,364)
Equity-settled employee benefits	657	444
Total equity	203,641	202,015

26.2 Financial performance

Parent entity	FY21 \$'000	FY20 \$'000
Profit/(loss) for the year	1,199	6,358
Other comprehensive income	-	-
Total comprehensive income	1,199	6,358

26.3 Other Commitments

The parent entity has no expenditure commitments as at 2 July 2021 (2020: nil).

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

NOTES TO THE FINANCIAL STATEMENTS

27. Discontinued operations

27.1 Sale of 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.

In the financial year ending 30 June 2020, the Group had classified the manufacturing and distribution division as discontinued operations, excluding the Dairy Country business. The results of discontinued operations for the comparative year ended 30 June 2020 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 year, were as follows:

Consolidated	FY21 \$'000	Restated FY20 \$'000
Revenue	24,705	126,730
Expenses	(30,688)	(145,158)
Loss before income tax	(5,983)	(18,428)
Attributable tax (expense)/benefit	-	(2,985)
Net loss attributable to discontinued operations	(5,983)	(21,413)
Earnings per share		
From discontinuing operations:		
Basic (cents per share)	(0.3)	(1.6)
Diluted (cents per share)	(0.3)	(1.6)

During FY21, net cash outflow from operating activities of the discontinued operations was \$5.8 million (FY20: \$9.1 million, cash outflow), net cash inflow from investing activities was \$0.2 million (FY20: \$1.3 million cash inflow).

NOTES TO THE FINANCIAL STATEMENTS

27. Discontinued operations (continued)

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)

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	FY21 \$'000	FY20 \$'000
Consideration	2,619	2,488
Long term Benefits	187	132
Termination Benefits	241	-
Performance Rights	424	444
Total comprehensive income	3,471	3,064

NOTES TO THE FINANCIAL STATEMENTS

Other

29. Events after the reporting period

Subsequent to 2 July 2021, the New South Wales, Queensland, Victoria and South Australian State Governments implemented additional COVID-19 related measures undertaken to contain outbreaks of the virus. The extent of adverse financial effects arising from these recently imposed restrictions, many of which remain in place, remains uncertain as at the date of this report.

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 FY21 year.

30. Contingent liabilities

Financial assets and other credit exposures	FY21 \$'000	FY20 \$'000
Contingent liabilities		
Financial guarantees	814	814
Rental guarantees	2,648	2,897
	<u>3,462</u>	<u>3,711</u>

- (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

The proceedings commenced by the ACCC in 1H21 against certain members of the Group have not, to date, been resolved or finally determined. In addition, the Group may potentially be the subject of class action claims, none of which has, however, yet been commenced. Provisions for costs incurred but unpaid as at balance date have been raised in line with the Group's accounting policy.

ACCC Investigations & Proceedings

The Australian Competition and Consumer Commission (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 on 15 December 2020. The Proceedings 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 Competition & Consumer Act, during the period 2015 to 2019 in relation to the sale or licence of 42 corporate-owned stores as well as management of marketing funds. The claims the subject of the Proceedings are, therefore, historical in nature and relate to a period which occurred under former RFG leadership.

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.

Since commencing the Proceedings, the ACCC has filed a Statement of Claim, and the Group has filed its Defence.

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 is defending 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.

RFG has had no contact with any plaintiff law firm in relation to either threatened class action, and 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. If legal proceedings are initiated, the Group intends to vigorously defend its position.

NOTES TO THE FINANCIAL STATEMENTS

31. Commitments for expenditure

Consolidated	FY21 \$'000	FY20 \$'000
Plant and equipment	182	31

32. Remuneration of auditors

Consolidated	FY21 \$	FY20 \$
Audit and review services		
Auditors of the Group - KPMG		
Audit and review of financial statements	650,000	-
Other auditors		
Audit and review of financial statements	18,647	1,519,127
Assurance services		
Auditors of the Group - KPMG		
Audit and review of other financial statements	180,000	-
Other assurance services	60,000	-
Other services		
Auditors of the Group - KPMG		
Consulting services relating to business restructuring	93,096	-
Taxation advice and tax compliance services	79,366	-
Other	108,795	-
Other auditors		
Consulting services relating to business restructuring	-	744,810
	1,189,904	2,263,937

33. Prior Period Restatements

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.

In the financial year ending 30 June 2020, the Group had classified the manufacturing and distribution division as discontinued operations, excluding the Dairy Country business. The results of discontinued operations for the comparative year ended 30 June 2020 have been restated to include Dairy Country.

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

Consolidated statement of profit or loss and other comprehensive income	30 June 2020 Reported	Discontinued operations adjustments	30 June 2020 Restated
	\$'000	\$'000	\$'000
Revenue	236,392	(99,173)	137,219
Expenses	(220,688)	102,315	(118,373)
Profit before income tax	15,704	3,142	18,846
Attributable tax expense	(1,423)	-	(1,423)
Profit for the year	14,281	3,142	17,423
Loss from discontinued operations	(18,271)	(3,142)	(21,413)
Loss for the year	(3,990)	-	(3,990)

NOTES TO THE FINANCIAL STATEMENTS

34. Prior Period Reclassification

Franchise partner lease exit and assistance provision

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

Consolidated statement of financial position	30 June 2020 Reported	Finance lease receivable reclassification	30 June 2020 Reclassified
	\$'000	\$'000	\$'000
Finance lease receivables	28,348	(4,517)	23,831
Total current assets	111,244	(4,517)	106,727
Provisions	16,274	(4,517)	11,757
Total current liabilities	120,255	(4,517)	115,738

Deferred tax balances

As at 30 June 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.

35. Summary of significant accounting policies

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

35.1 Basis of preparation

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

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

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

(a) Statement of compliance

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

The financial statements were authorised for issue by the Directors on the 25 August 2021.

(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 2 July 2021.

(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.

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(d) Foreign currencies (continued)

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 35.2

Estimation of recoverability of deferred tax assets - Note 35.3

Estimation of Impairment of non-financial assets other than goodwill and indefinite life intangible assets - Note 35.7

Estimation of goodwill and indefinite life intangible asset impairment - Note 35.7

Estimation of useful life of indefinite life intangibles - Note 35.7

Estimation of provisions - Note 35.8

Estimation of recoverability of lease receivables - Note 35.12

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(g) 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 \$1.4 million at 2 July 2021. As reported at 2 July 2021, the Group had \$29.2 million in unrestricted cash and senior debt, ancillary facilities and financial guarantees of \$48.2 million, resulting in a sustainable net debt position of \$19.0 million.

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.

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.

35.2 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 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 throughout the term and marketing fees paid by 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 Groups intellectual property over the term of the franchise agreements. The franchise agreements do not contain a material right to a discount on renewal.

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

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

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

Renewal fees are payable on commencement of the franchise agreement renewal period. Payment terms are typically 7 days, however longer term settlement periods may be offered to renewing 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 also earns volume-based fees based on goods distributed by suppliers to the brand networks.

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

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

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.2 Revenue recognition (continued)

Other revenue

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

35.3 Income taxes

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

Current tax

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

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.

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.3 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.

35.4 Cash and cash equivalents

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

35.5 Inventories

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

35.6 Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

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

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

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

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

Estimation of useful lives of assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.6 Property, plant and equipment (continued)

Change in Accounting Policy

In April 2021, the IFRS Interpretations Committee (IFRIC) published its final agenda decision 'Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)' which addresses whether configuration or customisation costs relating to Software-as-a-Service (SaaS) arrangements can be recognised as an intangible asset and if not, over what time period the costs are expensed.

The Group's accounting policy has historically been to capitalise certain costs related to cloud computing arrangements as an intangible asset. The adoption of the above agenda decision has resulted in the Group changing its accounting policy and a reclassification of these intangible assets in the Consolidated Statement of Financial Position to an expense in the Consolidated Income, impacting both the current and prior periods presented. The new accounting policy and historical financial information that has been restated to account for the change are presented below.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. Judgement is required to determine whether the additional code meets the definition of an intangible asset.

Where the SaaS arrangement supplier provides both the configuration and customisation services, and the SaaS access over the contract term, judgement is required to determine whether these services are distinct or not from each other. Distinct configuration and customisation costs are expensed as incurred as the software is configured or customised (i.e. upfront). Non-distinct configuration and customisation costs are expensed over the SaaS contract term (i.e. as a prepayment).

Non-distinct customisation activities significantly enhance or modify a SaaS cloud-based application. Judgement is required in determining whether the degree of customisation and modification of the SaaS cloud-based application is significant or not.

The impact of this change in accounting policy was not material to the Group.

35.7 Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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.

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.7 Intangible assets (continued)

Goodwill (continued)

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.

Determination as indefinite life

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

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

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

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

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

Internally Generated Intangible Assets, Including Research and Development Expenditure

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

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

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset for use or sale;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.7 Intangible assets (continued)

Internally Generated Intangible Assets, Including Research and Development Expenditure (continued)

- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

35.8 Provisions

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

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

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

Employee Benefits

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

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

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

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

Make-good

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

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

Warranties

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

35.9 Share-based payments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.9 Share-based payments (continued)

Measurement of equity-settled share-based payments

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

35.10 Financial instruments

Financial Assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

Financial guarantee contract liabilities

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

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

Derivatives and hedging activities

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

The Group designates certain derivatives as either:

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

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.10 Financial instruments (continued)

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 24.5 Movements in the hedging reserve in shareholders' equity are shown in Note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge

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

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

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

(ii) Net investment hedges

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

35.11 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.

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.12 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.12 Leases (continued)

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 or rental deferrals. 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. Gains on lease liabilities where a right-of-use asset exist are recorded through profit and loss where they qualify for the COVID lease exemption.

DIRECTORS' DECLARATION

The Directors declare that:

- (a) In the Directors' opinion, the financial statements and notes set out on pages 29 to 92 and the Remuneration report on pages 13 to 26 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 2 July 2021 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 2021 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
25 August 2021

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 2 July 2021 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 2 July 2021;
- 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 the Code.

Key Audit Matters

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

- Goodwill and other indefinite life intangible assets amount;
- Revenue recognition; and
- Lease accounting - estimate of lease arrears and assessment of recoverability of 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 amount (\$230m)

Refer to Note 14 and Note 35.7 of the financial report

The key audit matter	How the matter was addressed in our audit
<p>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 62% 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:</p> <ul style="list-style-type: none"> • forecast cash flows – the Group has experienced significant business disruption as a result of COVID-19. This impacted the Group through a loss of revenue as there was a reduction in the demand for products and loss of customers for some of the Group's CGUs. 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. • forecast growth rates and terminal growth rates – In addition to the uncertainties described above, the Group's models are highly sensitive to small changes in these 	<p>Working with our valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> • 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 COVID-19 to the Group and impact of government response programs to the FY21 results. • Comparing the forecast cash flows contained in the FVLCD models to Board approved forecasts reflecting the COVID-19 expected recovery rate. • 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

Goodwill and other indefinite life intangible assets amount (\$230m)

Refer to Note 14 and Note 35.7 of the financial report

The key audit matter	How the matter was addressed in our audit
<p>assumptions reducing available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy.</p> <ul style="list-style-type: none"> 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. <p>The Group uses complex models to perform their annual testing of goodwill and brand intangible assets for impairment. The models are largely manually developed, 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.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p> <p>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.</p> <p>The Group divested a significant business being Dairy Country during the year, necessitating our consideration of the Group's allocation of goodwill to the CGUs to which they belong based on the management and monitoring of the business.</p>	<p>to CGUs for reasonableness and consistency based on the requirements of the accounting standards.</p> <ul style="list-style-type: none"> 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 expected rate of recovery for the Group, the Group's proposed future business model, forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range. We considered the interdependencies of key assumptions when performing the sensitivity analysis and what the Group considers to be reasonably possible. 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 in light of the expected continuation of unprecedented uncertainty of business disruption and impacts of the COVID-19 global pandemic. We compared forecast growth rates and terminal growth rates to industry trends and expectations, and considered differences for the Group's operations. We assessed key assumptions such as expected rate of recovery for the Group and the Group's proposed future business model. 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 revised 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. We considered the Group's determination of their

Goodwill and other indefinite life intangible assets amount (\$230m)

Refer to Note 14 and Note 35.7 of the financial report

The key audit matter	How the matter was addressed in our audit
	<p>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.</p> <ul style="list-style-type: none"> • We analysed the divestment of Dairy Country and the Group's internal reporting to assess the Group's monitoring and management of activities, and the consistency of the allocation of goodwill to CGUs. • Evaluating the disclosures made in the financials against the requirements of the accounting standards.

Revenue recognition (Revenue \$109 m)

Refer to Note 2 and Note 35.2 of the financial report

The key audit matter	How the matter was addressed in our audit
<p>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:</p> <ul style="list-style-type: none"> - Sale of franchise agreements; - Sale of goods; and - Sale of distribution rights. <p>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.</p> <p>This was the result of the:</p> <ul style="list-style-type: none"> • 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 <i>Revenue from Contracts with Customers</i>. • 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. <p>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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • 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 and the sale of goods and supplier contracts from 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

Revenue recognition (Revenue \$109 m)

Refer to Note 2 and Note 35.2 of the financial report

The key audit matter	How the matter was addressed in our audit
	<p>included evaluating the underlying documentation of a sample of franchise agreement sales and the Group's assessment of items and amounts they considered highly probable of future receipt. Using our knowledge of the arrangements, experience and industry, we challenged key judgements therein. We also recalculated computations splitting the items into revenue and unearned revenue liability.</p> <ul style="list-style-type: none"> • Evaluating the adequacy of the disclosures made in the financials against the requirements of the accounting standards.

Lease accounting – estimate of lease arrears (\$9 m) and assessment of recoverability of lease receivables (\$62 m)

Refer to Note 13 and Note 35.12 to the financial report

The key audit matter	How the matter was addressed in our audit
<p>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.</p> <p>Where the franchise store sub-lease is assessed by the Group as a finance lease using AASB 16 <i>Leases</i>, the Group recognise a finance lease receivable. Following this, the impairment requirements of AASB 9 <i>Financial Instruments</i> apply to the net investment in these leases.</p> <p>Accounting for these leases involved additional complexity for the Group due to the impact of COVID-19 in particular the following factors:</p> <ul style="list-style-type: none"> • The introduction of the National Mandatory Code of Conduct – SME Commercial Leasing Principles during COVID-19 (the Code) also requires landlords and tenants share economic impacts arising from COVID-19. • Estimating lease arrears due from sub-lease arrangements \$9.0m – due to the impact of COVID-19 to franchisees, lease arrears have increased, and its continued uncertainty impacts judgements regarding ultimate recoverability; • Judgment required in estimating expected credit losses on lease arrears and lease receivables of \$18.8m; • Assessing Covid-19 related rent concessions (abatements) \$3.1m with landlords, in particular given the fluidity of circumstances, status of negotiations and arrangements for sharing economic impacts. <p>These conditions add wider estimation uncertainty to accounting measurements, in an already complex topic, and therefore a key audit matter.</p> <p>The Group determined their expected loss provisioning amounts using a forward-looking</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • 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 Code and the risk indicators used to identify and categorise the franchisee tenants into high, medium or low risk of default, and therefrom 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. We considered the sensitivity of the Group's expected credit loss model by varying the assumptions within the model within a reasonably possible range. • 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. • Recalculating the mathematical accuracy of the calculation of leases arrears, abatements and expected credit loss amounts as at year end. • 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.

Lease accounting – estimate of lease arrears (\$9 m) and assessment of recoverability of lease receivables (\$62 m)

Refer to Note 13 and Note 35.12 to the financial report

The key audit matter	How the matter was addressed in our audit
<p>expected credit loss impairment model. This involves significant additional judgement as the expected credit loss reflects information about past, current and future conditions.</p> <p>Overall, the relative size of balances has a significant financial impact on the Group's financial position and performance.</p> <p>We involved our senior audit team members in assessing this key audit matter.</p>	<ul style="list-style-type: none"> • 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 and cash collections after year end. • 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 2 July 2021 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 26 of the Directors' report for the year ended 2 July 2021.

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



KPMG



Stephen Board
Partner

Brisbane
25 August 2021

ADDITIONAL STOCK EXCHANGE INFORMATION

Number of holders of equity securities as at 15 July 2021

Ordinary share capital

- 2,120,095,198 ordinary shares are held by 14,752 individual shareholders.

All issued ordinary shares carry one vote per share.

Distribution of holders of equity securities

	Total holders fully paid ordinary shares	Fully paid ordinary shares	% Issued capital	Total holders options	Options
1 - 1000	4,770	2,183,436	0.10%	-	-
1,001 - 5,000	4,202	10,708,519	0.51%	-	-
5,001 - 10,000	1,537	11,759,611	0.55%	-	-
10,001 - 100,000	3,102	106,979,528	5.05%	-	-
100,001 and over	1,141	1,988,464,104	93.79%	-	-
	14,752	2,120,095,198	100.00%	-	-

The number of shareholders holding less than a marketable parcel of ordinary shares is 9,190.

Substantial shareholders

Ordinary shareholders	Fully paid	
	Number held	Percentage
Invesco Australia Limited	333,131,995	15.71%
Regal Funds Management Pty Ltd (RFM)	309,613,130	14.60%
Castle Point Funds Management	164,479,712	7.76%
TIGA Trading Pty Ltd	127,350,000	6.01%

Twenty largest holders of quoted equity instruments

Ordinary shareholders	Fully paid	
	Number	Percentage
UBS NOMINEES PTY LTD	297,626,283	14.04%
NATIONAL NOMINEES LIMITED	195,965,044	9.24%
SANDHURST TRUSTEES LTD <COLLINS ST VALUE FUND A/C>	133,204,723	6.28%
CITICORP NOMINEES PTY LIMITED	118,912,820	5.61%
CS THIRD NOMINEES PTY LIMITED	86,167,029	4.06%
WASHINGTON H SOUL PATTINSON AND COMPANY	85,466,578	4.03%
MOLVEST PTY LTD	50,000,000	2.36%
WASHINGTON H SOUL PATTINSON AND COMPANY	50,000,000	2.36%
BROADGATE INVESTMENTS PTY LTD	42,400,000	2.00%
MR MICHAEL PIPEROGLOU	39,000,000	1.84%
BNP PARIBAS NOMS (NZ) LTD	37,870,918	1.79%
HISHENK PTY LTD	35,000,000	1.65%
CS FOURTH NOMINEES PTY LIMITED	34,044,225	1.61%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	33,128,507	1.56%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	26,832,882	1.27%
WOODROSS NOMINEES PTY LTD	26,275,256	1.24%
BNP PARIBAS NOMS PTY LTD	23,583,174	1.11%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	22,582,745	1.07%
DELPHI UNTERNEHMENBERATUNG	16,000,000	0.75%
CERTANE CT PTY LTD	15,867,438	0.75%
	1,369,927,622	64.62%