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RETAILFOODGROUP

STRENGTH IN BRANDS

Acquisition of Gloria Jean's Group

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Acquisition of Gloria Jean's Group

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RETAILFOODGROUP STRENGTH IN BRANDS
bb's
donut king
Brumby's BAKERY
Michel's PATISSERIE
ESQUIRES COFFEE
PIZZA CAPERS
crust
THE COFFEE GUY
cafe2u

Executive Summary – The Transaction

- Gloria Jean's Group acquisition provides
  - Strong international and domestic footprint with c.800 outlets increasing RFG outlet population to over 2,400
  - Annualised coffee roasting and beverage throughput of c.2.9m kgs
    - Increases RFG annualised throughput to c.4.5m kgs
- Acquisition price
  - $163.5m; plus
  - Up to $16.4m milestone and earn-out performance based payments
- FY16 underlying EBIT contribution of c.$24m(1) excludes significant scale and leverage opportunity
- Acquisition EV/EBIT multiple range of 6.2 to 6.6 times(2)
- Transaction c.14% underlying EPS accretive in FY15
- Funding via a combination of equity, cash and debt facilities
  - Vendor scrip consideration: $10.0m
  - Placement: $40.0m
  - SPP: $15.0m
  - Balance sourced from cash and increased banking facilities

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(1) Underlying EBIT contribution excludes acquisition costs, synergy and integration expense
(2) Based upon (a) vendor achievement of milestones and (b) underlying EBIT including forecast synergies

Executive Summary – Gloria Jean's Business Overview

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- The Gloria Jean's Group comprises
  - Global *Gloria Jean's Coffee* Brand System and intellectual property
  - Global *It's A Grind* Brand System and intellectual property
  - Franchisor and manager of the Australian and North American Brand System networks
  - Franchisor for additional 40 licenced international territories
  - Roasting, warehousing, distribution and logistics platforms in Australia and internationally
- FY14 network sales of c.$365m and EBIT(1) of c.$21.5m
- Strong brand equity and consumer recognition within domestic and other markets
- International and domestic footprint of c.800 outlets distributed 55% and 45% respectively
- Two state of the art coffee roasting facilities (Sydney and Los Angeles)



(1) FY14 consolidated pro-forma normalised

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bb's
donut king
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Executive Summary – Strategic Rationale

- Gloria Jean's Group activities closely mirror and complement those of RFG
- The acquisition provides impetus for realignment of existing RFG Brand Systems and other operational pursuits anticipated to deliver synergy, integration and restructuring benefits equating to a further maintainable EBIT accretion of c.$13m after three years over and above the FY16 underlying EBIT contribution of $24m.
- Immediate access to established international markets and supply chain logistics
- Delivers pathway into the US market with established Brand System network and coffee roasting facility
- Significant increase to coffee roasting capacity and redundancy
- Proliferates RFG's growing wholesale business and supply chain platforms
- Fortifies supply side scale benefitting entire franchisee community
- Access to growing "in home" coffee consumption market and patented capsule delivery system
- Further diversifies and reduces reliance on any one Brand System revenue stream
- Enhanced RFG management team, with all key management including founder transitioning to RFG

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Executive Summary – Funding & Performance

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Transaction Funding

- Funding provided through debt and equity
  - Debt via increase in NAB senior facility from $135m to $253m with c.90% of debt having extended maturity date to September 2017
  - Equity to raise a total of $65m via
    - Vendor equity: $10m
    - Placement: $40m
    - SPP: (up to) $15m
  - Pro-forma gearing (net debt / (net debt + equity) c.31.8%(1)
  - Interest cover c.9.8 times(1) increasing to c.11.8 times on pro-forma annualised EBIT

Contribution Performance

- FY16 underlying EBIT contribution c.$24m (excluding synergy, integration and restructuring benefits)
- Further embedded EPS growth from future synergies and structural enhancement
  - RFG has identified significant synergistic benefits associated with the acquisition. It is anticipated that c.$13m of annualised synergies will be extracted by end of FY17
  - In conjunction with the realignment and restructuring of the business units, a one-off investment cost of c.$13m is anticipated to be expensed by end of FY17

(1) Based on FY15 pro-forma balance sheet and revised guidance

Executive Summary – Consolidated Pro-forma Performance Outcomes

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- Estimated FY15 underlying earnings uplift on PCP[(1)] (including c.$1.7m in initial synergy benefits)
  - EBIT growth of c.39%
  - NPAT growth of c.36%
  - EPS growth of c.26%

- FY15 NPAT Guidance
  - Original guidance 15% increase on PCP to c.$42.5m [(3)]
  - Updated guidance 18.5% increase on PCP to c.$43.7m [(2)(3)]
    - Includes Café2U (settled and integrated)
    - Excludes La Porchetta (remains subject to Due Diligence)

- Revised FY15 underlying NPAT c.$50m or 36% increase on PCP[(1)]
- FY15 Gloria Jean's Group underlying EBIT c.$13.5m
  - Includes synergy and integration benefits of c.$1.7m
- FY15 underlying EPS growth c.26% (over FY14)
- FY16 Gloria Jean's Group underlying EBIT (including c.$4m programmed synergies): c.$28m

(1) Assumes Gloria Jean's Group acquisition is completed in 1H15 and excludes transaction, structuring and integration costs
(2) RFG NPAT Guidance on 28/08/2014: 15% increase on PCP. Guidance also included an additional 5% increase on PCP in circumstances where the Café2U and La Porchetta transactions settled prior to 30 October 2014. Updated Guidance of 18.5% NPAT increase over PCP incorporates Café2U acquisition but excludes La Porchetta
(3) Refer RFG media release 28 August 2014

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The Gloria Jean's Story

Gloria Jean's Group - History

From a single outlet in 1979, Gloria Jean's has transformed into an internationally recognised Brand System, and the largest Australian owned franchised specialty café and coffee business



1979
Gloria Jean's founded in Long Grove, Chicago, USA

1986
Commenced franchising

1991
Network growth 110 outlets across 26 US States

1993
Network size doubled to c.220 outlets across the US

1995
Gloria Jean's established in Australia pursuant to master franchise licence

1996
The first Australian outlet is opened in Miranda, Sydney

1999
Maranatha commences in house coffee roasting operations

2004
Acquires international rights for the World (except USA) - c.15 licenced countries and c.90 outlets (excluding Aus)

2009
Acquires master franchise rights for USA and World IP for It's A Grind

2014
Global network c.800 outlets (includes 25 It's A Grind)

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Gloria Jean's Group – Enterprise Summary

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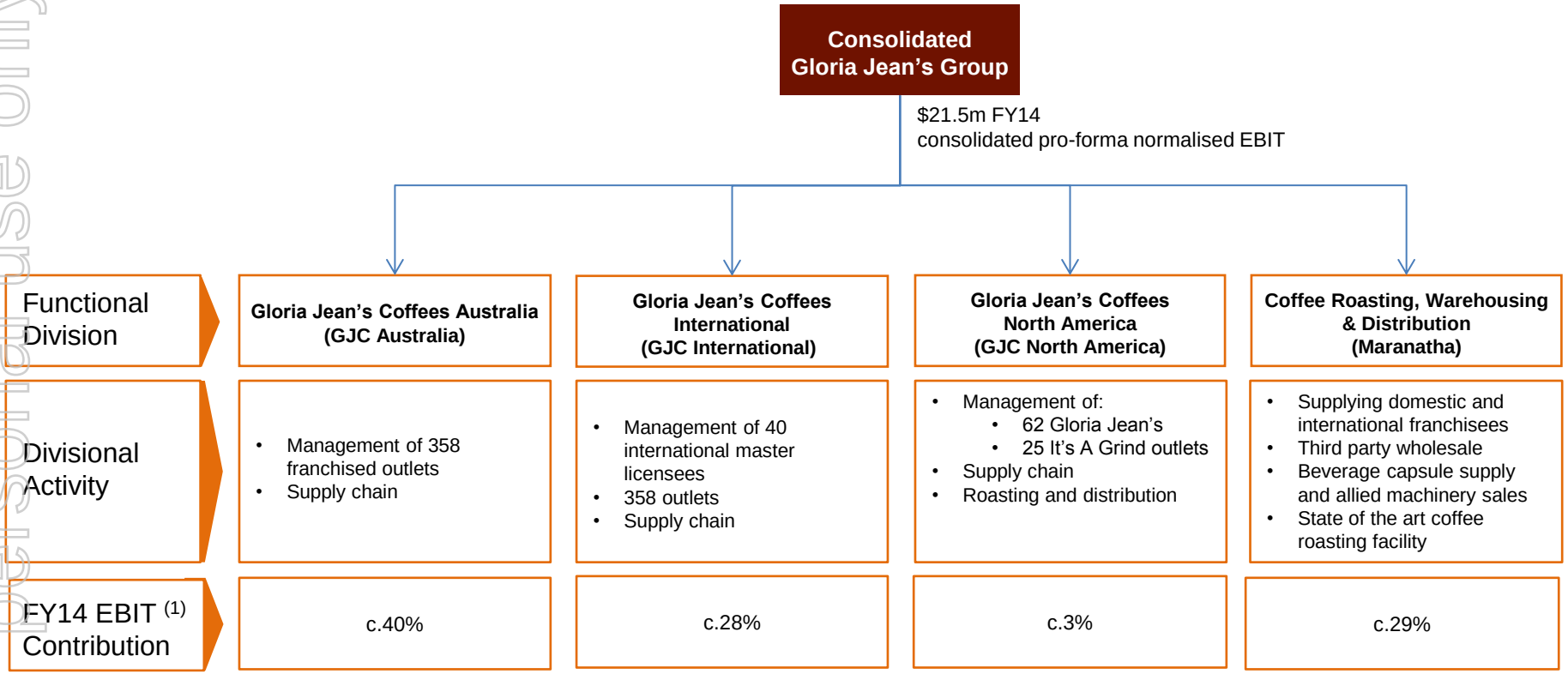

(1) Pro-forma normalised

RETAILFOODGROUP STRENGTH IN BRANDS

Gloria Jean's Group – Geographic Representation

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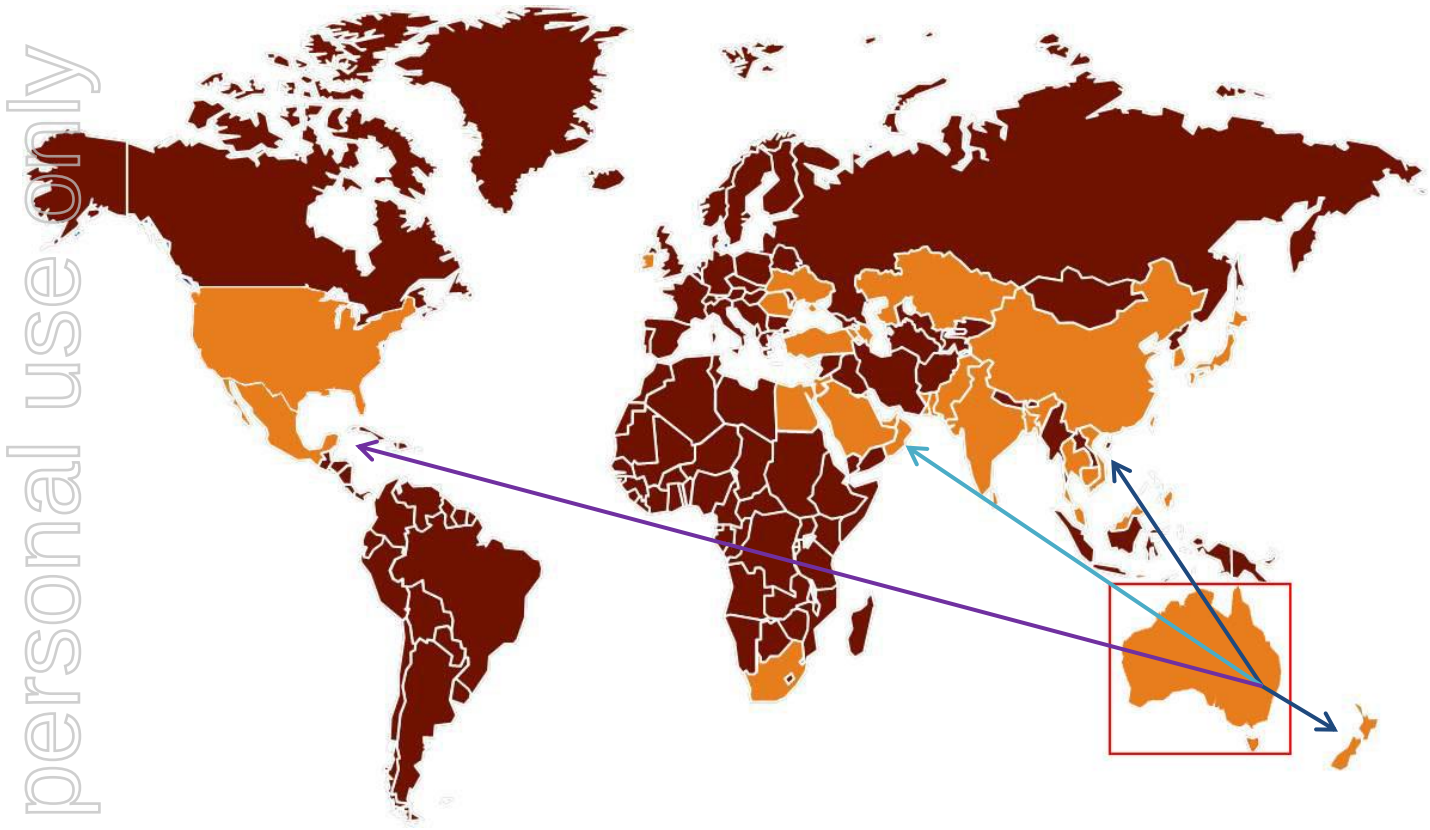

Licenced Territories	
APAC	**EMEA**
New Zealand	Saudi Arabia
China	South Africa
Fiji	Azerbaijan
Indonesia	Cyprus
Singapore	Ireland
East Timor	Kazakhstan
Malaysia	Romania
Brunei	Turkey
Cambodia	Ukraine
Japan	Bahrain
Korea	Egypt
Macau	Jordan
Philippines	Kuwait
Taiwan	Lebanon
Thailand	Oman
Vietnam	Qatar
Bangladesh	UAE
India	
Pakistan	**Americas**
Sri Lanka	Hawaii
	Mexico

- Within the last decade
  - 25 (net) master franchise territories established
  - international outlet population under master franchise regime quadrupled
- Worldwide master franchise rights and IP managed and owned in Australia
- All territories (other than Australia and North America) conducted under master franchise licence regime
- Australia and North America under direct franchisor management and comprise 445 outlets (55% of global population)

RETAILFOODGROUP STRENGTH IN BRANDS
bb's coffee
donut king
Brumbys Bakery
Michel's Patisserie
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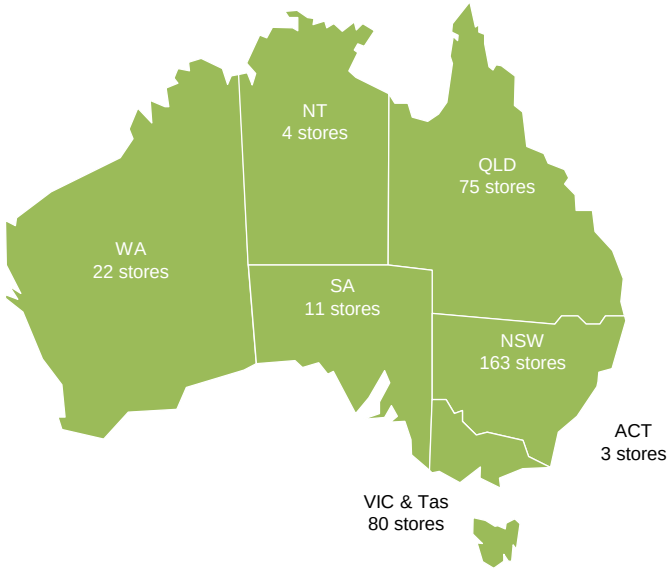
Functional Divisions

Gloria Jean's Group – GJC Australia

- Established footprint in the domestic specialist coffee shop market
  - 358 stores
  - $242.0m retail sales in FY14
  - Outlets franchised
  - c.$8.6m contribution to pro-forma normalised FY14 Group EBIT
- Diverse revenue streams
  - Franchise and development fees c.6% (excluding marketing)
  - Licence fees
  - Coffee supply
  - Allied product supply
  - Initial, training and other relevant fees
- Outlet rationalisation program substantially completed
  - Outlets peaked at c.500 in Australia
  - Commenced store consolidation and rationalisation program in 2012
  - Additional 40 potential closures provisioned
  - Outlet proliferation to be re-energised with pilot concepts
  - 2.4% average weekly sales increase over PCP

FY14 Outlet Population by Territory





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RETAILFOODGROUP STRENGTH IN BRANDS
bb's My local cafe
donut king
Brumbys Bakery
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Gloria Jean's Group - International

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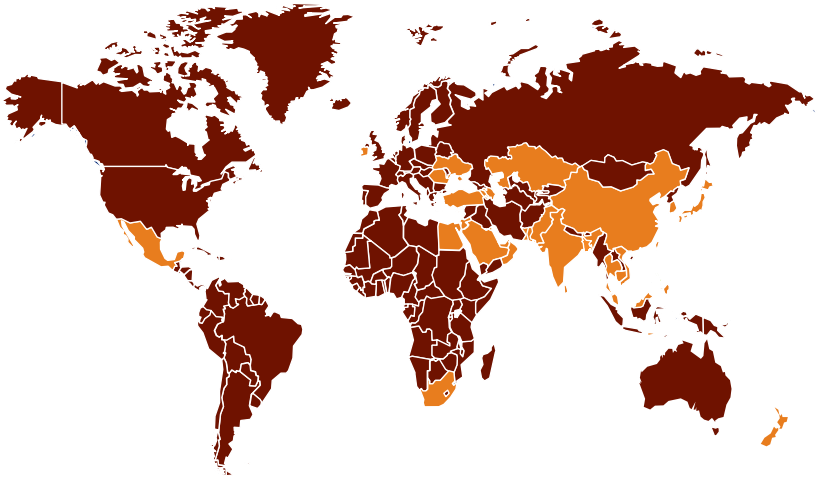
- Contributed FY14 revenue of $15.3m from 40 markets
  - EMEA (174 stores)
  - APAC (164 stores)
  - Americas (20 stores)
  - c.$6m contribution to pro-forma normalised FY14 Group EBIT
- Revenue principally comprises:
  - Initial franchise fees
  - Franchise fees
  - License fees
  - Wholesale coffee margin
- Master Franchise Partners appointed in high priority markets
- Negotiations with new international territory partners in progress

358 outlets in 40 international markets



Key: Markets with Gloria Jean's master franchise and development partners



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Gloria Jean's Group – GJC North America

- US$38m of retail sales in FY14
- Outlet population of 87
  - 62 Gloria Jean's Brand System outlets
  - 25 It's A Grind Brand System outlets
- Worldwide franchising and IP rights to It's A Grind
- Strong e-commerce platform
- Vertically integrated roasting, packaging and distribution plant
  - Production at c.20% capacity
- Diverse revenue streams
  - Franchise fees
  - Development fees
  - Licence fees
  - Coffee supply
  - Allied product supply
- Contribution to FY14 EBIT(1) c.$650k
  - Outlet rationalisation completed, restructure finalised and positioned for growth



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(1) Gloria Jean's Group pro-forma normalised

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Gloria Jean's Group – Maranatha

- Established in 1982
- Largest supplier of whole bean, ground, freeze dried coffee and capsules to Woolworths in Australia
- Drinking cocoas, teas and snack based products
- Roasts for GJC Domestic & International
- Coffee roasting facilities in Sydney and Los Angeles
- Total integration crop to cup
- Coffee throughput c.2.9m kgs including c.2.0m kgs green bean in house roasted
- c.$70m wholesale sales in FY14
- c.$6.2m contribution to FY14 EBIT (1)
- Caffitaly patented closed system capsule coffee machine (c.540,000 machines in Australia)
  - Coffee capsule market in Australia estimated at $100.0m (excluding machine sales) and growing
  - Exclusive Caffitaly distributor to Woolworths
  - Exclusive supplier to Gloria Jean's Brand System







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(1) Gloria Jean's Group pro-forma normalised

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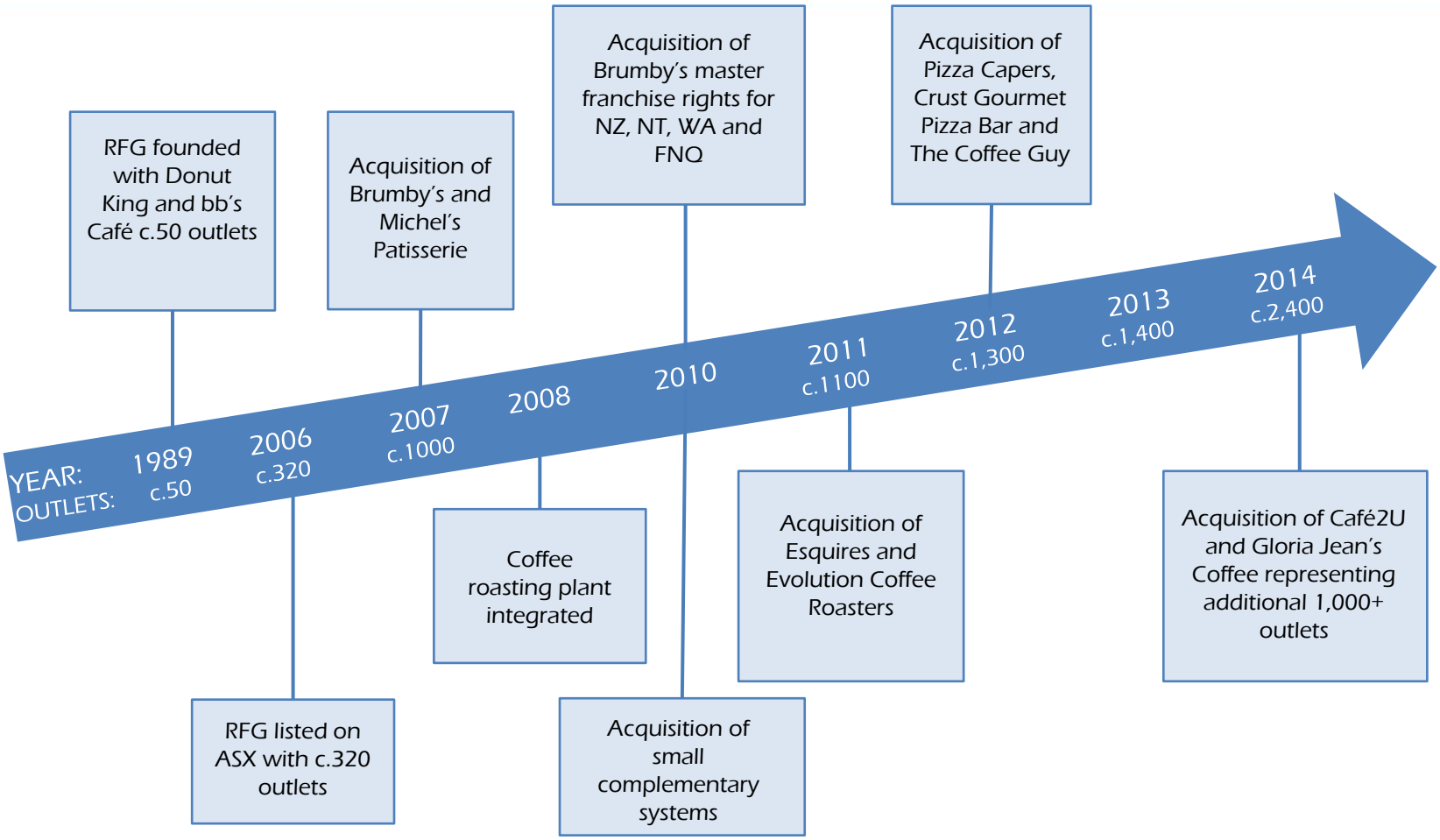
Continued Evolution of RFG

RFG – Growth by Acquisition & Scale Leverage



- Listed in 2006 with 320 outlets and two Brand Systems (Donut King and bb's Café)
- Revenue, EBIT, NPAT growth in every year since Listing
- DPS escalation from 6.25cps (2007) to 22cps (2014) a consequence of acquisition activity and outlet growth
- Performance and diverse revenue streams fortified by entry into coffee roasting, allied product manufacture and distribution

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Expanded Global Footprint

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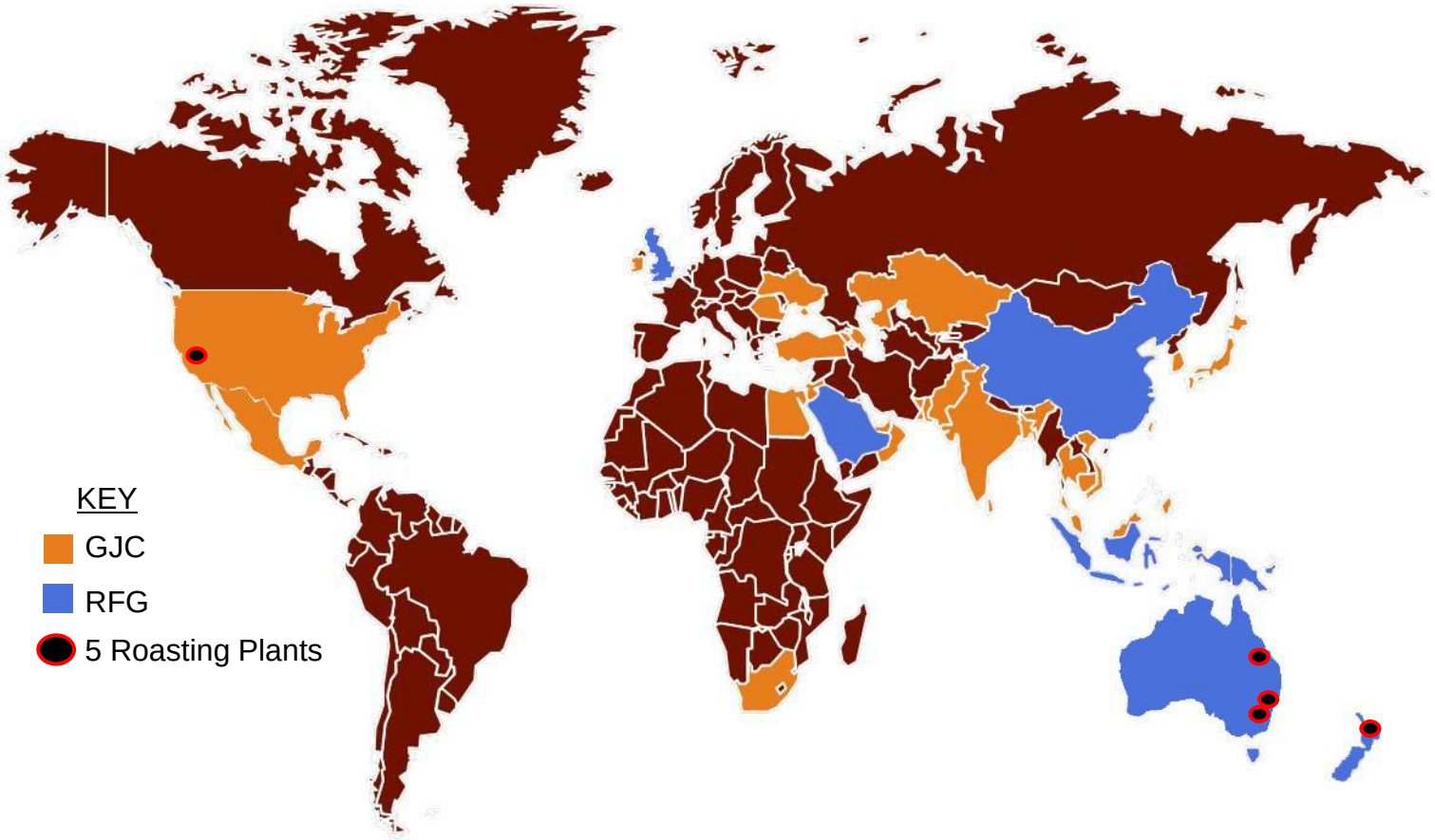

RFG's outlet population in excess of 2,400 outlets across 40 countries, now a truly global franchising business with a fully integrated coffee supply chain

Brand System Evolution

RFG: THE NEW GLOBAL FRANCHISE FORCE

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	QSR	Retail	Mobile	Specialty Beverage	Manufacturing & Supply Chain
Existing	Pizza Capers Gourmet Kitchen crust Gourmet Pizza Bar	Michel's Patisserie Esquires Coffee bb's My local cafe Brumby's Bakery Est. 1975 donut king	The Coffee Guy® cafe2u the supreme bean machine	BARISTA'S CHOICE Roasted Addiction Evil Child	evolution Coffee Roasters NZ Caffe Coffee Premium Roasted Coffee Beans RFG AU
Acquired		Gloria Jean's Coffees IT'S A GRIND Coffee House		Café Palazzo	Maranatha Import Export Maranatha LLC US

Strengthening RFG's portfolio to become one of the world's leading multi-brand coffee & food franchising groups

Long-term Benefits

Substantial long-term benefits arising from the acquisition

- Optimise Brand Systems - facilitates opportunity to consolidate and strengthen RFG business and maximise revenue outputs
- Management Strength - enhances management depth at all levels and introduces expertise in new areas
- Global Platform - positions RFG as a truly global business providing increased platforms for accelerated and sustainable growth of existing Brand Systems by entry into new markets
- Coffee - fast tracks RFG aspiration to become the region's largest integrated coffee centric business and provides beachhead into domestic wholesale distribution through the supermarket channel and "in-home" market
- Roasting Capacity **–** triples RFG's coffee roasting capacity to c.16m kg pa and increases depth in master roasting capabilities
- Logistics – delivers import/export supply chain capabilities

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Acquisition
Terms & Funding

Acquisition Terms & Funding

Purchase Price	$179.9m
	▪ initial payment $163.5m comprising
	  ▪ $153.5m cash
	  ▪ $10.0m RFG Scrip(1)
	▪ $16.4m – subject to milestone achievements and earn out(2)

Timing	Anticipated settlement December 2014

Funding	The acquisition is being funded from a combination of new debt facilities and equity raising
	
	Debt
	▪ RFG has secured new debt facility with NAB comprising
	  ▪ Senior Debt: $225.0m
	  ▪ $200.0m expiring 30 September 2017
	  ▪ $25.0m working capital facility reviewed annually
	  ▪ Bridging Facility: $28.0m expiring April 2015
	  ▪ Interest rates on all facilities of BBSW + margin(3)
	
	Equity
	▪ Placement to raise $40.0m
	▪ SPP of up to $15.0m

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(1) Pending shareholder approval at 2014 AGM. Issue price based on VWAP for 10 trading days pre- and post-transaction announcement
(2) Payable over 24 months from settlement
(3) Margin ranges from 1.4% to 2.0%

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Risks

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Commentary

There are a number of risk factors in respect to investing in Retail Food Group Limited (RFG). Various of these risk areas may be heightened due to the proposed acquisition of Gloria Jean's Group. RFG has taken all caution in identifying and hereinafter advising what some of those risk factors may be. The risk profile is not to be considered an exhaustive list, however identifies risks that RFG management do consider to be material at the time of disclosure.

There may be other risk factors which are not immediately evident that may become so in the future.

Operational Risks

Consumer Relevance

RFG's retail food systems operate in a dynamic and ever changing marketplace. RFG continually runs programs that seek to ensure brand relevance remains top of mind to its consumers. However, should RFG take a misstep in their evaluations, there is always the risk that one or more of its brands may lose relevance and equity.

Competition

RFG's brands operate in a highly competitive marketplace. RFG can control what its brands do, however, has no control over what its competitors may bring to the marketplace from time to time.

Growth Profile

Outlet proliferation is always a fundamental goal in each of RFG's brand systems. There are a number of potential risks attached to outlet proliferation. These can encompass unacceptable rent offerings, new shopping centre opportunities not being forthcoming, lack of new site availability and franchisee recruitment.

Information Technology

Given RFG's continued expansion since its 2006 ASX listing, information technology has become more and more critical in its ability to oversee and manage its ever expanding network. Should these IT systems not be kept up to date, secure and safe, system failures could have a significant negative impact on RFG's control of its business.

Store Leases

For RFG's stable of brands to continually grow and evolve it is critical that store leases and particularly, the rent profiles of same, are advantageous to store profitability. Should RFG fail in this area, this would pose a material risk to outlet population growth and profitability.

Operating Costs

Operating costs of the RFG business are considered to be at the lower end of business risks. Should RFG not maintain that risk profile and cost control discipline, there would be an adverse material affect on RFG profitability.

Supply Chain Procurement

RFG internally manages its supply chain procurement. Significant increases in costs and/or shortages in respect to availability could cause material adverse affects for both RFG and it's franchisees' profitability.

HR/Personnel Reliance

The RFG business relies on a number of key people within its organisation. RFG's profitability and growth may be limited should any of these key personnel leave in circumstances where suitably qualified replacements cannot be found.

Risks

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Operational Risks (cont'd)

RFG Growth Risks

As RFG's business model grows and evolves there is a risk that management of the business does not evolve and grow with the business. Lack of effective controls could pose a material adverse risk in respect to future growth and efficiency.

Reputational Damage

As RFG's profile increases along with that of the many brands it manages, so too does the risk of reputational damage. This damage could be brought about by adverse media attention, compromised food quality or any number of other matters brought to the attention of relevant authorities with attendant media exposure or negative consumer sentiment.

Lending Covenant Risks

As RFG is funding the acquisition of Gloria Jean's Group from a combination of cash reserves and new debt facilities, should the acquisition not perform as per RFG's models, there exists a risk that repayment capability could be affected and lending covenants breached. As a result of any breach to RFG's lending covenants there would be an adverse affect on RFG's business performance.

New Store Rollout Program May Not Meet Objectives

New store openings are an integral component of RFG's growth strategy and forecasting. There are a number of factors that affect new store openings, including project management, budgeting, liaison with lessors and developers and franchisee recruitment. A failure by any one of these parties during a planned new store opening could have adverse affect on RFG's growth and therefore, its financial performance.

Decline in Economic Activity

Uncertainty around the current economic climate has resulted in changes in consumer sentiment and spending patterns which affect the performance of retailers. Should the transaction proceed as planned, RFG will operate in several international markets, and may also be affected by economic conditions in these countries in addition to those experienced domestically. Any decline in economic conditions, consumer sentiment or purchasing behaviour, may impact RFG's business performance, and it should be noted that poor trading conditions can make growth challenging, and poses a risk to the performance of the Company.

Current and Future Funding Requirements

There are several factors affecting RFG's future performance and cash flow including changes in interest, foreign exchange rates and general economic condition. These factors in turn have an affect on RFG's ability to service its debt facilities. Any impacts or changes to RFG's existing and new debt facilities could affect the Company's future performance and ability to capitalise on future opportunities including acquisitions.

Acquisition Risks

Completion Risks

RFG is reliant upon its lending financial institution in order to complete the acquisition as and when it is contracted to do so. Failure by the nominated financier would result in the acquisition being compromised.

Risks

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Acquisition Risks (cont'd)

Integration Risks

The acquisition of Gloria Jean's Group contemplates the successful integration of a number of business units. Namely, retail franchised outlets, Maranatha roasting facility, North American franchise outlet performance, North American roasting business, and significant international master franchise territories. Each of these different areas of the business need to be integrated successfully, seamlessly and with synergies identified. Failure to facilitate the integration process in an orderly and advantageous manner would compromise integration benefits identified.

Acquisition Accounting

In accounting for the acquisition in the pro-forma combined balance sheet, RFG has performed a preliminary fair value assessment of all the assets, liabilities and contingent liabilities. RFG will undertake a fair value assessment of all the asset, liabilities, and contingent liabilities post acquisition, which may give rise to materially different fair value allocation to that end for purposes of the pro-forma financial information set out in the presentation, resulting in a reallocation of the fair value of assets.

Loss of Gloria Jean's Group Personnel

A number of key personnel have been identified as integral to the ongoing success of the Gloria Jean's Group business. Any loss of these identified personnel could result in either an elongated integration process or in the alternative, have a detrimental impact on the financial performance of the business.

Commodity Exposure

The acquisition of Gloria Jean's Group will significantly increase supply requirements, and therefore, any changes to commodity prices including products, machinery and merchandising may impact the synergistic benefits claimed and the future performance of RFG.

Foreign Country Instability

The Gloria Jean's Group including the Gloria Jean's Brand System operates in some 40 foreign countries. Some of these countries either suffer political and social instability or are in regions that suffer same. Political or social unrest in any of the countries that Gloria Jean's Group operates in would be expected to have a negative impact on the Gloria Jean's Group business in those countries, and therefore the modelled income stream for RFG.

Exchange Rates

A significant portion of Gloria Jean's Group EBIT is derived from 40 different international regions. Adverse exchange rate movements in these currencies may impact the future performance of the business.

Interest Rates

While RFG takes reasonable steps to protect itself, rising interest rates may adversely impact RFG's financial performance.

Legislative and Franchise Changes

All businesses are at risk of legislative changes that may be imposed upon a business sector. RFG has a further risk profile in respect to potential Franchising Code of Conduct changes. RFG operates predominantly in the Australian franchise marketplace, a country which is considered to have the most stringent and rapidly changing franchising regulation in the world. That said, the acquisition will heighten RFG's risk to both legislative and franchising changes in other countries.

Risks

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Acquisition Risks (cont'd)

Asset Impairment

As a consequence of the global financial crisis, ASIC has specifically identified impairment of assets as an issue for Australian companies. The RFG Board regularly monitors impairment risk, and consistent with accounting standards, RFG is periodically required to assess the carrying value of its assets. Where the value of an asset is to be less than its carrying value, RFG is obliged to recognise an impairment change in its profit and loss account. Impairment changes can be significant, and could adversely affect the business.

Manufacturing Risks

While it is true that the acquisition will fortify RFG's redundancy position in respect to its coffee roasting business, the risk of significant plant failure should not be ignored. That is, a catastrophe at one or more of its roasting plants would undoubtedly have an impact to some degree of severity in respect to both RFG's vertically integrated retail outlets and/or third party wholesale supply.

Litigation

The target acquisition is subject to a Share Purchase Agreement. This type of transaction means that any litigation risk passes to the acquirer, in this instance, RFG. Given there are c.800 franchised outlets, the risk of litigation needs to be accepted, identified and understood to be a real risk.

Taxation Risks

Future changes in taxation law, including changes in interpretation or application of the law by the courts or taxation authorities, may impact the future tax liabilities of RFG and could affect taxation treatment of an investment in RFG shares or the holding and disposal of those shares. This risk extends to the various international countries in which RFG operates.

Reliance on Information

RFG has relied largely on information provided to it by the vendor. Should any of this information not be correct, there could be a material adverse affect on the RFG acquisition outlook.

Change of Control

Change of control causes included in the leases for a number of Gloria Jean's Group outlets, and potentially other contract to which Gloria Jean's Group is a party, may be activated as a result of the acquisition. Where the change of clause is activated, landlord or counterparty consent will in most cases be required. If any such leases or material contracts are terminated or renegotiated on less favourable terms, it may have an adverse affect on RFG's financial performance.

Changes in Accounting Policy

The reported earnings of RFG and its financial position may be affected by changes in accounting standards.

Dividends

There are a range of factors that determine the payment of dividends on RFG's shares. These include the profitability of the business, its cash reserves, future capital requirements and obligations under debt facilities. RFG's Board will determine any future dividend levels based upon the Company's operating results and financial standing at the time. There is no guarantee that any dividend will be paid by RFG, or guarantee that future dividends will equal or exceed previous payments.