Retail Food Group Limited

APPENDIX 4E (Rule 4.3A)
PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019
RESULTS FOR ANNOUNCEMENT TO THE MARKET
(All comparisons to the year ended 30 June 2018)

				2019 A$'000	2018 A$'000
Revenue and other income from continuing operations	*Down*	*(13.1%)*	*to*	172,530	198,460
Revenue and other income from discontinued operations	*Up*	*0.9%*	*to*	177,240	175,573
Total revenues and other income	***Down***	***(6.5%)***	***to***	349,770	374,033
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	***Down***	***(28.9%)***	***to***	50,733	71,357
Business restructuring, impairment and provisioning expenses				(185,264)	(425,637)
Reported earnings before interest, tax, depreciation and amortisation (EBITDA)	***Up***	***62.%***	***to***	(134,531)	(354,280)
Loss from continuing operations before income tax	***Up***	***64.9%***	***to***	(116,979)	(333,739)
Loss from discontinued operations before income tax				(52,135)	(46,488)
Loss before income tax	***Up***	***55.5%***	***to***	(169,114)	(380,227)
Income tax benefit from continuing operations				17,082	74,227
Income tax benefit/(expense) from discontinued operations				2,775	(693)
Loss for the year attributable to members of the parent entity	***Up***	***51.3%***	***to***	(149,257)	(306,693)
Net Tangible Assets/(Liabilities) per security				(148.8) cents	(112.7) cents

Dividends	Amount per security
Final dividend	
- Current year	- cents
- Previous corresponding period	- cents
Total dividend (interim and final):	
- Current year	- cents
- Previous corresponding period	- cents

For an explanation of the figures reported refer to commentary on the results

Retail Food Group Limited

Annual financial report
Financial year ended - 30 June 2019

Contents

CORPORATE DIRECTORY

Directors	Mr Peter George Executive Chairman - Appointed 25 September 2018
	Mr David Grant Independent Non-Executive Director - Appointed 25 September 2018
	Ms Kerry Ryan Independent Non-Executive Director
	Ms Jessica Buchanan Independent Non-Executive Director - Resigned 1 August 2019
	Mr Stephen Lonie Independent Non-Executive Director - Resigned 25 October 2018
	Mr Russell Shields Independent Non-Executive Director - Resigned 26 October 2018
	Mr Colin Archer Chairman and Independent Non-Executive Director - Resigned 25 September 2018
Company Secretary	Mr Anthony Mark Connors LLB
Registered office & Principal place of business	1 Olympic Circuit Southport QLD 4215
Share register	Computershare Investor Services Level 1 200 Mary Street Brisbane QLD 4000
Solicitors	McCullough Robertson Lawyers Level 11, 66 Eagle Street Brisbane QLD 4000
	Herbert Smith Freehills Level 34, 161 Castlereagh Street Sydney NSW 2000
Auditors	PricewaterhouseCoopers Level 23, 480 Queen St Brisbane QLD 4000
Bankers	National Australia Bank Limited Level 20, 100 Creek Street Brisbane QLD 4000
	Westpac Banking Corporation Level 7, 260 Queen Street Brisbane QLD 4000
Stock exchange listings	Retail Food Group Limited (ASX: RFG) shares are listed on the Australian Securities Exchange
Website Address	www.rfg.com.au

DIRECTORS' REPORT

The Directors of Retail Food Group Limited (referred to hereafter as the Company) submit herewith the Annual Report of the Company for the financial year ended 30 June 2019 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 on 25 September 2018. Mr George has had a successful 30-year career as a senior executive and non-executive Director, including extensive professional experience of corporate turnarounds. Mr George was recruited to the Board as a turnaround specialist and has previously led the restructuring and merger of PMP Limited as Managing Director from 2012-2017 and was Executive Chairman of Nylex Limited from 2004-2008. He was also a non-executive Director and Chair of the Audit and Risk Committee of Asciano Limited from 2007 – 2016, and non-executive Director of Optus Communications from 1994 - 1998.
Mr David Grant	Independent Non-Executive Director, Bachelor of Commerce (Accounting, Finance & Systems), Graduate of the Australian Institute of Company Directors, Chartered Accountants Australia & New Zealand. Mr Grant joined the Board of RFG on 25 September 2018. Mr Grant is an experienced public company director with a broad financial and commercial resume. He is currently a director of Event Hospitality and Entertainment Limited and Murray Goulburn Cooperative Limited (including its associated listed unit trust). Former directorships include iiNet Limited and Consolidated Rutile Limited. 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. Ms Ryan joined the Board on 27 August 2015. Ms Ryan's professional background is in commercial law with extensive experience across international markets in the retail and franchise areas. She is currently a Director of the Richmond Football Club and its health and leisure business Aligned Leisure. Ms Ryan is a Fellow of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.
Ms Jessica Buchanan	Independent Non-Executive Director. Ms Buchanan resigned from the Board on 1 August 2019. Ms Buchanan joined the Board on 29 May 2012. Ms Buchanan has circa 20 years' experience in branding, marketing and advertising, having commenced her career in the advertising industry and working with a number of leading multi-national agencies. Ms Buchanan also managed campaigns for various blue chip companies including Ericsson, Tabcorp, Du Pont and Cadbury Schweppes. Ms Buchanan then went on to become Brand Director at Boost Juice, helping that business grow from 20 to 120 outlets. Subsequently, Ms Buchanan established and then sold a brand agency and digital research business that worked predominantly with retail and franchised groups, including Woolworths, Cotton On Group and Katies, Ms Buchanan currently sits on the advisory boards of Narellan Pools (a franchised business) and YomConnect (a Digital Agency), and is a former non-executive director of bakery franchisor Banjo's Bakehouse.
Mr Stephen Lonie	Independent Non-Executive Director, Bachelor of Commerce, MBA, FCA, FFin, FAICD, FIMCA. Mr Lonie resigned from the Board on 25 October 2018. Mr Lonie joined the Board on 24 June 2013. Mr Lonie is a Chartered Accountant by profession and Director of listed corporations, MyState Limited, Corporate Travel Management Limited and Apollo Tourism & Leisure Limited.
Mr Russell Shields	Independent Non-Executive Director, Fellow of The Australian Institute of Company Directors, Director of Eclipx and Aquis Entertainment. Mr Shields resigned from the Board on 26 October 2018. Mr Shields joined the Board on 18 December 2015. Mr Shields is an experienced banker with extensive knowledge of retail, corporate, institutional and investment banking both in Australia and Asia. Mr Shields has in excess of 35 years' experience in the finance, economics and property industries.
Mr Colin Archer	Independent Non-Executive Director and Chairman, Bachelor of Economics, Dip. Financial Planning, Chartered Accountant. Mr Archer resigned from the Board on 25 September 2018. Mr Archer joined the Board on 12 April 2006 and was appointed Chairman of the Board on 30 April 2013.

Directorships of other listed companies

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

Name	Company	Period of Directorship
Mr Peter George	PMP Limited (now called Ovato Limited)	19 December 2012 to 30 November 2017
	Asciano Limited	12 April 2007 to 18 August 2016
Mr David Grant	Event Hospitality and Entertainment Limited	25 July 2013 to present
	MG Unit Trust (listed special purpose funding vehicle for the Murray Goulburn Cooperative Limited)	27 October 2017 to present
Mr Stephen Lonie	Corporate Travel Management Limited	23 June 2010 to present
	MyState Limited	12 December 2011 to present
	Apollo Tourism & Leisure Limited	20 September 2016 to present
Mr Russell Shields	Eclipx Group Limited	24 March 2015 to present
	Aquis Entertainment Limited	7 August 2015 to present

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	Nil
Mr David Grant	Nil
Ms Kerry Ryan	10,000

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 and subsequent to the end of the financial year there were no performance rights granted to 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, 23 Board meetings, 7 Audit and Risk Management Committee meetings, 2 Remuneration Committee meetings and 4 Nominations Committee meetings were held.

Directors	Board of Directors		Audit Committee		Remuneration Committee		Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Peter George	19	19	4	3	1	1	1	1
Mr David Grant	19	18	4	4	1	1	1	1
Ms Kerry Ryan	23	23	7	6	1	1	1	1
Ms Jessica Buchanan	23	22	4	4	2	2	4	4
Mr Stephen Lonie	8	7	3	2	1	-	3	2
Mr Russell Shields	8	7	3	3	-	-	1	1
Mr Colin Archer	4	4	3	3	1	1	2	2

DIRECTORS' REPORT

Company Secretary

The Company Secretary is Mr Anthony Mark Connors. Mr Connors was appointed as Company Secretary on 26 April 2006, having prior to that time and until 2 June 2015 acted as the Company's Legal Counsel. Mr Connors also held the role of Chief Operating Officer, from 2 June 2015 to 9 March 2016 until he was appointed to the role of Director of Corporate Services on 10 March 2016.

Corporate governance

The Company recognises the importance of good corporate governance both to RFG shareholders and also to the broader stakeholder community including franchisees, regulators and consumers. The Company's practice is to publish its Corporate Governance Statement via its website at www.rfg.com.au. The Company expects to update its website disclosure prior to 30 September 2019.

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 management of the Donut King, bb's café, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffees and It's A Grind Brand Systems throughout the world, whether directly managed and/or as licensor for all Brand Systems;
- Development and management of the coffee roasting facilities and the wholesale supply of coffee and allied products to the existing Brand Systems and third-party customers under the Di Bella Coffee brand; and
- Development and management of procurement, warehousing, manufacturing and distribution businesses under the Hudson Pacific Food Service, Dairy Country, Bakery Fresh and Associated Food Service brands.

  The manufacturing and distribution activities have been classified as discontinued operations in this financial report on the basis the underlying businesses are deemed non-core to the Group and are expected to be disposed of within twelve months.

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. Income Statement amounts, presented on an underlying basis such as Underlying NPAT, are non-IFRS financial measures, and exclude the impact of these items consistent with the manner in which senior management reviews the financial and operating performance of the business. Each underlying measure disclosed has been adjusted to remove the impact of these items on a consistent basis. A reconciliation and description of the items that contribute to the difference between statutory performance and underlying performance is provided in the Group Operational Review within this report.

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

Important Information (continued)

FY 2019 Results

The following table summarises the Group's results for the financial years ended 30 June 2019 and 30 June 2018:

Item	FY19	FY18	Change
Revenue (including discontinued operations)	$349.8m	$374.0m	($24.2m)
NPAT	($149.3m)	($306.7m)	$157.4m
NPAT (Underlying)(1)	$15.4m	$33.3m	($17.9m)
EBITDA	($134.5m)	($354.3m)	$219.8m
EBITDA (Underlying)(1)	$50.7m	$71.4m	($20.7m)
EPS	(81.7 cps)	(169.5 cps)	87.8 cps
EPS (Underlying)(1)	8.4 cps	18.4 cps	(10.0 cps)

(1) These amounts are not subject to audit.

Board and Senior Management Renewal

Significant Board and Senior Management renewal has occurred during the year. On 25 September 2018 former Chairman Mr Colin Archer resigned with existing Director Mr Stephen Lonie succeeding Mr Archer as Chairman. Also on this date the Company appointed new Directors Mr Peter George and Mr David Grant with Mr Grant assuming the chairmanship of the Audit and Risk Management Committee. Subsequently, on 25 October 2018 and 26 October 2018 respectively, Mr Stephen Lonie, and Mr Russell Shields resigned with Mr Peter George succeeding Mr Lonie as Chairman.

In light of the critical funding and operational challenges facing the Company the Board appointed Mr George to the position of Executive Chairman on 7 November 2018. As noted in the Company's stock exchange announcement in relation to this appointment, Mr George has substantial experience in corporate turnaround circumstances. Richard Hinson resigned as Group Chief Executive Officer on 3rd December 2018 with Mr George assuming all Chief Executive functions.

Concurrent with Ms Jessica Buchanan's duties as a Non-Executive Director of RFG, she has also provided consulting services to RFG regarding strategic product and marketing initiatives, areas where she has substantial expertise. Subsequent to the close of the 2019 financial year, on 1 August 2019, Ms Buchanan resigned as Director of the Company in order to focus her contribution on the delivery and execution phases of these strategic initiatives through a dedicated consulting role.

Group Priorities

As flagged at the Company's 2018 AGM, business improvement at RFG will be driven by the successful implementation of a Six Point Plan that focuses on business stabilisation, debt reduction and operational improvement. This six point plan comprises:

(1) Re-focusing the Group on its core retail food franchise and coffee supply operations, and divesting or discontinuing non-core business units;

(2) Strengthening the Company's balance sheet to improve financial stability;

(3) 'Right sizing' shared services resourcing, aligning resources closer to customers/franchisees, and implementing initiatives to consolidate supply chains for a more agile and efficient business;

(4) Improving the health of the domestic franchise network through ongoing implementation of strategic initiatives, including a focus on product innovation, quality and marketing;

(5) Leveraging Di Bella Coffee's competencies to profitably service the external coffee customer base, while continuing to support RFG's franchise partners; and

(6) Driving growth in RFG's franchise business by leveraging a healthy network as a platform for new store sales and increased renewals, and capitalising on targeted international expansion opportunities, particularly in Asia.

Operational Progress

The turnaround of RFG is still in its early stages and there remains much work to do. The well-publicised funding imperative, coupled with the heightened political and regulatory scrutiny and media attention, have given rise to reputational challenges and consequential impacts on trading performance. All divisions have experienced headwinds in terms of sales, debtor collections, and trade credit availability. Whilst the Group's trading results will remain subdued until the full impact of restructuring, cost and debt reduction initiatives are completed, there has been significant areas of progress. In particular we have:

- Commenced a revitalisation of the franchise product offerings complemented by innovative marketing initiatives through both traditional and social media channels;
- Reviewed pricing of key ingredients to enhance franchisee profitability;
- Facilitated reduced franchisee lease costs through renegotiation with landlords;
- Rationalised unprofitable stores;

Operational Progress (continued)

- Eliminated significant areas of overhead and administration in order to redirect resources to franchise support and dramatically reduce corporate costs; and
- Taken steps to sell or discontinue non-core activities in the Manufacturing & Distribution segment which have to date represented both a financial impost and have diluted Management's focus on core business activities.

Debt and Financial Position

Whilst the underlying core business of RFG remains profitable and cash positive, it is currently insufficient to sustain the levels of debt held under the Group's Senior Debt facilities. The Group received waivers during the year for financial covenant testing as at 31 December 2018 and in March 2019 renegotiated the financial covenants for the balance of the facility term to 31 October 2019. In advance of this maturity date, the Board is exploring a number of options to reduce and/or restructure its funding arrangements. These options include asset sales and alternative debt and/or equity proposals. Further discussion on funding options appears under the heading of Going Concern within this Report.

During FY19, the Company had progressed a potential sale process for the Donut King and QSR Division Brand Systems. Negotiations with the potential buyer were terminated in April 2019, as a formal binding agreement could not be reached on terms which the Board considered were in the best interests of the Company as a whole. However, the Company remains engaged in asset sale activities for the Dairy Country manufacturing business and Hudson Pacific/Associated Food Services distribution businesses which have been identified as non-core.

More recently, the Company announced on 9 July 2019 that it has received an indicative non-binding proposal from Soliton Capital Partners, an investment fund associated with SSG Capital Management, to provide approximately $160 million to recapitalise the Company. The indicative proposal remains subject to a number of conditions precedent, including the completion of detailed due diligence, and there is no guarantee that any formal agreement will be reached. RFG has granted Soliton Capital Partners limited exclusivity while discussions continue and further due diligence is being undertaken. Any formal recapitalisation proposal which might be concluded is expected to include debt and equity/equity-linked components, and may be dilutive to existing shareholders.

Importantly, in addition to any debt reduction/recapitalisation transaction, the Board and management remain focussed on improving the underlying operational health of the business as previously outlined which, in turn, will serve to maximise financing optionality.

Discontinued Business

As at 30 June 2019, the entire Manufacturing and Distribution Division was classified as Discontinued Operations, as the Board has resolved this division is not a core operation of the Group and will dispose of its constituent businesses. The remaining goodwill recognised on acquisition of this division totalling $18.3m has accordingly been written down to nil in FY19.

Impairment and Restructuring

The Company recorded a total impairment and provisioning charge for the full year of $150.3m. This represents a second half charge of $26.6m, primarily driven by the Board's decision regarding the Manufacturing and Distribution Division discussed above.

The majority of the full year charge comprises write down of intangible assets (brand systems and goodwill) totalling $98.7m with the balance comprised primarily of provisioning for onerous leases, vendor finance and other receivables and also the write down of systems and assets at both the brand and corporate level.

Restructuring costs for the year totalled $35.2m. This primarily comprised salary and associated costs of functions and roles identified as redundant together with the one off payments associated with their termination, consultants and certain business closure costs.

Contingent Liabilities

The Group is the subject of a number of possible class action claims and regulatory investigations which are referred to below. Provisions for costs incurred but unpaid as at balance date have been raised where indicated in line with the principles outlined in the provisions accounting policy included in Note 35 to the financial statements.

Possible Class Actions

The legal firm, Corrs Chambers Westgarth has announced that it is exploring a potential class action against RFG and related parties by current and former Michel's Patisserie franchisees. In addition to the risk of a franchisee class action, one legal firm, Phi Finney McDonald, continues to advertise a potential shareholder class action claim against RFG.

No franchisee or shareholder class action claim has been lodged against the Group, nor has a plaintiff law firm contacted the Group in relation to the threatened class actions.

It is currently not possible to determine whether the threatened actions will result in legal proceedings and what the financial impact of them, if any, may be for the Group in the future. In the event legal proceedings are initiated, the Group intends to defend its position.

Contingent Liabilities (continued)

ACCC and ASIC Investigations

The Australian Competition and Consumer Commission (ACCC) has issued notices (Notices) to the Company under section 155 of the Competition and Consumer Act (CCA), in which it has requested that RFG provide documents and information in connection with the ACCC's investigation of conduct it considers may possibly contravene the Australian Consumer Law in relation to RFG's franchise businesses and operations. The Group has fully co-operated with the ACCC in respect of the requests for information and documents outlined in the Notices.

The Australian Securities and Investments Commission (ASIC) has also issued notices (ASIC Notices) to the Company under Section 30 of the Corporations Act 2001, in which ASIC has requested that RFG produce books, records and documentation in connection with their investigation of possible contraventions of the Corporations Act 2001 prior to 25 September 2018. The Group has fully co-operated, and continues to fully co-operate, with ASIC in respect of the request for records and information outlined in the ASIC Notices.

It is currently not possible to determine whether the investigations by the ACCC will result in legal proceedings being brought against the Group or its directors and officers, and what the financial impact of such proceedings, if any, may be for the Group in the future. However, if the ACCC bring proceedings against the Group or its directors and officers in regard to the possible contraventions raised in the Notices, this could result in the imposition of potentially significant civil penalties if the ACCC is successful. Additionally, the ACCC could seek compensatory orders on behalf of franchisees or former franchisees. In the event legal proceedings are initiated, the Group intends to defend its position.

If ASIC brings proceedings against the Group or its directors and officers in regard to the possible contraventions raised in the ASIC Notices, this could result in the imposition of penalties for the Group and its directors and officers, if ASIC is successful. In the event legal proceedings are initiated, the Group intends to defend its position. The Group has provided for all legal costs incurred to balance date in responding to and dealing with all the matters referred to above.

Going Concern

These financial statements have been prepared on the basis that RFG is a going concern and therefore able to realise assets in the ordinary course of business and settle liabilities as and when they are due. During the year ended 30 June 2019, the Group incurred a loss before income tax from continuing operations of $117.0 million, and a total loss after income tax of $149.3 million.

The Group has a net current liability position of $255.6 million at balance date and a net liability position of $15.7 million. The Group generated a negative cash-flow from operating activities of $8.5 million and a positive Underlying EBITDA of $50.7 million.

As referred to in Note 19 of the Financial Statements, the Group's secured syndicated loans totalling $262.8 million are classified as current liabilities at the balance date with a repayment date for the syndicated loans being 31 October 2019.

The operating results for the year ended 30 June 2019 have included further impairment losses and restructuring costs totalling $185.5 million, as the Board and management of the Group have accelerated their strategy of transforming the activities of the business, including closing unprofitable franchise stores and commercial operations, rationalising centralised functions, staff redundancies and continuing with an asset sale program.

The sale of the Group's Donut King and QSR Division Brand System assets and operations announced in the financial report for the half-year ended 31 December 2018 did not proceed. Negotiations were terminated in April 2019 as a binding agreement could not be reached on terms which the Board considered were in the best interests of the Company as a whole.

In 2H19 the Board resolved that the Manufacturing and Distribution Division was not a core operation of the Group and will dispose of the businesses within this division. The Group is presently engaged in asset sale activities for the Dairy Country manufacturing business, and Hudson Pacific/Associated Food Services distribution businesses respectively.

Negotiations with interested parties are ongoing, however no binding agreements have been reached for sale of these businesses at the date of this Director's Report as noted above. The Bakery Fresh operations within the Manufacturing and Distribution division were closed during the year, with final operations ceasing in May 2019.

As part of the ongoing dialogue with the syndicated debt lenders, the Group reached an agreement with the financiers to renegotiate its financial covenants associated with the senior debt facilities and received a waiver with respect to a potential Review Event actionable after 28 February 2019. The Operating Leverage ratio and Interest Cover ratio financial covenants were also reset for the period ending 31 March 2019 and for the balance of the facility term to 31 October 2019, being the scheduled date for the total repayment of the syndicated facility debt totalling $262.8 million.

The Board and management in conjunction with the Group's advisors have been actively pursuing options to secure the financing arrangements of the Group for the future, and are confident that one or more of the financing alternatives outlined below will be successfully executed over the coming months to extend, replace and or supplement the Company's current financing arrangements:

- The Group has requested an extension for the repayment of the current syndicated debt facility of $262.8 million beyond its current maturity date of 31 October 2019. At the date of this report, the extension is under consideration by the lenders.

Going Concern (continued)

- The Group is continuing to investigate ways to maximise cash-flow for the business, including targeted asset sales. Completion of the disposal of the Manufacturing and Distribution Division is expected to realise cash proceeds that will be used in full to pay down a portion of the external borrowings. At the date of this report it is expected that a binding sale agreement will be achieved in the first half of the FY20 year.
- The Group is well advanced in executing on one of the following options to raise up to $160m in funds to pay down a significant portion of the existing syndicated debt facility:
    - the provision of a debt and convertible note financing package with Soliton Capital Partners (Soliton); or
    - a new equity raising.
- The Group will also seek to agree a new financing facility for the residual debt with the existing syndicated debt lenders as part of a comprehensive funding program, in conjunction with the Soliton proposal or the new equity raising, or other potential financing.

The continuing viability of the Group and its ability to continue as a going concern is dependent upon the Group maintaining the support of the syndicated lenders, including managing the covenants and the terms of the facility in the immediate term. In addition, prior to the expiry of the existing syndicated debt facilities on 31 October 2019, the Group will need to secure an extension of the facilities, or sufficient levels of alternative or new funding from the financing options the Group is pursuing to replace the current lending facility on terms and conditions that secure its financing viability for the foreseeable future.

As a result of the matters referred to above, and the potential legal actions referred to in the contingent liabilities section, there are material uncertainties that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. However, the Directors, after taking into account all relevant factors, have concluded that there are reasonable grounds to believe both that the syndicate debt lenders will continue to support the Group over the next twelve months, and that the Group will be successful in securing a comprehensive financing structure acceptable to the syndicate debt lenders that will ensure that the Group will remain a going concern for at least the next twelve months from the date of this Report.

Accordingly, the Directors have prepared the financial report on a going concern basis. As a consequence, no further adjustments have been made to the financial report relating to the recoverability and classification of the assets carrying amounts or the amounts and classifications of liabilities that might be necessary should the Group not continue as a going concern.

Group Operational Review

Underlying EBITDA, underlying EBIT and underlying NPAT discussed in this financial report includes continuing and discontinued operations. Statutory revenue from continuing operations for FY19 was $172.5 million, representing a decrease of $25.9 million on the prior corresponding period (PCP).

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

- A $6.1 million decrease in Brand System segment revenues:
    - o A $29.9 million decrease in underlying Brand System segment revenues, consistent with the reduction in stores under the planned store closure program compared to PCP; offset by
    - o A $23.8 million increase in revenues from the first-time adoption of AASB 15;
- A $17.9 million decrease in Di Bella Coffee revenue, primarily attributable to exit of the capsule business in FY18 and the loss of key customers in the competitive contract roasting sector.

Underlying EBITDA of $50.7 million reduced by $20.7 million on PCP, further discussed in the Operating Segment review following. This includes $6.7 million attributable to the first-time adoption of AASB 15, and $2.1 million from the Manufacturing and Distribution Division classified as discontinued operations. Excluding the increased earnings from first-time adoption of AASB 15, underlying EBITDA was $44.0 million, which was within guidance range previously provided by the Company.

The reported EBITDA loss of $134.5 million and reported NPAT loss of $149.3 million was primarily attributable to the $185.5 million provisioning, impairment and restructuring costs as discussed previously. FY19 underlying EBITDA of $50.7 million and Underlying NPAT of $15.4 million excludes $35.2 million in restructuring costs, $3.0 million amortisation of acquired intangible assets and depreciation of closed operations, and $3.0 million of finance costs arising from the reduction in tenor on debt facilities to October 2019.

Cash outflows from operating activities for FY19 were $8.5 million (FY18: $12.9 million, cash inflow), with the decrease in net operating cash outflow largely attributable to the increase in finance costs of $8.3 million, and increased cash out flows from suppliers imposed significantly reduced payment credit terms in FY19 as previously discussed.

Divisional Operating Review

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

- Bakery/Café Division (incorporating Michel's Patisserie, Donut King, and Brumby's Bakery Brand Systems);
- QSR Division (incorporating Crust Gourmet Pizza and Pizza Capers Brand Systems);

Divisional Operating Review (continued)

- Coffee Retail Division (incorporating Gloria Jean's, Esquires, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating Wholesale Coffee operations); and
- Manufacturing & Distribution Division (incorporating manufacturing and distribution operations).

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

Franchise Operations

Underlying Franchise Operations EBITDA for FY19 was $48.4 million, representing a decline of $4.9 million on PCP.

Operationally, weighted Same Store Sales (SSS) were down 2.4% on PCP, impacted by the performance of those Brand Systems with significant shopping centre exposure, more pronounced within the Gloria Jean's and Michel's Patisserie networks. The prevailing negative sentiment surrounding the franchise industry and RFG, also contributing to the decline in SSS reported. SSS metrics for FY19 exclude the contribution from stores closed pursuant to the 2018 domestic outlet network review.

FY19 outlet closures comprised 130 domestic traditional outlets, and 43 mobile vans, consistent with the domestic outlet network closure program. 8 new outlets were established domestically during the year.

The Group continues to progress the closure of outlets identified in the July 2018 domestic outlet network review, with no material change to the number of closures to 30 June 2019. RFG has sought and continues seeking to renegotiate improved rental outcomes for franchise partners, where possible, to minimise closures, and continues to work constructively with impacted stakeholders. $8.6 million in gross rental reductions across remaining lease terms have been secured for franchise partners at date of this Report, with negotiations continuing. $11.2 million in rental relief and other forms of franchisee assistance has also been provided in FY19.

A renewed focus on product innovation and brand marketing in RFG's franchise systems is targeted at delivering better outcomes for franchise partners and making Brand Systems more attractive to potential new franchise partners.

Franchise operations - International

During FY19, the Group granted 6 new international master licenses, with prevailing negative sentiment surrounding the franchise industry and RFG limiting new master licence candidate interest.

In FY19 there were 42 new outlets established, offset by 171 outlet and 38 mobile van closures reported by master franchise partners across 87 international territories licensed by the Group.

Di Bella Coffee

Underlying Di Bella Coffee Operations EBITDA for FY19 was $3.5 million, representing a decrease of $4.6 million on PCP. The decrease in EBITDA on PCP was primarily due to a $3.7 million loss attributable to the loss of key customers in the independent contract roasting sector, particularly in Victoria. Decreased earnings on international roasting operations, the exit of the capsule business, and increased overhead costs contributed to the remaining decrease in EBITDA on PCP.

Management will focus on leveraging Di Bella Coffee's competencies to profitably service the external coffee customer base, while continuing to support RFG's franchise partners.

Manufacturing & Distribution

As at 30 June 2019, the entire Manufacturing and Distribution Division is classified as *Discontinued Operations*, as the Board has resolved this division is not a core operation of the Group and will dispose of its constituent businesses. The goodwill recognised on acquisition of this division has accordingly been written down to nil in FY19.

Underlying Manufacturing & Distribution Division EBITDA for FY19 was a loss of $1.2 million, representing a decrease of $11.2 million on PCP. The decrease in Underlying EBITDA on PCP is comprised of Hudson Pacific/Associated Food Services distribution ($7.0 million), Dairy Country ($2.7 million), and Bakery Fresh ($1.5 million).

The Hudson Pacific (HPC) and Associated Food Services (AFS) distribution businesses incurred underlying EBITDA losses of $4.7 million for FY19, due to service reliability being negatively impacted due to periodic out of stock issues as suppliers imposed significantly reduced payment credit terms on inventory purchases, and operational issues that have impacted the distribution business subsequent to the 2H18 integration of AFS into the HPC facilities. These issues have resulted in a loss of customers and reduction in FY19 sales revenue of $29.1 million and increased operating costs on PCP. Remedial restructuring activity including management renewal was commenced in FY19 to rectify the operational issues and reduce the cost base of the business as the Group's ongoing restructuring activity is undertaken.

The Dairy Country business increased revenues by $31.2 million on PCP on a 45.8% increase in processing volumes, however, reduced margin and additional overhead costs contributed to a $2.7 million reduction in underlying EBITDA versus PCP. Dairy Country continues to tender for additional production volumes with existing and new customers to drive enhanced economic returns from RFG's investment in a second processing facility.

As foreshadowed in the 1H19 interim financial report, the loss-making Bakery Fresh wholesale bakery business was subsequently closed in May 2019, with its results excluded from the underlying performance assessment of the Group. Excluding Bakery Fresh from FY19 underlying earnings resulted in a $1.5 million reduction in underlying EBITDA versus PCP.

Subsequent Events

Subsequent to year end, the Australian Securities and Investments Commission (ASIC) issued a notice (ASIC Notice) to RFG under Section 30 of the Corporations Act 2001, in which ASIC has requested that RFG produce books, records and documentation in connection with their investigation of possible contraventions of the Corporations Act 2001 prior to 25 September 2018. The Group has fully co-operated, and continues to fully co-operate, with ASIC in respect of the request for records and information outlined in the ASIC Notice.

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 final dividend will be declared or paid in FY19.

Environmental regulations

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

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

Indemnification of Officers and Auditors

During the financial year, the Company entered into a contract insuring the Directors of the Company, the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as a Director, Secretary or executive officer to the extent permitted by the *Corporations Act 2001*. 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*, 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 34 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, 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*.

The Directors are of the opinion that the services, as disclosed in Note 34 to the financial statements, do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

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

Auditor's independence declaration

The auditor's independence declaration is included on page 21 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.

Remuneration report

The Directors present the Retail Food Group Limited 2019 remuneration report, outlining key aspects of the Company's remuneration policy and framework, and remuneration awarded this during FY19.

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and its senior executive management (together KMP) for the financial year ended 30 June 2019.

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

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

1. Key Management Personnel

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

Executive and Non-executive Directors	Position
Mr Peter George	Executive Chairman - Appointed 25 September 2018
Mr David Grant	Independent Non-Executive Director - Appointed 25 September 2018
Ms Kerry Ryan	Independent Non-Executive Director
Ms Jessica Buchanan	Independent Non-Executive Director - Resigned 1 August 2019
Mr Stephen Lonie	Independent Non-Executive Director - Resigned 25 October 2018
Mr Russell Shields	Independent Non-Executive Director - Resigned 26 October 2018
Mr Colin Archer	Chairman and Independent Non-Executive Director - Resigned 25 September 2018

Senior executive management	Position
Mr Peter McGettigan	Chief Financial Officer
Mr Anthony Mark Connors	Company Secretary, Director Corporate Services
Mr Richard Hinson	Group Chief Executive Officer - Resigned 3 December 2018
Mr Darren Dench	Chief Executive Officer - Di Bella Coffee - Resigned 14 December 2018
Mr Michael Gilbert	Chief Executive - International - Resigned 13 June 2018

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

Remuneration Policy

Overview

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

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

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

Review of remuneration policy and strategy

During the 2019 financial year the Board has reassessed the Group's remuneration policy in light of the Group's current financial performance and the implementation of a turnaround process to stabilise the business during the year.

In light of these factors the Board resolved to suspend any short term and long incentive plans previously put in place and undertake a further review of the remuneration policy once the business has been stabilised from both an operational and funding perspective.

Executive Directors and Senior Executive Management

Remuneration packages in prior years included a mix of fixed and variable compensation, including short-term and long-term performance-based incentives. For executive directors and senior executive management (executives) the mix of these components was based on the role the individual performed.

DIRECTORS' REPORT

Remuneration report (continued)

Remuneration Policy (continued)

During 2019, the Board resolved to suspend all variable compensation arrangements for executives until further notice.

While variable compensation has been suspended, the Group provides certain minor non-cash benefits to its executives and contributes to a post-employment superannuation plan on their behalf, in accordance with its statutory obligations.

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

In 2018 and prior years compensation included both short-term and long-term incentives linked to performance.

The short-term incentive (STI) was an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) was provided as performance rights which could convert to ordinary shares of the Company on vesting under the rules of the Company's Performance Rights Plan. In respect of the Performance Rights previously granted, there were performance criteria required to be achieved for the Performance Rights to vest.

Short-term Incentive Bonus

There have been no short-term incentive bonuses awarded or paid in respect of the 2019 financial year.

Long-term Incentive Bonus

Original Performance Rights Plan

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

Under this plan, Performance Rights were granted to certain executives on 14 July 2016 with respect to the FY16, FY17, FY18 and FY19 performance periods. In August 2018, the Directors determined that performance conditions had not been met for the FY16, FY17 and FY18 rights performance periods, and accordingly no performance rights were eligible for vesting 1 July 2018 vested.

Executives with Performance Rights with respect to the FY19 performance period elected to forfeit those rights in the FY19 year.

Replacement Rights Plan

In 2018, the Directors approved a replacement Rights Plan (Replacement Plan) in connection with future long-term incentive remuneration.

Performance Rights with respect of FY18 and FY19 long term incentive remuneration were not granted and the plan has been suspended by the Directors until further notice.

Executive Share Option Plan

There are no options issued under the Group's Executive Shave Option Plan during the year to and as at 30 June 2019 (2018: nil). There are also no options issued and exercisable under this plan at 30 June 2019.

Relationship between Remuneration Policy and Group Performance

The following summary information in relation to the Group's earnings and movements in shareholder wealth for the five years to 30 June 2019 is provided in accordance with the requirements of the Corporations Act as follows:

Metrics	FY15	FY16	FY17	FY18	FY19
Share price at start of financial year	$4.54	$5.43	$5.53	$4.70	$0.54
Share price at end of financial year	$5.43	$5.53	$4.70	$0.54	$0.13
Interim dividend	11.50 cps	13.00 cps	14.75 cps	-	-
Final dividend	11.75 cps	14.50 cps	15.00 cps	-	-
Basic EPS (Underlying)	35.6 cps	40.5 cps	43.7 cps	18.4 cps	8.4 cps
Basic EPS[(1)]	22.1 cps	37.4 cps	35.7 cps	(169.5 cps)	(81.7 cps)
Diluted EPS[(1)]	22.1 cps	37.4 cps	35.7 cps	(169.5 cps)	(81.7 cps)

(1) EPS figures are as historically reported.

DIRECTORS' REPORT

Remuneration report (continued)

2. Remuneration of Directors and Senior Executive Management

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

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

(1) Salary and fees include Short-term benefits as per Corporations Regulation 2M.3.03(1) Item 6 comprising of cash salary and annual leave entitlements.
(2) Other long-term benefits as per Corporations Regulation 2M.3.03(1) Item 8. The amounts disclosed in this column represent the movements in the associated long service leave provisions.
(3) Appointed on 25 September 2018.
(4) Ceased employment on 25 September 2018.
(5) Ceased employment on 25 October 2018.
(6) Ceased employment on 26 October 2018.
(7) Ceased employment on 1 August 2019.
(8) Ceased employment on 3 December 2018.
(9) Ceased employment on 14 December 2018.
(10) Ceased employment on 12 September 2018.

DIRECTORS' REPORT

Remuneration report (continued)

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

FY18	Short-term Benefits			Long-term Benefits				
Name	Salary & fees [1]	Bonus	Other	Super-annuation	Performance Rights	Other [2]	Termination Benefits	Total
	$	$	$	$	$	$	$	$
Non-Executive Directors								
Mr Colin Archer	217,884	-	-	19,578	-	-	-	237,462
Ms Jessica Buchanan	111,517	-	-	3,944	-	-	-	115,461
Mr Stephen Lonie	127,854	-	-	12,146	-	-	-	140,000
Ms Kerry Ryan	109,589	-	-	10,411	-	-	-	120,000
Mr Russell Shields	109,589	-	-	10,411	-	-	-	120,000
Senior Executive Management								
Mr Richard Hinson [3]	200,055	-	796	10,024	-	-	-	210,875
Mr Darren Dench [4]	168,247	-	1,038	11,018	-	-	-	180,303
Mr Peter McGettigan	429,469	55,000	1,800	20,049	12,538	19,824	-	538,680
Mr Anthony Mark Connors	289,469	46,800	1,800	20,049	7,894	8,189	-	374,201
Mr Michael Gilbert [5]	332,188	45,000	1,819	20,049	4,010	-	-	403,066
Former								
Mr Anthony (Tony) Alford [6]	7,092	-	-	674	-	-	-	7,766
Mr Gary Alford [7]	147,847	-	-	14,715	-	2,582	-	165,144
Mr Andre Nell [8]	662,494	100,000	3,441	20,049	-	43,520	750,000	1,579,504
	2,913,294	246,800	10,694	173,117	24,442	74,115	750,000	4,192,462

Senior Executive Management were granted cash bonuses totalling $246,800 during the year ended 30 June 2018 in respect of their performance for the year ended 30 June 2017. 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) On 29 May 2018 Richard Hinson was appointed as Group Chief Executive Officer and as a result of this appointment, is now considered to be a KMP. The remuneration of Richard Hinson is proportioned for the period that he is considered a KMP.
(4) On 4 December 2017 Darren Dench was appointed as Global Head of Coffee and as a result of this appointment, is now considered to be a KMP from this date. He was subsequently appointed Chief Executive Officer - Di Bella Coffee on 29 May 2018. The remuneration of Darren Dench is proportioned for the period that he is considered a KMP.
(5) Resigned on 13 June 2018 and ceased employment on 12 September 2018.
(6) Ceased employment on 3 July 2017.
(7) Ceased employment on 15 September 2017.
(8) Ceased employment on 29 May 2018.

DIRECTORS' REPORT

Remuneration report (continued)

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

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

	Fixed		Short-term Incentive		Long-term Incentive	
	FY19 %	FY18 %	FY19 %	FY18 %	FY19 %	FY18 %
Non-Executive Directors						
Mr David Grant	100.0	-	-	-	-	-
Ms Kerry Ryan	100.0	100.0	-	-	-	-
Former						
Mr Colin Archer	100.0	100.0	-	-	-	-
Mr Stephen Lonie	100.0	100.0	-	-	-	-
Mr Russell Shields	100.0	100.0	-	-	-	-
Ms Jessica Buchanan	100.0	100.0	-	-	-	-
Executive Director						
Mr Peter George	100.0	-	-	-	-	-
Senior Executive Management						
Mr Peter McGettigan	98.6	87.5	-	10.2	1.4	2.3
Mr Anthony Mark Connors	98.8	85.4	-	12.5	1.2	2.1
Former						
Mr Richard Hinson	100.0	100.0	-	-	-	-
Mr Darren Dench	100.0	100.0	-	-	-	-
Mr Michael Gilbert	100.0	87.8	-	11.2	-	1.0
Mr Anthony (Tony) Alford	-	100.0	-	-	-	-
Mr Gary Alford	-	100.0	-	-	-	-
Mr Andre Nell	-	93.7	-	6.3	-	-

Performance Rights Plan

Under the Group's original Performance Rights Plan (refer above), Rights will only vest if performance conditions pertaining to the earnings per share (EPS) growth and relative total shareholder return (TSR) vesting conditions are met and the employee is still employed at the end of the vesting period.

Each tranche of Rights is dependent on satisfaction of two discrete performance measures:
1. Earnings per Share (EPS) representing 50% of each tranche (EPS Measure); and
2. Relative Total Shareholder Return (TSR) representing 50% of each tranche (TSR Measure).

The tables below show a reconciliation of performance rights held by each Key Management Personnel for the FY18 and FY19 years. There are no performance rights on issue at balance date.

FY19 Executive	Grant Date	Balance at the start of the year	Number of Rights Forfeited	Forfeited %	Balance of unvested rights at the end of the year
Current Key Management					
Anthony Mark Connors	14 July 2016	3,495	3,495	100%	-
Peter McGettigan	14 July 2016	5,974	5,974	100%	-

FY18 Executive	Grant Date	Balance at the start of the year	Number of Rights Forfeited	Forfeited %	Balance of unvested rights at the end of the year
Current Key Management					
Anthony Mark Connors	14 July 2016	17,458	13,963	80%	3,495
Peter McGettigan	14 July 2016	23,879	17,905	75%	5,974
Former Key Management Personnel					
Andre Nell	1 December 2016	44,802	44,802	100%	-
Gary Alford	14 July 2016	22,382	22,382	100%	-
Michael Gilbert	14 July 2016	15,226	15,226	100%	-

Remuneration report (continued)

3. Key Management Personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY19	Balance 1 July 2018	Granted as Compensation	Received on Vesting of Rights	Net Other Change	Balance 30 June 2019	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Mr David Grant	-	-	-	-	-	-
Ms Kerry Ryan	10,000	-	-	-	10,000	-
Former						
Mr Colin Archer [2]	391,084	-	-	(391,084)	-	-
Mr Stephen Lonie [2]	54,195	-	-	(54,195)	-	-
Ms Jessica Buchanan [1]	11,628	-	-	-	11,628	-
Mr Russell Shields [2]	7,752	-	-	(7,752)	-	-
Executive Director						
Mr Peter George	-	-	-	-	-	-
Senior Executive Management						
Mr Peter McGettigan	36,542	-	-	-	36,542	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Former						
Mr Richard Hinson [3]	-	-	-	-	-	-
Mr Darren Dench [3]	-	-	-	-	-	-
Mr Michael Gilbert [3]	1,948	-	-	(1,948)	-	-
	708,716	-	-	(454,979)	253,737	-

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

Remuneration report (continued)

3. Key Management Personnel equity holdings (continued)

FY18	Balance 1 July 2017	Granted as Compensation	Received on Vesting of Rights	Net Other Change	Balance 30 June 2018	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Mr Colin Archer	389,377	-	-	1,707	391,084	-
Ms Jessica Buchanan	11,628	-	-	-	11,628	-
Mr Stephen Lonie	52,435	-	-	1,760	54,195	-
Mr Russell Shields	7,500	-	-	252	7,752	-
Ms Kerry Ryan	10,000	-	-	-	10,000	-
Senior Executive Management						
Mr Richard Hinson	-	-	-	-	-	13,000
Mr Darren Dench	-	-	-	-	-	-
Mr Peter McGettigan	31,969	-	-	4,573	36,542	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Mr Michael Gilbert	1,884	-	-	64	1,948	-
Former						
Mr Anthony (Tony) Alford [1]	19,643,078	-	-	(19,643,078)	-	-
Mr Gary Alford [1]	836,887	-	-	(836,887)	-	-
Mr Andre Nell [1]	12,710	-	-	(12,710)	-	-
	21,193,035	-	-	(20,484,319)	708,716	13,000

(1) Individual was not a KMP as at 30 June 2018.

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

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.

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

Role	FY19	FY18
Chairman (1)	$210,000	$210,000
Non-executive Director*	$110,000	$110,000
Audit & Risk Management Committee Chairman	$20,000	$20,000
Remuneration Committee/Nomination Committee Chairman	-	$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.

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.

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. However, to the extent that Directors have, during and subsequent to the FY19 year, been considering possible funding transactions, it has been inappropriate for Directors to transact in the Company's shares.

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 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 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 Richard Hinson	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) required 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 Darren Dench	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) required 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 Michael Gilbert	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) required the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least three (3) months notice or payment of equivalent salary of the required notice in lieu.

The Directors consider that the compensation for each Executive is appropriate for the duties allocated to them, the size of the Group's business and the industry in which the Group operates. The service contracts outline the components of compensation paid to the Executives, including Executive Directors, but do not prescribe how compensation levels are modified year to year. Compensation levels are 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 (FY18: $nil) to Directors or Senior Executive Management or their related parties.

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

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

Consolidated	FY19 $	FY18 $
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:		
Franchise revenue	-	40,605
	-	40,605
Consolidated loss includes the following expenses arising from transactions with key management personnel of the Group or their related parties:		
Consulting services	296,000	49,000
	296,000	49,000

The following transactions are made at arm's length terms within the meaning of Section 210 of the *Corporations Act 2001*:

- During FY19, the Group engaged the services of marketing consulting firm, Brands R People 2 Pty Ltd, being related parties of Ms Jessica Buchanan. $296,000 was billed to the Group during FY19 and $44,000 was payable as at 30 June 2019 (FY18: $40,000).

Mr Philip Di Bella was engaged as a consultant during the year by the Group, with respect to the Di Bella coffee division. The responsibility for planning, directing or controlling the operations of the Di Bella Coffee division lies with the Executive Chairman of the Group and other executives. As such, Mr Di Bella is not a key management personnel member of the Group. The Group procures green coffee beans and related products from International Coffee Traders Pty Ltd, being a related party of Mr Philip Di Bella.

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

Southport
30 August 2019

Auditor's Independence Declaration

As lead auditor for the audit of Retail Food Group Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
30 August 2019

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

Consolidated	Notes	FY19 $'000	Restated [1] FY18 $'000
Continuing operations			
Revenue from contracts with customers	2	168,115	193,023
Cost of sales	5	(52,004)	(72,933)
Gross profit		116,111	120,090
Other revenue	2	4,415	5,437
Other gains and losses	5	(1,203)	(1,688)
Selling expenses		(3,437)	(11,095)
Marketing expenses		(19,660)	(6,377)
Occupancy expenses		(12,168)	(26,551)
Administration expenses		(34,188)	(31,770)
Operating expenses		(36,917)	(38,584)
Finance costs	3	(18,811)	(12,876)
Other expenses	5	(111,121)	(330,325)
Loss before income tax		(116,979)	(333,739)
Income tax benefit	4	17,082	74,227
Loss for the year from continuing operations	5	(99,897)	(259,512)
Loss from discontinued operations	28	(49,360)	(47,181)
Loss for the year		(149,257)	(306,693)
Other comprehensive income/(loss), net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations	21	363	(267)
Changes in the fair value of cashflow hedges	21	(129)	268
Income tax relating to these items	21	39	(80)
Other comprehensive income/(loss) for the year, net of tax		273	(79)
Total comprehensive loss for the year		(148,984)	(306,772)
Total comprehensive loss is attributable to:			
Equity holders of the parent		(148,984)	(306,772)
Earnings per share			
From continuing operations:			
Basic (cents per share)	7	(54.7)	(143.4)
Diluted (cents per share)	7	(54.7)	(143.4)
Total:			
Basic (cents per share)	7	(81.7)	(169.5)
Diluted (cents per share)	7	(81.7)	(169.5)

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

(1) FY18 year is Restated for presentation of discontinued operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

Consolidated	Notes	FY19 $'000	Restated [1] FY18 $'000
Current assets			
Cash and cash equivalents	8	12,317	18,979
Trade and other receivables	9	15,395	52,113
Other financial assets	10	2,371	15,511
Inventories	11	6,878	24,568
Current tax assets	4	194	7,337
Other	12	5,042	6,719
Assets classified as held for sale	13	65,524	9,362
Total current assets		107,721	134,589
Non-current assets			
Trade and other receivables	9	21	785
Other financial assets	10	2,317	8,335
Property, plant and equipment	14	23,101	64,626
Intangible assets	15	256,188	364,063
Deferred tax assets	4	55,874	32,255
Total non-current assets		337,501	470,064
Total assets		445,222	604,653
Current liabilities			
Trade and other payables	16	14,666	70,126
Borrowings	19	264,056	264,247
Provisions	17	16,398	18,443
Derivative financial instruments	25	3,063	-
Unearned income	18.1	10,990	7,502
Other	18.2	502	1,912
Liabilities classified as held for sale	13	53,646	3,769
Total current liabilities		363,321	365,999
Non-current liabilities			
Trade and other payables	16	302	-
Borrowings	19	25	49
Derivative financial instruments	25	-	1,547
Deferred tax liabilities	4	55,874	64,187
Provisions	17	11,927	13,245
Unearned income	18.1	29,351	1,542
Other	18.2	86	44
Total non-current liabilities		97,565	80,614
Total liabilities		460,886	446,613
Net assets/(liabilities)		(15,664)	158,040
Equity			
Issued capital	20	428,640	428,640
Reserves	21	5,105	9
Retained earnings	22	(449,409)	(270,609)
Total equity		(15,664)	158,040

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

(1) FY18 year is Restated for reclassification of certain balances included within the marketing funds that are consolidated into the Group's financial statements at 30 June 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

Consolidated	Notes	Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
		$'000	$'000	$'000	$'000
Balance as at 1 July 2017		402,472	106	62,594	465,172
Loss for the year		-	-	(306,693)	(306,693)
Other comprehensive loss		-	(79)	-	(79)
Total comprehensive loss		-	(79)	(306,693)	(306,772)
Issue of ordinary shares	20	26,503	-	-	26,503
Share issue costs	20	(477)	-	-	(477)
Related income tax	20	142	-	-	142
Payment of dividends	23	-	-	(26,510)	(26,510)
Recognition of share-based payments	21	-	(18)	-	(18)
Balance at 30 June 2018		428,640	9	(270,609)	158,040
Balance at 1 July 2018		428,640	9	(270,609)	158,040
Opening adjustment for adoption of AASB 15	35	-	-	(25,848)	(25,848)
Transfer of opening balance of marketing fund surplus to reserves [1]		-	3,663	(3,663)	-
De-recognition of hedging reserve		-	1,135	-	1,135
Loss for the year		-	32	(149,289)	(149,257)
Other comprehensive income		-	273	-	273
Total comprehensive (loss)/income		-	5,103	(178,800)	(173,697)
Recognition of share-based payments	21	-	(7)	-	(7)
Balance at 30 June 2019		428,640	5,105	(449,409)	(15,664)

(1) The Group maintains marketing funds established to collect and administer funds contributed for use in advertising for company-owned and franchised stores. Under AASB 15, revenue in respect of marketing fees, in excess of marketing expenses incurred, is now included in the Group's consolidated statement of profit and loss. The net surplus arising from marketing revenues exceeding marketing expenses has been recognised separately from Retained Earnings as part of Other Reserves. Further details on this can be found in Note 35.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

Consolidated	Notes	FY19 $'000	FY18 $'000
Cash flows from operating activities			
Receipts from customers		468,043	582,673
Payments to suppliers and employees		(465,920)	(550,126)
Interest and other costs of finance paid		(17,903)	(9,603)
Income taxes (paid)/received		7,290	(10,051)
Net cash (used in)/provided by operating activities	8	(8,490)	12,893
Cash flows from investing activities			
Interest received		383	968
Repayment of advances to other entities		1,868	2,106
Amounts advanced to other entities		(47)	(469)
Payments for property, plant and equipment		(3,037)	(22,856)
Proceeds from sale of property, plant and equipment		9,095	6,867
Payments for intangible assets		(711)	(668)
Payments for business (net of cash acquired) [(1)]		(250)	(7,631)
Net cash provided by/(used in) investing activities		7,301	(21,683)
Cash flows from financing activities			
Proceeds from issue of shares and other equity securities	20	-	21,973
Proceeds from borrowings		5,489	145,500
Repayment of borrowings		(10,016)	(127,000)
Dividends paid		-	(21,980)
Payment for share issue costs		-	(472)
Payment for debt issue costs		-	(894)
Net cash (used in)/provided by financing activities		(4,527)	17,127
Net (decrease)/increase in cash and cash equivalents		(5,776)	8,376
Effects of exchange rate changes on cash and cash equivalents		60	(39)
Cash and cash equivalents at the beginning of the year		18,979	10,642
Cash and cash equivalents at end of year	8	13,263	18,979

(1) Earn out payments with respect to prior period acquisitions.

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

NOTES TO THE FINANCIAL STATEMENTS

Contents of the notes to the financial statements

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 Michel's Patisserie, Donut King and Brumby's Bakery Brand Systems);
- QSR Division (incorporating Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Coffee Retail Division (incorporating Gloria Jean's Coffees, Esquires, bb's café, It's A Grind, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating wholesale coffee operations); and
- Manufacturing & Distribution (incorporating procurement, warehousing, manufacturing and distribution operations).

1.2 Segment information provided to the Chief Operating Decision Makers

Segment Revenue

Revenue from external parties reported to the CODMs is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. 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.

In the 1H19 interim financial period the Company had progressed a potential sale process for the Donut King and QSR Division Brand Systems, and accordingly had classified those Brand Systems as Discontinued Operations in the 1H19 interim financial statements. The asset sale did not proceed, and no further sale activity is presently being undertaken with respect to the Donut King and QSR Division Brand Systems. Accordingly, these Brand Systems are classified within Continuing Operations in the FY19 financial statements.

As at 30 June 2019, the entire Manufacturing and Distribution division is classified as Discontinued Operations, as the Board has resolved this division is not a core operation of the Group and will dispose of the constituent businesses. The Group is presently engaged in asset sale activities for the Dairy Country manufacturing business, and Hudson Pacific/Associated Food Services distribution businesses respectively. The Bakery Fresh operations within the Manufacturing and Distribution division were closed during the year, with final operations ceasing in May 2019.

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		Di Bella Coffee		Manufacturing and Distribution		Discontinued Operations [3]		Total Continuing Operations	
	FY19 $'000	FY18 $'000	FY19 $'000	FY18 $'000	FY19 $'000	FY18 $'000	FY19 $'000	FY18 $'000	FY19 $'000	FY18 $'000	FY19 $'000	FY18 $'000	FY19 $'000	FY18 $'000
External revenue	42,372	54,721	19,020	18,250	58,593	69,482	35,805	53,701	165,814	167,068	(177,240)	(175,573)	144,364	187,649
Impact of AASB 15 adoption	2,539	-	1,988	-	2,109	-	72	-	-	-	-	-	6,708	-
External revenue - Marketing Funds	8,487	-	5,741	-	3,021	-	-	-	-	-	-	-	17,249	-
External revenue – Corporate stores	1,895	6,791	142	494	2,172	3,526	-	-	-	-	-	-	4,209	10,811
Inter-segment revenue	206	765	-	13	154	450	-	-	-	-	-	-	360	1,228
Segment revenue [1]	55,499	62,277	26,891	18,757	66,049	73,458	35,877	53,701	165,814	167,068	(177,240)	(175,573)	172,890	199,688
Operating EBITDA	19,386	25,267	9,809	10,927	12,633	17,109	3,428	8,071	(1,231)	9,983	(2,146)	(14,040)	41,879	57,317
Impact of AASB 15 adoption	2,539	-	1,988	-	2,109	-	72	-	-	-	-	-	6,708	-
Underlying Segment EBITDA[2]	21,925	25,267	11,797	10,927	14,742	17,109	3,500	8,071	(1,231)	9,983	(2,146)	(14,040)	48,587	57,317
Marketing Funds reserve													246	-
Depreciation & amortisation													(9,043)	(9,222)
Other gains/(losses)													-	-
Finance costs													(18,811)	(12,876)
Business turnaround & restructuring costs													(25,341)	(13,806)
Impairment & provisions													(112,617)	(355,152)
Loss before tax from continuing operations													(116,979)	(333,739)
Income tax benefit													17,082	74,227
Loss after tax for the year from continuing operations													(99,897)	(259,512)

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

	FY19 $'000	FY18 $'000
Revenue for the year – Statutory	172,530	198,460
Inter-segment revenue: eliminated on consolidation	360	1,228
Total segment revenue	172,890	199,688

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

	FY19 $'000	FY18 $'000
Continuing operations	48,587	57,317
Discontinuing operations	2,146	14,040
Total segment EBITDA	50,733	71,357

(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	FY19 $'000	Restated FY18 $'000
Revenue from the sale of goods	86,631	121,256
Revenue from the sale of franchise agreements [1]	72,084	59,921
Revenue from the sale of distribution rights [1]	9,400	11,846
	168,115	193,023
Other revenue	4,415	5,437
	172,530	198,460

(1) As the Group has applied the modified retrospective approach on adoption of AASB15, the comparative information provided is based on AASB 118. See Note 35 for details regarding the change in accounting policy and the impact on the current year amounts recognised.

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:

FY19	Bakery/Cafe	QSR	Coffee Retail	Di Bella Coffee	Manufacturing & Distribution	Discontinued Operations	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from the sale of goods	16,908	5,888	41,012	34,249	165,718	(177,144)	86,631
Revenue from the sale of franchise agreements	32,036	16,348	23,702	(2)	-	-	72,084
Revenue from the sale of distribution rights	5,822	2,283	649	646	35	(35)	9,400
Other revenue	527	2,372	532	984	61	(61)	4,415
TOTAL	55,293	26,891	65,895	35,877	165,814	(177,240)	172,530

NOTES TO THE FINANCIAL STATEMENTS

3. Finance costs

Consolidated	FY19 $'000	FY18 $'000
Interest on bank overdrafts and loans	15,267	12,025
Interest expense from continuing operations	15,267	12,025
Other finance costs	3,544	851
Finance costs from continuing operations	18,811	12,876

4. Income taxes

4.1 Income tax recognised in profit or loss

Consolidated	FY19 $'000	Restated FY18 $'000
Current tax:		
In respect of current year	-	(207)
In respect of prior year	298	-
	298	(207)
Deferred tax:		
In respect of the current year	(17,380)	(74,020)
	(17,380)	(74,020)
Total Income tax benefit recognised in the current year relating to continuing operations	(17,082)	(74,227)

4. Income taxes (continued)

4.1 Income tax recognised in profit or loss (continued)

The income tax benefit for the year can be reconciled to the accounting loss as follows:

Consolidated	FY19 $'000	Restated FY18 $'000
Loss from continuing operations before income tax benefit	(116,979)	(333,739)
Income tax benefit calculated at 30% (FY18: 30%)	(35,094)	(100,122)
Effect of:		
Expenses that are not deductible in determining taxable (loss)	71	1,093
Different tax rates of subsidiaries operating in other jurisdictions[(1)]	-	(18)
Non-deductible impairment of goodwill	17,186	24,614
Capital loss on disposal	2,600	429
Non-assessable income	(64)	(255)
Tax adjustments in respect of prior year	298	-
De-recognition of carried forward tax losses	5,342	-
Tax losses attributable to discontinued operations	(7,372)	-
Other	(49)	32
Income tax benefit recognised in profit or loss (relating to continuing operations)	(17,082)	(74,227)

The tax rate used for the FY19 and FY18 reconciliations 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.

(1) A corporate tax rate of 28% (FY18: 28%) is payable by New Zealand corporate entities, and 21% (FY18: 21%) is payable by United States of America corporate entities.

4. Income taxes (continued)

4.2 Income tax recognised directly in equity

Consolidated	Notes	FY19 $'000	FY18 $'000
Hedging		(486)	-
Share issue costs	20	-	142
Total income tax recognised directly in equity		(486)	142

4.3 Current tax assets

Consolidated	FY19 $'000	FY18 $'000
Current tax assets	194	7,337

4. Income taxes (continued)

4.4 Deferred tax balances

Consolidated FY19	Opening balance	Impact of transition to AASB15 at 1 July 2018	Recognised in profit or loss	Reclass to Assets held for sale	Recognised directly in equity	Recognised in other comprehensive income	Closing balance
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Temporary differences							
Intangible assets	(63,288)	-	4,840	2,676	-	-	(55,772)
Unrealised exchange differences	(100)	-	(1)	-	-	-	(101)
Fixed assets	-	-	1,695	(380)	-	-	1,315
Employee benefits	1,405	-	(255)	(442)	-	-	708
Provisions	9,657	-	(144)	(1,118)	-	-	8,395
Doubtful debts	12,692	-	1,403	(1,722)	-	-	12,373
Unearned income	821	-	228	-	-	-	1,049
Unearned income per AASB15	-	13,219	(2,268)	-	-	-	10,951
Share issue costs	317	-	(163)	-	-	-	154
Other	706	-	1,554	(45)	(486)	-	1,729
	(37,790)	13,219	6,889	(1,031)	(486)	-	(19,199)
Unused tax losses and credits							
Tax (losses)/credits [1]	5,858	-	13,341	-	-	-	19,199
	5,858	-	13,341	-	-	-	19,199
	(31,932)	13,219	20,230	(1,031)	(486)	-	-

(1) The Group has unused tax losses for which no deferred tax asset has been recognised in the amount of $17.8m (FY18: Nil). The potential tax benefit of these tax losses at the corporate tax rate of 30% (FY18: 30%), equates to $5.3m (FY18: Nil). These tax losses can be carried forward indefinitely until such time as the Group generates taxable profits against which these losses can be offset.

Consolidated FY18	Opening balance	Recognised in profit or loss	Recognised directly in equity	Recognised in other comprehensive income	Closing balance
	$'000	$'000	$'000	$'000	$'000
Temporary differences					
Intangible assets	(118,091)	54,803	-	-	(63,288)
Unrealised exchange differences	9	(109)	-	-	(100)
Employee benefits	1,515	(110)	-	-	1,405
Provisions	5,286	4,371	-	-	9,657
Doubtful debts	3,027	9,665	-	-	12,692
Unearned income	1,130	(309)	-	-	821
Share issue costs	451	(276)	142	-	317
Other	362	425	-	(81)	706
	(106,311)	68,460	142	(81)	(37,790)
Unused tax losses and credits					
Tax (losses)/credits	535	5,323	-	-	5,858
	535	5,323	-	-	5,858
	(105,776)	73,783	142	(81)	(31,932)

4. Income taxes (continued)

4.4 Deferred tax balances (continued)

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

Consolidated	FY19 $'000	FY18 $'000
Deferred tax assets	55,874	32,255
Deferred tax liabilities	(55,874)	(64,187)
	-	(31,932)

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.

5. Loss for the year from continuing operations

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

Consolidated	FY19 $'000	Restated FY18 $'000
Cost of sales	52,004	72,933
Loss on disposal of assets [(2)]	480	527
Write-down of inventory to net realisable value [(1)]	246	5,991
Write-down of property, plant and equipment [(1)]	2,680	17,233
Loss on sale of QLD properties [(2)]	708	1,446
Write-down of assets held for sale to fair value less costs to sell [(1)]	482	4,454
Impairment loss on intangible assets [(1)]	80,406	258,438
Impairment loss on trade receivables [(1)]	7,115	27,570
Impairment loss on loans carried at amortised cost [(1)]	7,592	8,003
Provisions for onerous leases and make good obligations [(3)]	9,538	22,837
Provisions for obsolete stock with supplier network	699	2,258
Provisions for strategic review and franchisee support costs [(4)]	3,860	4,645
Change in fair value of derivative financial instruments	2,938	-
Business restructuring costs [(5)]	24,633	15,017
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment [(1)]	8,289	8,539
Amortisation of acquired intangible assets - customer contracts [(1)]	-	394
Amortisation - other [(1)]	754	289
Total depreciation and amortisation expense	9,043	9,222
Employee benefits expenses:		
Post-employment benefits (defined contribution plans)	3,315	4,049
Other employee benefits (wages and salaries)	48,335	55,962
Total employee benefits expense	51,650	60,011

(1) Amounts are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

(2) Amounts are included in other gains and losses in the consolidated statement of profit or loss and other comprehensive income.

(3) Amounts are included in occupancy expenses in the consolidated statement of profit of loss and other comprehensive income.

(4) Amount is included in administration expenses in the consolidated statement of profit or loss and other comprehensive income.

(5) Amount is included within operating expenses, administration expenses and occupancy expenses dependent on the nature of the underlying transaction.

6. Impairment & provisions

The Group has performed an assessment for assets that may be impaired, in accordance with Australian Accounting Standards, which has resulted in the Group recognising a $150.3 million expense for impairment and provisions on continuing and discontinued operations as follows:

Consolidated	Impairment and provisions $'000
Trade and other receivables	(15,090)
Inventory	(1,365)
Other financial assets	(7,590)
Other assets	(482)
Property, plant & equipment	(12,032)
Intangible assets	(98,710)
Provisions	(15,026)
Pre-tax Total	(150,295)
Current tax assets	5,569
Deferred tax assets	11,418
Deferred tax liabilities	5,484
Post-tax Total	(127,824)

Trade and other receivables

A $15.1 million provision has been recognised in respect of individually impaired domestic franchise receivables where the Group has determined that the amounts are not expected to be recovered. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the estimated cash flows that will be received. The remaining $8.0 million of trade receivables are amounts that are still considered fully recoverable.

Inventory

An amount of $1.4 million has been expensed in respect of inventory write-downs relating to $1.0 million write-downs of slow moving and obsolete stock, and $0.3 million write-downs of company-owned stores.

Other financial assets

A $7.6 million provision has been recognised in respect of individually impaired vendor finance loans receivable. The impairment recognised represents the difference between the carrying amount of these loan receivables and the present value of the estimated cash flows that will be received.

Other assets

An amount of $0.5 million impairments expense has been recognised on assets held for sale with respect to coffee assets. The impairment recognised represents the difference between the carrying amount of those assets and the fair value based on independent valuations.

Property, plant & equipment

An amount of $12.0 million has been recognised in respect of write-downs of property, plant and equipment relating to discontinued projects and redundant systems and assets.

Intangibles

Impairment losses of $98.7 million have been recognised for FY19 with respect to Brand systems and other intangibles, and Goodwill. The impairment recognised represents the difference between the carrying values of the CGUs and their recoverable amounts. The key assumptions and methodology behind the assessment of impairment of CGUs is more particularly detailed in Note 15.

Provisions

An amount of $15.0 million has been recognised in respect of provisions for the following:

- Onerous leases and associated make-goods for stores where the Group is the head on the lease, and which have been assessed as high risk of closure ($11.3 million);
- A provision for supply contracts considered onerous until their completion ($1.2 million); and
- A provision for strategic review and franchisee support costs ($2.5 million).

7. Earnings per share

Consolidated	FY19 $'000	Restated FY18 $'000
Basic earnings per share		
From continuing operations	(54.7)	(143.4)
From discontinued operation	(27.0)	(26.1)
Basic (cents per share)	(81.7)	(169.5)
Diluted earnings per share		
From continuing operations	(54.7)	(143.4)
From discontinued operation	(27.0)	(26.1)
Diluted (cents per share)	(81.7)	(169.5)

7.1 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	FY19 $'000	FY18 $'000
Loss for the year		
From continuing operations	(99,897)	(259,512)
From discontinued operations	(49,360)	(47,181)
Earnings used in the calculation of basic EPS from continuing and discontinuing operations	(149,257)	(306,693)

Consolidated	2019 No. '000	2018 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	182,746	180,951

7.2 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	FY19 $'000	FY18 $'000
Loss for the year		
From continuing operations	(99,897)	(259,512)
From discontinued operations	(49,360)	(47,181)
Earnings used in the calculation of diluted EPS from continuing and discontinuing operations	(149,257)	(306,693)

Consolidated	2019 No. '000	2018 No. '000
Weighted average number of ordinary shares for the purpose of diluted EPS	182,746	180,951

Performance rights:

Performance rights granted to employees under the Performance Rights Plan are considered to be potential ordinary shares. These have not been included in the calculation of diluted earnings per share because potential ordinary shares that would reduce a loss per share are not considered to be dilutive.

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Operations

Assets and liabilities

8. Cash and cash equivalents

8.1 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	FY19 $'000	Restated FY18 $'000
Cash and bank balances	12,317	18,979
Cash and bank balances included in disposal group held for sale	946	-
Less: Restricted cash	(5,440)	(3,108)
	7,823	15,871

8.2 Restricted cash

Restricted cash relates to cash reserved for marketing specific pursuits and unclaimed dividends. As at 30 June 2019, cash balances not available for use totalled $5.4 million (2018: $3.1 million).

8.3 Financing facilities

At 30 June 2019, the Group had unused facilities as detailed in the following table. Further details can be found in Notes 19 and 25.

Consolidated	FY19 $'000	FY18 $'000
Secured bank loan facility:		
Amount used (before deducting debt issue costs)	262,754	265,000
Amount unused	5,100	44,000
	267,854	309,000
Secured ancillary bank facilities (guarantees):		
Amount used	2,824	3,407
Amount unused	1,176	593
	4,000	4,000
Secured ancillary bank facilities (asset finance):		
Amount used	64	92
Amount unused	2,436	2,408
	2,500	2,500
Secured ancillary bank facilities (supply chain finance):		
Amount used	-	788
Amount unused	1,000	3,212
	1,000	4,000
Secured ancillary bank facilities (overdraft):		
Amount used	-	-
Amount unused	1,000	1,000
	1,000	1,000
Other finance facilities:		
Amount used	1,488	-
Amount unused	-	-
	1,488	-

8. *Cash and cash equivalents (continued)*

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

Consolidated	FY19 $'000	Restated FY18 $'000
Loss for the year	(149,257)	(306,693)
Non-cash adjustment due to adoption of AASB15	(4,766)	-
Depreciation of non-current assets	13,051	11,203
Amortisation	1,877	1,881
Amounts invoiced to marketing funds written off	113	75
Impairment loss on loans carried at amortised cost	7,590	8,003
Write-down inventory to net realisable value	1,365	5,991
Write-down of property, plant and equipment	12,032	17,498
Impairment loss on intangible assets	98,710	306,152
Impairment loss on other assets	982	4,453
Non-cash employee benefits expense share based payments	(7)	(18)
Net foreign exchange gain	57	30
Interest income	(383)	(968)
(Gain)/Loss on sale of PPE	297	544
Loss on sale of QLD properties	-	1,446
Non cash - vendor loan	(249)	(324)
Non cash interest expense	1,718	3,350
Contingent consideration deemed remuneration	494	523
Adjustments to contingent consideration provision	-	(295)
Increase/(decrease) in Current tax liability	7,144	(9,884)
Increase/(decrease) in Deferred tax balances	(22,135)	(74,003)
Movements in working capital:		
(Increase)/decrease in Trade and other receivables	18,927	32,296
(Increase)/decrease in Inventories	11,122	(7,849)
(Increase)/decrease in Other assets	1,497	(3,507)
Increase/(decrease) in Trade and other payables	(7,782)	(2,409)
Increase/(decrease) in Provisions	1,396	23,522
Increase/(decrease) in Other liabilities	(2,283)	1,876
Net cash generated by operating activities	(8,490)	12,893

8.5 Non-cash investing and financing activities

Acquisition of property, plant and equipment by means of finance leases was nil (FY18: nil).

8.6 Debt reconciliation

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

Consolidated	Current bank loans $'000	Current borrowing costs $'000	Non-current bank loans $'000	Non-current borrowing costs $'000
Balance at 1 July 2018	265,000	(774)	-	-
Repayment of borrowings	(6,247)	-	-	-
Proceeds from borrowings	5,489	-	-	-
Amortisation of deferred borrowing costs	-	567	-	-
Balance at 30 June 2019	264,242	(207)	-	-

9. Trade and other receivables

9.1 Trade receivables

Consolidated	FY19 $'000	Restated FY18 $'000
Current		
Trade receivables	33,158	74,471
Allowance for impairment	(25,215)	(32,939)
	7,943	41,532
Accrued income	4,860	5,839
Sundry debtors	1,612	2,354
Other	980	1,778
Goods and services tax (GST) receivable	-	610
	15,395	52,113
Non-current		
Sundry debtors	21	658
Other	-	127
	21	785
	15,416	52,898

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

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

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

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

- ongoing negative sentiment in connection with franchising and RFG;
- difficult small retail business trading conditions;
- increasing occupancy costs and declining performance of shopping centre based customers; and
- impact of outlet closures.

Current year expected loss rates are aligned to the inherent risks identified in the current environment for the Group, whereas prior year loss rates were more closely aligned to historic loss rates. This has resulted in an overall greater expected loss rate. 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 include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

9. Trade and other receivables (continued)

9.1 Trade receivables (continued)

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

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
30 June 2019					
Expected loss rate	24%	79%	84%	98%	
Gross carrying amount - trade receivables	9,376	882	1,791	21,109	33,158
Loss allowance	2,234	698	1,511	20,772	25,215
30 June 2018					
Expected loss rate	8%	18%	39%	81%	
Gross carrying amount - trade receivables	31,340	5,283	2,852	34,996	74,471
Loss allowance	2,538	976	1,107	28,318	32,939

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	FY19 $'000	Restated FY18 $'000
Balance at the beginning of the year - calculated under AASB 139	32,939	10,629
Opening loss allowance as at 1 July 2018 - calculated under AASB 9	32,939	10,629
Reclassification to 'Other' receivables	-	147
Increase in loss allowance recognised in profit or loss during the year	18,442	30,389
Receivables written-off during the year as uncollectible	(20,421)	(8,226)
Reclassification to 'Assets classified as held for sale'	(5,745)	-
Balance at the end of the year	25,215	32,939

10. Other financial assets

Consolidated	FY19 $'000	Restated FY18 $'000
Current		
Loans and receivables carried at amortised cost		
Vendor finance[(1)]	924	5,226
Inventory held on behalf of third party[(2)]	-	8,553
Other[(3)]	1,447	1,732
	2,371	15,511
Non-current		
Loans and receivables carried at amortised cost		
Vendor finance[(1)]	1,180	5,823
Other[(3)]	1,137	2,512
	2,317	8,335
	4,688	23,846

(1) Vendor finance represents funding provided to franchisees for the purpose of acquiring a franchised outlet or undertaking refurbishment, and are primarily secured by the franchised outlet, including the business and shop fittings, with guarantors as co-signatories to the loan agreement. These loan receivables are undertaken at arm's length and can be interest bearing. Recoverability of these loan receivables are assessed on the same basis as trade receivables (Note 9). These balances include individually impaired loan receivables amounting to $7.6 million (FY18: $11.2 million). The impairment recognised represents the difference between the carrying amount of these loan receivables and the present value of the estimated recoverable amount.

(2) Inventory held on behalf of third party represents inventory processed or manufactured on behalf of a third party. These amounts are classified as assets held for sale at 30 June 2019.

(3) 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 9).

11. Inventories

Consolidated	FY19 $'000	FY18 $'000
Stock held for wholesale supply	6,728	24,173
Equipment held for resale	121	211
Stores held for resale	29	184
	6,878	24,568

The cost of inventories recognised as an expense during the year in respect of continuing operations was $52.0 million (FY18: $72.9 million).

12. Other assets

Consolidated	FY19 $'000	FY18 $'000
Current		
Prepayments	5,042	6,719

13. Assets classified as held for sale

Consolidated	FY19 $'000	FY18 $'000
Assets classified as held for sale		
Land and Buildings	-	8,880
Equipment	-	482
Disposal Groups (1)	65,524	-
	65,524	9,362
Liabilities classified as held for sale		
Finance lease liability	-	(3,769)
Disposal Groups (1)	(53,646)	-
	(53,646)	(3,769)
	11,878	5,593

(1) Refer to Note 28 for information about assets and liabilities of disposal groups that were classified as held for sale as at 30 June 2019.

14. Property, plant and equipment

Consolidated	Notes	Land & buildings at cost	Leasehold improvements at cost	Plant & equipment at cost	Motor vehicles at cost	Total
		$'000	$'000	$'000	$'000	$'000
Gross carrying amount						
Balance as at 1 July 2017		21,982	3,054	89,108	2,541	116,685
Additions		2,038	266	19,553	551	22,408
Disposals		(6,806)	(13)	(4,507)	(158)	(11,484)
Reclassification of inventories		-	-	(543)	-	(543)
Fair value adjustment		-	-	(1,293)	-	(1,293)
Assets classified as held for sale		(12,978)	-	(837)	-	(13,815)
Effect of movements in exchange rates		-	(4)	112	-	108
Balance as at 1 July 2018		4,236	3,303	101,593	2,934	112,066
Additions		-	-	2,905	107	3,012
Disposals		(4,236)	(609)	(14,535)	(719)	(20,099)
Reclassification of inventories		-	-	(2,100)	-	(2,100)
Assets classified as held for sale		-	(1,797)	(23,861)	(798)	(26,456)
Effect of movements in exchange rates		-	6	100	-	106
Balance as at 30 June 2019		-	903	64,102	1,524	66,529
Accumulated depreciation						
Balance as at 1 July 2017		(773)	(698)	(19,298)	(362)	(21,131)
Reclassification of inventories		-	-	(235)	-	(235)
Disposals		565	6	2,041	15	2,627
Depreciation charge		(29)	(252)	(10,462)	(460)	(11,203)
Impairment losses		(3,999)	-	(13,300)	(199)	(17,498)
Balance as at 1 July 2018		(4,236)	(944)	(41,254)	(1,006)	(47,440)
Reclassification of inventories		-	7	1,443	-	1,450
Disposals		4,236	640	13,913	296	19,085
Depreciation charge		-	(345)	(12,252)	(454)	(13,051)
Impairment losses		-	-	(11,968)	(64)	(12,032)
Assets classified as held for sale		-	491	7,275	794	8,560
Balance as at 30 June 2019		-	(151)	(42,843)	(434)	(43,428)
Net book value						
As at 30 June 2018		-	2,359	60,339	1,928	64,626
As at 30 June 2019		-	752	21,259	1,090	23,101

NOTES TO THE FINANCIAL STATEMENTS

15. Intangible assets

15.1 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 2017		270,537	429,305	5,337	15,067	720,246
Additions		-	200	-	538	738
Acquisitions through business combinations		2,603	-	-	-	2,603
Exchange differences		(133)	(38)	-	-	(171)
Balance as at 1 July 2018		273,007	429,467	5,337	15,605	723,416
Additions		-	40	-	672	712
Exchange differences		145	37	-	7	189
Assets classified as held for sale		(18,293)	-	-	(11,300)	(29,593)
Balance as at 30 June 2019		254,859	429,544	5,337	4,984	694,724
Accumulated amortisation						
Balance as at 1 July 2017		-	(48,894)	-	(2,426)	(51,320)
Amortisation expense		-	-	-	(1,881)	(1,881)
Impairment losses recognised in profit or loss		(128,256)	(177,418)	-	(478)	(306,152)
Balance as at 1 July 2018		(128,256)	(226,312)	-	(4,785)	(359,353)
Amortisation expense		-	-	-	(1,877)	(1,877)
Impairment losses recognised in profit or loss		(75,264)	(22,878)	-	(568)	(98,710)
Assets classified as held for sale		18,293	-	-	3,111	21,404
Balance as at 30 June 2019		(185,227)	(249,190)	-	(4,119)	(438,536)
Net book value						
As at 30 June 2018		144,751	203,155	5,337	10,820	364,063
As at 30 June 2019		69,632	180,354	5,337	865	256,188

15.2 Overview

An intangible asset's recoverable value is the greater of its value in use and its fair value less costs of disposal.

For intangible assets with a finite life, if there are indicators that the intangible asset's recoverable value has fallen below its carrying value, an impairment test is performed, and a loss is recognised for the amount by which the carrying value exceeds the asset's recoverable value.

Intangible assets that have an indefinite useful life, such as brand systems, intellectual property rights and goodwill, are tested annually for impairment, or more frequently, where there is an indication that the carrying amount may not be recoverable.

In assessing the carrying value of RFG's intangible assets, the Directors have based their assessment and subsequent impairment position to reflect both the Group's expected FY20 sustainable earnings, and the present increased risk profile of the Group.

A total impairment expense of $98.7m has been recognised during the year. This includes $18.3m in respect of the Manufacturing & Distribution Division that was assessed for impairment immediately prior to reclassification to held for sale. On reclassification the cumulative cost and amortisation in respect of this division was classified as held for sale.

15. Intangible assets (continued)

15.3 Assessment of cash-generating units

Indefinite and finite life intangible assets

There are a total of ten CGU's in existence, with eight CGU's attributable to the operation of the Group's Brand Systems, the ninth CGU attributable to the coffee roasting business, and the tenth CGU attributable to the Manufacturing & Distribution business.

The Manufacturing & Distribution CGU has been reclassified to held for sale as at 30 June 2019.

Goodwill

Goodwill is monitored by management at the level of the five operating segments identified in Note 1.1 and is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill.

15.4 Allocation of goodwill to cash-generating units

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

Goodwill allocation	FY19 $'000	FY18 $'000
Bakery/Café Systems	37,168	52,864
QSR Systems	12,431	25,092
Coffee Retail Systems	17,239	18,436
Di Bella Coffee	2,794	30,067
Manufacturing & Distribution	-	18,292
	69,632	144,751

15.5 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	FY19 $'000	FY18 $'000
Donut King Brand System	36,037	36,201
Brumby's Bakeries Brand System	24,552	30,797
Michel's Patisserie Brand System	23,010	23,062
Pizza Capers Gourmet Kitchens Brand System (PC)	-	8
Crust Gourmet Pizza Bars Brand System (CGP)	41,932	43,097
The Coffee Guy Brand System	-	919
Café2U Brand System	5,670	8,168
Gloria Jeans Brand System	44,840	51,969
Di Bella Coffee	9,650	14,271
	185,691	208,492

15. Intangible assets (continued)

15.6 Impairment losses and recoverable amounts

During FY19, impairment losses totalling $80.4 million have been recognised in respect of the following cash-generating units. This excludes impairment of $18.3 million in relation to the Manufacturing and Distribution Division that is classified as held for sale at 30 June 2019.

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

Cash-generating unit	Impairment charge	Recoverable amount
Brands		
Donut King	$0.1m	$67.4m
Michel's Patisserie	$0.1m	$22.3m
Brumby's Bakeries	$6.3m	$26.1m
Crust Pizza	$1.6m	$52.7m
Pizza Capers	$0.2m	-
Gloria Jeans	$7.1m	$44.3m
Café 2U	$2.5m	$5.8m
The Coffee Guy	$0.9m	$0.7m
Di Bella Coffee	$4.5m	$17.0m
Goodwill		
Bakery/Café CGU	$15.7m	$114.3m
Quick Service Restaurant (QSR) CGU	$12.7m	$52.2m
Coffee Retail CGU	$1.2m	$50.8m
Di Bella Coffee CGU	$27.5m	$16.5m
Total	$80.4m	

15.7 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 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 discounted cash-flow is based on the following key assumptions and estimates:

Year 1 cash-flows
Year 1 cash-flows are based on management's expectations of future performance, specifically incorporating the planned reduction in domestic franchise outlets previously referred to and the cash-flows expected to be incurred associated with these closures.

Annual cash-flow growth
The cash-flows in year's two to five are based on management's expectation of cash-flows following the store closure program and the expected normalised, like for like growth in a reduced domestic store network.

Terminal growth
An indefinite terminal growth rate of 2% (FY18: 2%) has been applied to all cash-flows to extrapolate these beyond the five-year budget period. This rate is consistent with long term industry growth rates.

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

Cash-generating unit	FY19 Discount rate	FY18 Discount rate
Bakery/Café Systems	17.43%	17.40%
QSR Systems	17.43%	15.11%
Coffee Retail Systems	17.81%	17.40%
Di Bella Coffee	18.00%	15.83%

The expected costs of disposal for each segment are deducted from the recoverable amount to determine fair value less costs of disposal.

Identifiable intangible assets
The recoverable amount of each intangible asset with an indefinite useful life has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

Year 1 cash-flows
Year 1 cash-flows are based on management's expectations of future performance, specifically incorporating the planned reduction in domestic franchise outlets previously referred to and the cash-flows expected to be incurred associated with these closures.

15. Intangible assets (continued)

15.7 Key assumptions used for calculating recoverable amounts (continued)

Annual cash-flow growth
The cash-flows in year's two to five are based on management's expectation of cash-flows following the store closure program and the expected normalised, like for like growth in a reduced domestic store network.

Terminal growth
An indefinite terminal growth rate of 2% (2018: 2%) has been applied to all cash-flows to extrapolate these beyond the five-year budget period. This rate is consistent with long term industry growth rates.

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

Cash-generating unit	FY19 Discount rate	FY18 Discount rate
Donut King Brand System	17.43%	16.89%
Brumby's Bakeries Brand System	17.43%	16.99%
Michel's Patisserie Brand System	17.43%	16.88%
Crust Gourmet Pizza Bars Brand System	17.43%	14.56%
Pizza Capers Brand System	-	17.03%
The Coffee Guy Brand System	18.00%	16.16%
Café 2U Brand System	18.00%	16.68%
Gloria Jeans Brand System	17.43%	16.68%
Di Bella Coffee Brand System	18.00%	15.08%

Significant estimate: Impact of reasonably possible changes in key assumptions

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

Identifiable intangible assets
Impairment charges have been taken on all brand system cash-generating units.

Café 2U brand intangible assets and Di Bella Coffee brand intangible assets have been written down to their recoverable amounts at 30 June 2019. Accordingly, any downwards movement in the growth rate underpinning the calculation of the recoverable amounts of these cash-generating units will result in further impairment.

Goodwill
Impairment charges have been taken on all cash-generating units to which goodwill is allocated during the year.

Goodwill associated with the Di Bella Coffee CGU has been written down to its recoverable amount. Accordingly, any downwards movement in the growth rate underpinning the calculation of the recoverable amount of this cash-generating unit will result in further impairment.

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

Cash-generating unit	Headroom	Average growth rate years 2 - 5	Average growth rate years 2 – 5 to trigger impairment
Goodwill			
Coffee Retail CGU	$1.3m	0.7%	(0.5%)

16. Trade and other payables

Consolidated	FY19 $'000	Restated FY18 $'000
Current		
Trade payables [1]	8,043	51,431
Accruals and other creditors	6,309	18,600
Goods and services tax (GST) payable	314	95
	14,666	70,126
Non-current		
Other payables	302	-
	302	-
	14,968	70,126

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

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

17. Provisions

Consolidated	FY19 $'000	FY18 $'000
Current		
Employee benefits	2,197	4,554
Onerous leases and make-good	10,882	7,166
Other provisions	3,319	6,723
	16,398	18,443
Non-current		
Employee benefits	162	131
Onerous lease and make-good	11,036	13,114
Other provisions	729	-
	11,927	13,245
	28,325	31,688

Consolidated	Employee benefits $'000	Onerous Leases and Make-Good $'000	Other $'000
Balance at 1 July 2018	4,685	20,280	6,723
Movement in provisions	732	5,164	1,171
Payments made	(3,058)	(3,526)	(3,846)
Balance at 30 June 2019	2,359	21,918	4,048

18. Other liabilities

18.1 Unearned income

Consolidated	FY19 $'000	Restated FY18 $'000
Current		
Unearned income	10,990	7,502
Non-current		
Unearned income	29,351	1,542
	40,341	9,044

As a result of the adoption of AASB 15 Revenue from Contracts with Customers, $33 million in relation to sales of franchise agreements and $5 million in relation to sales of distribution rights, has been recorded as unearned income. $2 million is unrelated to AASB 15 adoption.

18.2 Other Liabilities

Consolidated	FY19 $'000	Restated FY18 $'000
Current		
Retention bonds and deposits	502	1,662
Other (contingent consideration)	-	250
	502	1,912
Non-current		
Retention bonds and deposits	86	55
Other (contingent consideration)	-	(11)
	86	44
	588	1,956

Other liabilities represent the estimated fair value of the contingent consideration relating to the acquisition of Hudson Pacific Corporation.

Contingent consideration

The fair value of contingent consideration arising in a business combination is calculated using the income approach based on the expected payment amounts and their associated probabilities. When appropriate, it is discounted to present value.

Capital

19. Borrowings

Consolidated	FY19 $'000	Restated FY18 $'000
Secured at amortised cost		
Current		
Bank loans [(1)]	262,754	265,000
Loans from Other Entities / Persons	1,489	-
Equipment loans	23	20
Borrowing costs (deferred)	(210)	(773)
	264,056	264,247
Secured at amortised cost		
Non-current		
Equipment loans	25	49
	264,081	264,296

(1) In March 2019, agreement was reached between the Company and its lenders to reset the covenants effective from 31 March 2019 for covenants testing periods commencing 1 April 2019.

20. Issued capital

Consolidated	FY19 $'000	FY18 $'000
182,745,510 fully paid ordinary shares (FY18: 182,745,510)	428,640	428,640
	428,640	428,640

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

Consolidated	FY19 No. '000	FY19 $'000	FY18 No. '000	FY18 $'000
Fully paid ordinary shares [(1)]				
Balance at beginning of period	182,746	428,640	176,737	402,472
Issue of ordinary shares	-	-	6,009	26,503
Share issue costs	-	-	-	(477)
Related income tax	-	-	-	142
Balance at end of period	182,746	428,640	182,746	428,640

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

21. Reserves

Equity-settled employee benefits reserve	FY19 $'000	FY18 $'000
Balance at beginning of year	67	85
Recognition of share-based payments	(7)	(18)
Balance at end of year	60	67

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

Foreign Currency Translation reserve	FY19 $'000	FY18 $'000
Balance at beginning of year	987	1,254
Exchange difference on translation of foreign operations	363	(267)
Balance at end of year	1,350	987

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

Hedging reserve	FY19 $'000	FY18 $'000
Balance at beginning of year	(1,045)	(1,233)
Changes in the fair value of cashflow hedges	(129)	268
Amounts derecognised due to hedge ineffectiveness	1,135	-
Deferred tax	39	(80)
Balance at end of year	-	(1,045)

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

21. Reserves (continued)

Marketing Fund surplus	FY19 $'000	FY18 $'000
Balance at beginning of year	-	-
Transfer from retained earnings	3,663	-
Surplus during the year	32	-
Balance at end of year	3,695	-

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

Total Reserves	5,105	9

Fair value measurement of financial instruments

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

Hedging reserve

Amounts recognised in profit or loss

During the year, the Group assessed that the interest rate swaps due to mature in 2020 and 2021 became ineffective due to differences in critical terms between the interest rate swaps and the underlying floating rate loans.

On the interest rate swaps becoming ineffective, a total of $1.1m was transferred from the hedging reserve to expenses. From this date, all movements in the fair value of the interest rate swaps have been recognise in financing expenses in the income statement. The following amounts have been included:

	FY19 $'000	FY18 $'000
Hedge ineffectiveness of interest swaps - amounts in financing expenses	2,938	-

22. Retained earnings

Consolidated	Notes	FY19 $'000	Restated FY18 $'000
Balance at beginning of year		(270,609)	62,594
Net loss attributable to members of the parent entity		(149,257)	(306,693)
Dividends provided for or paid	23	-	(26,510)
Opening adjustment for adoption of AASB 15		(25,848)	-
Net loss attributable to marketing funds reclassed to other reserves		(32)	-
Transfer of marketing fund surpluses to other reserves		(3,663)	-
Balance at end of year		(449,409)	(270,609)

23. Dividends

Company	FY19 Cents per share	FY19 Total $'000	FY18 Cents per share	FY18 Total $'000
Declared and paid during the financial year				
Fully paid ordinary shares				
Final dividend - fully franked at 30% tax rate [1]	-	-	15.00	26,510

(1) The Directors have resolved that no final dividend will be paid in respect of FY19.

Company	FY19 $'000	FY18 $'000
Adjusted franking account balance	50,279	57,575

24. Share-based payments

24.1 Performance Rights Plan

The Group has a long-term incentive scheme under a Performance Rights Plan. The Performance Rights Plan was approved by Directors in August 2015 for commencement in the financial year ending 30 June 2016.

There is no consideration payable by the participant upon exercising vested performance rights. Upon vesting, the conversion of a performance right to an equity or cash based settlement is determined using a formula referencing the relevant share price of the Company and the number of rights exercised and is at the Board's sole discretion.

The Performance Rights are divided into three (3) equal tranches, with each respective tranche having a 12-month performance period aligned to successive financial years.

Each tranche of rights is dependent on satisfaction of two discrete performance measures:
1. Earnings per Share (EPS) representing 50% of each tranche (EPS Measure); and
2. Relative Total Shareholder Return (TSR) representing 50% of each tranche (TSR Measure).

Performance rights granted under the Performance Rights Plan carry no rights to dividends and no voting rights.

As noted in the following table, all remaining performance rights on issue were either forfeited during the FY19 year by key management personnel (KMP) or lapsed subsequent to year end as performance criteria were not met.

Given the current performance of the company and significant restructuring activity being undertaken, Directors have suspended Long Term Incentive Plans indefinitely.

The following table summarises the Performance Rights granted under the plan:

	Number of Performance Rights		
	Tranche 1	Tranche 2	Tranche 3
As at 30 June 2017	**35,366**	**47,029**	**54,929**
Granted during the year	-	-	-
Forfeited during the year	(35,366)	(47,029)	(42,683)
As at 30 June 2018	**-**	**-**	**12,246**
Granted during the year	-	-	-
Forfeited during the year (2)	-	-	(9,469)
As at 30 June 2019 (1)	**-**	**-**	**2,777**

(1) All remaining Performance Rights on issue as at 30 June 2019 lapsed subsequent to year end, as the performance conditions attaching to those performance rights were not met.

(2) Refer to the remuneration report in the Directors Report. KMP with performance rights voluntarily forfeited those rights during the FY19 year.

24.2 Executive share option plan

In accordance with the provisions of the executive share option plan, as at 30 June 2019, Directors, executives and senior employees have options over nil ordinary shares (FY18: nil).

Share options granted under the executive share option plan carry no rights to dividends and no voting rights.

In FY19 the Directors approved a replacement Rights Plan (Replacement Plan) in connection with future long-term incentive remuneration. No Performance Rights have been granted under this plan as at 30 June 2019.

Risk

25. Financial instruments

25.1 Capital risk management

In March 2019, the Group renegotiated its financial covenants attaching to the Group's debt facilities that support the Group's restructuring plans with its senior debt lenders. The Group has clear plans to reduce debt and manage the capital base through a combination of turnaround strategies, including improving the performance of its business operations, consideration of asset sales and a plan for a market recapitalisation when the business performance has stabilised.

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

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

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

25.2 Gearing ratio

The Group's Board and management are currently assessing the capital structure of the business, including gearing levels as a number of options to recapitalise the balance sheet are explored. The Group will advise a revised gearing ratio target at completion of the planned debt reduction and recapitalisation activities.

Refer to the Directors Report for further details in respect of recapitalisation activities.

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

Consolidated	FY19 $'000	Restated FY18 $'000
Debt [1]	264,081	264,296
Cash and bank balances	(7,823)	(15,871)
Net debt	256,258	248,425
Equity [2]	(15,664)	158,040

(1) Debt is defined as long and short-term borrowings, net of deferred borrowing costs (excluding derivatives and financial guarantee contracts), as described in Note 19.
(2) Equity includes all capital and reserves of the Group that are managed as capital.

25. Financial instruments (continued)

25.3 Categories of financial instruments

Consolidated	FY19 $'000	Restated FY18 $'000
Financial assets		
Loans and receivables		
Trade and other receivables	15,416	52,898
Other financial assets	4,688	23,846
Cash and cash equivalents	12,317	18,979
Financial liabilities		
Trade payables	8,043	51,431
Other payables	6,623	18,695
Retention bonds and deposits	588	1,717
Contingent consideration	-	239
Loans (at amortised cost)	264,081	264,296
Derivative financial instruments - current	3,063	-
Derivative financial instruments - non-current	-	1,547

25.4 Financial risk management objectives

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

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

25.5 Derivatives

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

	FY19 $'000	FY18 $'000
Current liabilities		
Interest rate swap contracts - cash flow hedges	3,063	-
	3,063	-
Non-current liabilities		
Interest rate swap contracts - cash flow hedges	-	1,547
	-	1,547

25.6 Market risk

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

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

25.7 Interest rate risk management

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

The Group interest rate risk management measures include fixed interest rate contracts covering $150 million of gross debt with a 3.0 - 4.0 year maturity profile. The fixed interest rate contracts were taken out to hedge the interest rate risk of associated movements in the Bank Bill Swap Benchmark (BBSW), and account for these derivatives in accordance with AASB 9 *Financial Instruments*.

25. Financial instruments (continued)

25.7 Interest rate risk management (continued)

During the year, the swaps became ineffective for hedge accounting and were subsequently derecognised from other reserves and recognised in profit or loss and will be continued to be recognised in the profit or loss.

At 30 June 2019, the Group's weighted average interest rate is 4.86% and total debt at fixed interest rates is $146.5 million.

Interest rate sensitivity analysis

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

	Impact on post-tax profit		Impact on other components of equity	
Sensitivity	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Interest rates - increase by 100 basis points (1%)	569	(805)	-	2,384
Interest rates - decrease by 100 basis points (1%)	(569)	805	-	(2,384)

25.8 Foreign exchange risk

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

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

	Assets		Liabilities	
Exposure	FY19 $'000	FY18 $'000	FY19 $'000	FY18 $'000
US Dollar	19,810	16,497	1,844	1,744
Euro	332	723	9	343
New Zealand Dollar	759	2,817	210	614

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.

	FY19		FY18	
Impact of Sensitivity to Profit or Loss	10%	-10%	10%	-10%
US Dollar	(1,143)	1,397	(939)	1,147
Euro	(21)	25	(24)	30
New Zealand Dollar	(35)	43	(140)	171
Total increase/(decrease)	(1,199)	1,465	(1,103)	1,348

25. Financial instruments (continued)

25.9 Credit risk

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

Credit risk management

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

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

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

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

Financial assets and other credit exposures	FY19 $'000	FY18 $'000
Contingent liabilities		
Financial guarantees	814	814
Rental guarantees	2,824	3,407
Letters of credit	-	788
	3,638	5,009

Trade receivables

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

25.10 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and undrawn borrowing facilities, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Note 8.3 sets out details of additional undrawn facilities that the Group had at 30 June 2019. Note 19 sets out details of the Group's borrowings at 30 June 2019, and also revised facilities and covenants with respect to these borrowings, agreed with the lenders subsequent to year end. The reduction in undrawn facilities subsequent to year end increases liquidity risk of the Group.

25. Financial instruments (continued)

25.10 Liquidity risk management (continued)

Liquidity and interest rate risk tables

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

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Over 5 years	Total
	%	$'000	$'000	$'000	$'000
FY19					
Non-derivatives					
Trade payables	-	8,043	-	-	8,043
Other payables	-	6,623	302	-	6,925
Retention bonds and deposits	-	432	86	-	518
Bank loans	4.9	270,959	-	-	270,959
Equipment loans	6.0	1,510	25	-	1,535
Rental guarantee contracts	3.3	2,824	-	-	2,824
Financial guarantee contracts	-	814	-	-	814
		291,205	413	-	291,618
Derivatives					
Interest rate swaps					
- (inflow)	1.4	(1,832)	(1,142)	-	(2,974)
- outflow	2.5	3,090	1,986	-	5,076
		1,258	844	-	2,102
FY18 Restated					
Non-derivatives					
Trade payables	-	51,431	-	-	51,431
Other payables	-	18,600	-	-	18,600
Retention bonds and deposits	-	1,662	55	-	1,717
Bank loans	5.7	298,217	-	-	298,217
Equipment loans	6.0	20	49	-	69
Contingent consideration	-	250	94	-	344
Finance lease liabilities	6.8	540	2,699	1,620	4,859
Rental guarantee contracts	0.3	3,407	-	-	3,407
Financial guarantee contracts	-	814	-	-	814
Letters of credit	0.3	788	-	-	788
		375,729	2,897	1,620	380,246
Derivatives					
Interest rate swaps					
- (inflow)	1.9	(2,899)	(4,045)	-	(6,944)
- outflow	2.5	3,618	5,126	-	8,744
		719	1,081	-	1,800

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 $3.6 million (FY18: $4.2 million).

25. Financial instruments (continued)

25.10 Liquidity risk management (continued)

Liquidity and interest rate risk tables (continued)

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

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Total
	%	$'000	$'000	$'000
FY19				
Cash and cash equivalents	-	7,823	-	7,823
Loans and receivables	-	17,766	2,339	20,105
		25,589	2,339	27,928
FY18 Restated				
Cash and cash equivalents	-	15,871	-	15,871
Loans and receivables	-	66,146	9,346	75,492
		82,017	9,346	91,363

The Group has access to financing facilities, as described in Note 8.3, of which $10.7 million was unused at the end of the reporting period (FY18: $51.2 million). Note 19 sets out details of the Group's borrowings at 30 June 2019, agreed with the lenders during the year, resulting in a reduction of unused facilities available to the Group and additional restrictions on the utilisation of unused facilities. Subsequent to FY19 year end, the Group utilised $3.0 million of the secured bank loan unused facilities available as at 30 June 2019.

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

25. Financial instruments (continued)

25.11 Fair value of financial instruments

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

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

Recognised fair value measurements

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2019.

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

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

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

Recurring fair value measurements At 30 June 2019	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities					
Derivatives - interest rates swaps	25.5	-	3,063	-	3,063
Total financial liabilities		-	3,063	-	3,063

Recurring fair value measurements At 30 June 2018	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities					
Derivatives - interest rates swaps		-	1,547	-	1,547
Contingent consideration		-	-	344	344
Total financial liabilities		-	1,547	344	1,891

Specific valuation techniques used to value financial instruments include:

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

NOTES TO THE FINANCIAL STATEMENTS

Group structure

26. Subsidiaries

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

Entity	FY19 %	FY18 %	Entity	FY19 %	FY18 %
Addiqtion Holdings Pty Ltd(2)	100	100	Gloria Jean's Coffees International China*	100	100
Adonai International Unit Trust(2)	100	100	Gloria Jean's Coffees International Pty Limited*	100	100
Associated Foodservice Distributors Pty Ltd(2)	100	100	Gloria Jean's Coffees International (UK) Pty Ltd*	100	100
Associated Smallgoods Distributors Pty. Ltd.(2)	100	100	Gloria Jean's Coffees UK Limited*	100	100
Bakery Fresh 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 LimitedΔ	100	100	Gourmet Foods Australia Pty Limited(2)	100	100
BDP Franchise Pty Ltd(2)	100	100	HDCZ (NZ) LimitedΔ	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	Hudson Pacific Corporation 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) LimitedΔ	100	100	Jireh International Unit Trust(2)	100	100
Brumby's Bakeries System Pty Ltd(2)	100	100	Jonamill Pty. Limited(2)	100	100
Cafe2U (NZ) LimitedΔ	100	100	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) LimitedΔ	100	100	Michel's Patisserie (VQ) Pty Ltd(2)	100	100
Caper Construction Pty Ltd(2)	100	100	Michel's Patisserie (VQL) Pty Ltd(2)	100	100
Capercorp Pty Ltd(2)	100	100	Michel's Patisserie (W.A.) Pty. Limited(2)	100	100
Capers Gourmet Kitchen Pty Ltd(2)	100	100	Michel's Patisserie Corporate Retail Division Pty Ltd(2)	100	100
CGP (NZ) LimitedΔ	100	100	Michel's Patisserie Management Pty Ltd(2)	100	100
CGP Systems Pty Ltd(2)	100	100	Michel's Patisserie Operations Pty Ltd(2)	100	100
Coffee Houses CRD Pty Ltd(2)	100	100	Michel's Patisserie System Pty Ltd(2)	100	100
Dairy Country Pty Ltd(2)	100	100	Michel's Patisserie Systems (NZ) LimitedΔ	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
DK China Pty Ltd(2)	100	100	Regional Franchising Systems Pty Ltd(2)	100	100

NOTES TO THE FINANCIAL STATEMENTS

26. Subsidiaries (continued)

Entity	FY19 %	FY18 %	Entity	FY19 %	FY18 %
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

27. Parent entity disclosures

27.1 Financial position

Parent entity	FY19 $'000	FY18 $'000
Assets		
Current assets	1,848	7,338
Non-current assets	298,035	534,009
Total assets	299,883	541,347
Liabilities		
Current liabilities	266,638	267,077
Non-current liabilities	-	1,054
Total liabilities	266,638	268,131
Equity		
Issued capital	428,640	428,640
Retained earnings	(395,455)	(154,446)
Reserves	-	(1,045)
Equity-settled employee benefits	60	67
Total equity	33,245	273,216

27.2 Financial performance

Parent entity	FY19 $'000	FY18 $'000
Loss for the year	(241,009)	(152,602)
Other comprehensive income	-	(1,045)
Total comprehensive income	(241,009)	(153,647)

27.3 Other Commitments

The parent entity has no expenditure commitments as at 30 June 2019 (2018: nil).

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

NOTES TO THE FINANCIAL STATEMENTS

28. Discontinued operations

As at 30 June 2019, the entire Manufacturing and Distribution Division is classified as Held for Sale and Discontinued Operations, as the board has resolved this division is not a core operation of the Group and will dispose of the businesses within this division. Hudson Pacific (HPC), Associated Food Services (AFS), Dairy Country and Bakery Fresh form part of the Manufacturing & Distribution Division.

The Group is presently engaged in asset sale activities for the Dairy Country manufacturing business, and Hudson Pacific/Associated Food Services distribution businesses respectively. The Bakery Fresh operations within the Manufacturing and Distribution division were closed during the year, with final operations ceasing in May 2019.

In classifying this division as Held for Sale in accordance with AASB 5, the Group has assessed a number of factors, based on the information presently available including whether the division is available for sale in its present conditions and whether the sale is expected to complete within the next 12 months. If the current sale negotiations do not proceed, the division may no longer meet the requirements of AASB 5 and will no longer be classified in this manner.

In measuring the division in accordance with AASB 5, the Group has considered the expected sales price to be achieved in the current sales negotiations. Where changes to these negotiations take place, there may be further changes to the carrying value of these assets under the requirements of AASB 5.

Financial information relating to the discontinued operation for the year 30 June 2019 is set out below.

An impairment loss of $18.3 million has been recognised before classification of these operations as held for sale. The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

Consolidated	FY19 $'000
Cash and cash equivalents	946
Trade and other receivables	19,829
Other financial assets	5,639
Inventories	8,768
Property, plant and equipment	17,895
Intangible assets	8,190
Deferred tax assets	3,890
Other assets	367
Total assets classified as held for sale	65,524
Trade and other payables	45,929
Provisions	4,759
Deferred tax liabilities	2,859
Other liabilities	99
Liabilities directly associated with assets classified as held for sale	53,646
Net assets of disposal group	11,878

28. Discontinued operations (continued)

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

Consolidated	FY19 $'000	FY18 $'000
Revenue	177,240	175,573
Expenses	(229,375)	(222,061)
(Loss)/profit before income tax	(52,135)	(46,488)
Attributable tax (expense)/benefit	2,775	(693)
Net (loss)/profit attributable to discontinued operations	(49,360)	(47,181)

During FY19, net cash outflow from operating activities of the Manufacturing & Distribution Division was $5.9 million (FY18: $6.9 million, cash inflow), net cash inflow from investing activities was $4.6 million (FY18: $4.8 million, cash outflow) and net cash inflow from financing activities was nil (FY18: nil).

Earnings per share		
From discontinuing operations:		
Basic (cents per share)	(27.0)	(26.1)
Diluted (cents per share)	(27.0)	(26.1)

29. Related party transactions

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

29.1 Equity interests in related parties

Equity interests in subsidiaries

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

Equity interests in associates and joint ventures

There are no equity interests in associates or joint ventures.

Equity interests in other related parties

There are no equity interests in other related parties.

29.2 Transactions with Key Management Personnel

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

Key management personnel compensation - Summary	FY19 $'000	FY18 $'000
Short term Benefits	2,191	3,344
Long term Benefits	12	74
Termination Benefits	298	750
Performance Rights	11	24
Total comprehensive income	2,512	4,192

NOTES TO THE FINANCIAL STATEMENTS

Other

30. Events after the reporting period

Subsequent to year end, the Australian Securities and Investments Commission (ASIC) issued notices (ASIC Notices) to the RFG under Section 30 of the Corporations Act 2001, in which ASIC has requested that RFG produce books, records and documentation in connection with their investigation of possible contraventions of the Corporations Act 2001 prior to 25 September 2018. The Group has fully co-operated, and continues to fully co-operate, with ASIC in respect of the request for the records and information outlined in the ASIC Notices.

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 paid in respect of FY19.

31. Contingent liabilities

Consolidated	FY19 $'000	FY18 $'000
Contingent liabilities		
Financial guarantee contracts	814	814
Rental guarantee contracts [(1)]	2,824	3,407
Letters of credit	-	788
	3,638	5,009

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

31.1 Contingent liabilities

The Group is the subject of a number of possible class action claims and regulatory investigations which are referred to below. Provisions for costs incurred but unpaid as at balance date have been raised where indicated in line with the principles outlined in the provisions accounting policy included in Note 35 to the financial statements.

Possible Class Actions

The legal firm, Corrs Chambers Westgarth has announced that it is exploring a potential class action against RFG and related parties by current and former Michel's Patisserie franchisees. In addition to the risk of a franchisee class action, one legal firm, Phi Finney McDonald, continues to advertise a potential shareholder class action claim against RFG.

No franchisee or shareholder class action claim has been lodged against the Group, nor has a plaintiff law firm contacted the Group in relation to the threatened class actions.

It is currently not possible to determine whether the threatened actions will result in legal proceedings and what the financial impact of them, if any, may be for the Group in the future. In the event legal proceedings are initiated, the Group intends to defend its position.

ACCC and ASIC Investigations

The Australian Competition and Consumer Commission (ACCC) has issued notices (Notices) to the Company under section 155 of the Competition and Consumer Act (CCA), in which it has requested that RFG provide documents and information in connection with the ACCC's investigation of conduct it considers may possibly contravene the Australian Consumer Law in relation to RFG's franchise businesses and operations. The Group has fully co-operated with the ACCC in respect of the requests for information and documents outlined in the Notices.

The Australian Securities and Investments Commission (ASIC) has also issued notices (ASIC Notices) to the Company under Section 30 of the Corporations Act 2001, in which ASIC has requested that RFG produce books, records and documentation in connection with their investigation of possible contraventions of the Corporations Act 2001 prior to 25 September 2018. The Group has fully co-operated, and continues to fully co-operate, with ASIC in respect of the request for records and information outlined in the ASIC Notices.

It is currently not possible to determine whether the investigations by the ACCC will result in legal proceedings being brought against the Group or its directors and officers, and what the financial impact of such proceedings, if any, may be for the Group in the future. However, if the ACCC bring proceedings against the Group or its directors and officers in regard to the possible contraventions raised in the Notices, this could result in the imposition of potentially significant civil penalties if the ACCC is successful. Additionally, the ACCC could seek compensatory orders on behalf of franchisees or former franchisees. In the event legal proceedings are initiated, the Group intends to defend its position.

31. Contingent liabilities (continued)

31.1 Contingent liabilities (continued)

If ASIC brings proceedings against the Group or its directors and officers in regard to the possible contraventions raised in the ASIC Notices, this could result in the imposition of penalties for the Group and its directors and officers, if ASIC is successful. In the event legal proceedings are initiated, the Group intends to defend its position. The Group has provided for all legal costs incurred to balance date in responding to and dealing with all the matters referred to above.

32. Commitments for expenditure

Consolidated	FY19 $'000	FY18 $'000
Plant and equipment	353	698

33. Operating leases

33.1 Leasing arrangements

Operating leases relate to property leases (company stores and office premises) with lease terms of mainly five years, motor vehicle leases with lease terms of three years and office equipment leases with lease terms between two and four years. The Group does not have an option to purchase the leased assets at the expiry of the lease periods.

The Group has a large number of back-to-back leases with Franchise Partners, which are contracted at substantially offsetting terms. In accordance with AASB 117, the Group has not recognised these leases as commitments on its balance sheet as they relate to back-to-back lease arrangements, to the extent that future lease payments are expected to be paid by Franchise Partners.

Future lease payment relating to back-to-back leases are $112.0 million, of which $105.3 million are expected to be paid by Franchise Partners. The Group has recognised a provision for onerous leases for the amount that is not expected to be recovered. Please refer to note 35.1 (h) for a description of the effect of applying AASB 16 'Leases' from 1 July 2019 on the Group's financial position.

33.2 Amounts recognised in profit or loss

Consolidated	FY19 $'000	FY18 $'000
Lease expense	7,859	9,300
	7,859	9,300

33.3 Future minimum lease payments

Consolidated	FY19 $'000	FY18 $'000
Less than one year	8,646	8,806
Between one and five years	17,296	16,407
More than five years	3,887	1,822
	29,829	27,035

33.4 Liabilities recognised in respect of non-cancellable operating leases

Consolidated	FY19 $'000	FY18 $'000
Onerous leases and make-good (Note: 17)	21,918	20,280
	21,918	20,280

34. Remuneration of auditors

Consolidated	FY19 $	FY18 $
Audit and other assurance services:		
Audit and review of financial statements	1,273,019	972,050
	1,273,019	972,050
Other auditors		
Audit and review of financial statements	18,374	39,312
	18,374	39,312

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 30 August 2019.

(b) Basis of measurement

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

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

(c) Early adoption of Accounting Standards

The Directors have elected not to early adopt Accounting Standards that are not applicable to the reporting period ended 30 June 2019.

(d) Going Concern

These financial statements have been prepared on the basis that RFG is a going concern and therefore able to realise assets in the ordinary course of business and settle liabilities as and when they are due. During the year ended 30 June 2019, the Group incurred a loss before income tax from continuing operations of $117.0 million, and a total loss after income tax of $149.3 million.

The Group has a net current liability position of $255.6 million at balance date and a net liability position of $15.7 million. The Group generated a negative cash-flow from operating activities of $8.5 million and a positive Underlying EBITDA of $50.7 million.

As referred to in Note 19 of the Financial Statements, the Group's secured syndicated loans totalling $262.8 million are classified as current liabilities at the balance date with a repayment date for the syndicated loans being 31 October 2019.

The operating results for the year ended 30 June 2019 have included further impairment losses and restructuring provisions totalling $185.5 million, as the Board and management of the Group have accelerated their strategy of transforming the activities of the business, including closing unprofitable franchise stores and commercial operations, rationalising centralised functions, staff redundancies and continuing with an asset sale program.

The sale of the Group's Donut King and QSR Division Brand System assets and operations announced in the financial report for the half-year ended 31 December 2018 did not proceed. Negotiations were terminated in April 2019 as a binding agreement could not be reached on terms which the Board considered were in the best interests of the Company as a whole.

In 2H19 the Board resolved that the Manufacturing and Distribution Division was not a core operation of the Group and will dispose of the businesses within this division. The Group is presently engaged in asset sale activities for the Dairy Country manufacturing business, and Hudson Pacific/Associated Food Services distribution businesses respectively.

Negotiations with interested parties are ongoing, however no binding agreements have been reached for sale of these businesses at the date of this Director's Report as noted above. The Bakery Fresh operations within the Manufacturing and Distribution Division were closed during the year, with final operations ceasing in May 2019.

As part of the ongoing dialogue with the syndicated debt lenders, the Group reached an agreement with the financiers to renegotiate its financial covenants associated with the senior debt facilities and received a waiver with respect to a potential Review Event actionable after 28 February 2019. The Operating Leverage ratio and Interest Cover ratio financial covenants were also reset for the period ending 31 March 2019 and for the balance of the facility term to 31 October 2019, being the scheduled date for the total repayment of the syndicated facility debt totalling $262.8 million.

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(d) Going Concern (continued)

The Board and management in conjunction with the Group's advisors have been actively pursuing options to secure the financing arrangements of the Group for the future, and are confident that one or more of the financing alternatives outlined below will be successfully executed over the coming months to extend, replace and or supplement the Company's current financing arrangements:

- The Group has requested an extension for the repayment of the current syndicated debt facility of $262.8 million beyond its current maturity date of 31 October 2019. At the date of this report, the extension is under consideration by the lenders.
- The Group is continuing to investigate ways to maximise cash-flow for the business, including targeted asset sales. Completion of the disposal of the Manufacturing and Distribution Division is expected to realise cash proceeds that will be used in full to pay down a portion of the external borrowings. At the date of this report it is expected that a binding sale agreement will be achieved in the first half of the FY20 year.
- The Group is well advanced in executing on one of the following options to raise up to $160m in funds to pay down a significant portion of the existing syndicated debt facility:
    - the provision of a debt and convertible note financing package with Soliton Capital Partners (Soliton); or
    - a new equity raising.
- The Group will also seek to agree a new financing facility for the residual debt with the existing syndicated debt lenders as part of a comprehensive funding program, in conjunction with the Soliton proposal or the new equity raising, or other potential financing.

The continuing viability of the Group and its ability to continue as a going concern is dependent upon the Group maintaining the support of the syndicated lenders, including managing the covenants and the terms of the facility in the immediate term. In addition, prior to the expiry of the existing syndicated debt facilities on 31 October 2019, the Group will need to secure an extension of the facilities, or sufficient levels of alternative or new funding from the financing options the Group is pursuing to replace the current lending facility on terms and conditions that secure its financing viability for the foreseeable future.

As a result of the matters referred to above, and the potential legal actions referred to in the contingent liabilities section, there are material uncertainties that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. However, the Directors, after taking into account all relevant factors, have concluded that there are reasonable grounds to believe both that the syndicate debt lenders will continue to support the Group over the next twelve months, and that the Group will be successful in securing a comprehensive financing structure acceptable to the syndicate debt lenders that will ensure that the Group will remain a going concern for at least the next twelve months from the date of this Report.

Accordingly, the Directors have prepared the financial report on a going concern basis. As a consequence, no further adjustments have been made to the financial report relating to the recoverability and classification of the assets carrying amounts or the amounts and classifications of liabilities that might be necessary should the Group not continue as a going concern.

(e) Foreign currencies

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

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

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

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

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(e) Foreign currencies (continued)

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.

(f) 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 9
Recognition and estimation of fair value of certain assets available for sale - Note 28
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

(g) Goods and services tax

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

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

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

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

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

(h) Adoption of new and revised Accounting Standards

Standards and Interpretations adopted in the current period

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

AASB 15 Revenue from Contracts with Customers

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended) which is effective for an annual period that begins on or after 1 January 2018. The adoption of AASB 15 has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

In accordance with the transition provisions of AASB 15, the Group has applied the modified retrospective method, adjusting retained earnings as at 1 July 2018 with the cumulative effect of applying this standard. In applying this method, the Group has applied the transition provisions only to those contracts that are not completed contracts at the date of initial application, being 1 July 2018.

The impact on the Group's retained earnings as at 1 July 2018 is as follows:

	$'000
Opening retained earnings	(270,609)
Restatement of revenue from contracts with customers	(39,067)
Increase in deferred tax asset	13,219
Adjustment to retained earnings from adoption of AASB 15	(25,848)
Opening retained earnings after the adoption of AASB 15	(296,458)

There have been no other significant changes in the Group's revenue recognition policies on adoption of AASB 15 *Revenue from Contracts with Customers.*

The amount by which each financial statement line item has been affected in the current reporting period by the application of AASB 15 when compared to the previous accounting standard AASB 118 *Revenue* is as follows:

	AASB 118 carrying amount (30 June 2019) (1)	Remeasurements & Reclassifications (1)	AASB 15 carrying amount (30 June 2019) (1)
	$'000	$'000	$'000
Other current liabilities	1,840	9,652	11,492
Other non-current liabilities	1,404	28,034	29,438
Deferred tax assets	44,597	11,277	55,874
Revenue	145,339	23,957	169,296
Expenses (2)	(268,139)	(17,231)	(285,370)
Income tax (expense)/benefit	19,024	(1,942)	17,082
Basic and Diluted Earnings per share	(84.3)	2.6	(81.7)

(1) Amounts presented are prior to reclassifications of Assets Held for sale and discontinued operations.
(2) Represents an increase in marketing expenses as a result of gross presentation of Marketing Funds.

The adjustment to opening retained earnings is the result of a number of accounting policy changes detailed as follows:

Accounting for franchise agreements

AASB 15 replaces the current guidance regarding recognition of revenue and presents a new model for recognising revenue from contracts with customers. The standard requires revenue to be recognised when control of a good or service is passed to the customer. This may be at a single point in time or over time. The new standard also provides new guidance on the identification and separation of obligations to a customer. The implementation of the new guidance has had no impact on the amount or timing of cash flows.

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

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

Standards and Interpretations adopted in the current period (continued)

On entry into a franchise agreement or master franchise agreement the Group receives an initial franchise fee upfront. In addition, on renewal of a franchise agreement or international franchise agreement the Group receives a renewal fee. Under the previous guidance, the Group recognised these initial franchise fees and renewal fees when it performed all material obligations and services, which generally occurs when a franchise opens, and the Group recorded renewal fees when the renewal options became effective.

Under the new guidance, the initial and renewal fees are allocated in full to the single performance obligation that exists in the franchise and master franchise agreements. The satisfaction of this performance obligation happens over time and accordingly revenue is recognised on a straight-line basis over the term of the related franchise agreement.

To reflect the change in revenue recognition policies, the Group has decreased retained earnings at 1 July 2018 by $21.4 million, increased deferred revenue by $32.8 million and increased deferred tax assets by $11.3 million. Since the date of adoption of 1 July 2018, $9.1 million of revenue from the sale of franchise agreements has been recognised with a corresponding decrease in deferred revenue.

Marketing contributions, a subset of franchise fees received from franchise agreements, were recorded under the previous guidance when the contributions received had been applied against costs incurred by the Group in carrying out marketing related activity, with deferred revenue recorded for any underspend at reporting date. Under the new guidance, marketing contributions do not relate to separate and distinct performance obligations under the franchise agreement, and therefore marketing contributions are recognised as the franchise agreement's performance obligation is being satisfied over the franchise term without reference to marketing expenses incurred. This has not had a significant impact on the financial performance or financial position of the Group.

Accounting for the Sale of distribution rights

Under the previous guidance, initial fees received by the Group on commencement of a supply distribution agreement were recorded when the agreement became effective.

Under the new guidance, the initial fees received in supply distribution agreements are allocated in full to the single performance obligation included in these agreements. The satisfaction of this performance obligation arises over time and accordingly the initial fees received are recognised over the term of the supply distribution period based on the output method, which may either be time elapsed or units distributed.

To reflect this change in policy, the Group has decreased retained earnings at 1 July 2018 by $4.4 million and increased deferred revenue by $6.3 million and deferred tax assets by $1.9 million. Since the date of adoption of 1 July 2018, $1.6 million of revenue from the sale of distributions rights has been recognised with a corresponding decrease in deferred revenue.

There have been no other significant changes in the Group's revenue recognition policies on adoption of AASB 15 Revenue from Contracts with Customers.

AASB 9 Financial Instruments

AASB 9 Replaces AASB 139 Financial Instruments: Recognition and Measurement AASB 9 contains revised guidance for the classification and measurement of financial instruments, a new impairment model for most debt instruments and new hedge accounting requirements.

AASB 9 Financial Instruments

There is no change to the financial assets falling under the scope of AASB 139 and subsequently under AASB 9. These assets are classified as amortised cost under both standards, therefore there is an insignificant impact on the classification and measurement of the Group's financial assets.

The new impairment model requires the recognition of impairment losses based on expected credit losses (ECL) rather than incurred credit losses, as is the case under AASB 139. It applies to financial assets classified as amortised cost, debt instruments measured at FCOCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

Trade Receivables

The Group applied 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, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical payment profiles for both individual and groups of debtors with similar credit risk characteristics along with current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the current franchise environment and difficult small business trading conditions to be the most relevant factors and as such has based the expected loss rates on these factors.

NOTES TO THE FINANCIAL STATEMENTS

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

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

Standards and Interpretations adopted in the current period (continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of 30 days past due.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

The Group considered that there was evidence of impairment if any of the following indicators were present;

- Significant financial difficulties of the debtor
- Evidence that the debtor has, or probability that the debtor will, enter into bankruptcy or financial reorganisation; and
- Default of late payments (more than 60 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

New Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial statements, the following Standards and Interpretations have been issued but were not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 'Leases'	1 January 2019	30 June 2020

AASB 16 Leases

AASB 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The date of initial application of AASB 16 for the Group will be 1 July 2019.

The new leasing Standard will have a material impact on the Group's financial statements, particularly with the inclusion of new assets and liabilities associated with lease recognition. In addition, there will be a significant impact on the way that the revenues and expenses associated with lease accounting will be reported in the consolidated statement of profit or loss and other comprehensive income. Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, AASB16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets. Under AASB 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The sublease is classified as an operating or finance lease with reference to the right of use asset arising in the head lease. For finance leases, the right-of-use asset is derecognised, and a lease receivable recognised. For operating leases, the intermediate lessor recognises operating lease income on a straight line basis. The lease liability relating to the head lease continues to be recognised on the balance sheet.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules in AASB 16.

The Group expects to adopt AASB 16 using the modified retrospective method. The Group plans to elect the following transition practical expedients:

- The Group will make use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 July 2019;
- Discount rates applied to a portfolio of leases with similar characteristics;
- Lessee arrangements with a short remaining lease term from date of initial application or leases assessed as low value will be disregarded;
- The Group will elect rely on its onerous lease assessments under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' as at 1 July 2019.Any existing onerous lease provisions will be adjusted against the right of use carrying value at upon transition; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Under this approach the cumulative effect of adoption will be recognised as an adjustment to opening retained earnings at 30 June 2019, with no restatement of comparative information.

35. Summary of significant accounting policies (continued)

35.1 Basis of preparation (continued)

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

New Standards and Interpretations issued but not yet effective (continued)

The Group has materially completed the impact assessment of adopting AASB 16. The impact on the Consolidated Balance Sheet at 1 July 2019 is expected to be as follows:

- An increase in right-of-use assets of approximately $56 million;
- An increase in lease receivables relating to back to back leases of approximately $106 million; and
- An increase in lease liabilities of approximately $162 million
- The amounts disclosed above exclude any amounts recognised as onerous lease and make-good provisions at 30 June 2019.

The impact on the Consolidated Statement of Comprehensive Income for the year of adoption is estimated to be as follows:

- A decrease in rental expense of approximately $9 million
- An increase in depreciation expense of approximately $18 million
- An increase in finance costs of approximately $3 million

There will be nil net effect to the Consolidated Statement of Cashflows as a result of adopting AASB 16, as operating lease payments will continue to be paid as previously, however the cash outflow will be reclassified to financing activities rather than operating activities.

The estimated financial impacts above could be different to actuals due to changes in lease portfolio and incremental borrowing rate used to discount new leases. Analysis of expected credit losses relating to lease receivables recognised at 1 July 2019 has not been completed at the time of reporting. Application of the expected credit loss model to lease receivables may affect the actual amount recognised.

As at the reporting date, the Group has non-cancellable operating lease commitments of $29.8 million, see note 33.

(i) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has power over an entity, is exposed or has rights to variable returns from the entity and has the ability to use its power to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the Subsidiaries' financial statements to make their accounting policies consistent with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Accounting for Marketing Funds

There has been a reclassification of certain balances included within the marketing funds that are consolidated into the Group's financial statements at 30 June 2018. These reclassifications have impacted cash, accounts receivable, deferred revenue and accounts payable. The directors are of the view that these reclassifications are not material.

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

35.2 Revenue recognition

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

Revenue from sale of goods

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

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

Revenue from sale of franchise agreements

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

35. Summary of significant accounting policies (continued)

35.2 Revenue recognition (continued)

Revenue from sale of franchise agreements (continued)

The franchise agreements have been assessed to contain one performance obligation being the grant of a licence to franchisees in order to allow them to access the Groups intellectual property over the term of the franchise agreements. The Group has determined that 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 are recorded on a straight-line basis over the term of the franchise agreement.

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

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.

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

Revenue from sale of distribution rights

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

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

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

Other revenue

Other revenue, for sales generated from the QSR online platform, is recognised at the point of which cash is received within our online bank account. 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

35. Summary of significant accounting policies (continued)

35.3 Income taxes (continued)

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.

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.

35. Summary of significant accounting policies (continued)

35.6 Property, plant and equipment (continued)

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

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

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

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

Estimation of useful lives of assets

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

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

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

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

35.7 Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

Franchise networks and intellectual property

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

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

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

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

Goodwill

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

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

35. Summary of significant accounting policies (continued)

35.7 Intangible assets (continued)

Impairment of goodwill and indefinite life intangible assets

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

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

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

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

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

Determination as indefinite life

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

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

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

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

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

Internally Generated Intangible Assets, Including Research and Development Expenditure

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

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

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

35. Summary of significant accounting policies (continued)

35.7 Intangible assets (continued)

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

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.

Onerous leases and make-good

A provision has been made for the present value of future lease payments where the Group is presently obliged to make payments under non-cancellable onerous lease contracts relating to certain loss-making non-voluntary company stores. A provision has been made for the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to restore the site occupied by the loss-making non-voluntary company stores 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 both provisions requires assumptions such as the likelihood of sale of the non-voluntary company store, the estimated lease termination costs and 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. The exit from onerous leases and make-good activities are expected to be completed by the Group within twelve months.

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.

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).

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

(i) Cash flow hedge

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

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

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

(ii) Net investment hedges

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

35.11 Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

35. Summary of significant accounting policies (continued)

35.12 Discontinued operations

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

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

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

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

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

DIRECTORS' DECLARATION

The Directors declare that:

(a) In the Directors' opinion, the financial statements and notes set out on pages 22 to 84 are in accordance with the Corporations Act 2001, including:

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

  (ii) giving a true and fair view of the consolidated Group's financial position as at 30 June 2019 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 2019 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

Southport
30 August 2019

Independent auditor's report

To the members of Retail Food Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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Material uncertainty related to going concern

We draw attention to Note 35(d) in the financial report, which indicates that the Group incurred a net loss of $149.3m during the year ended 30 June 2019 and, as of that date, the Group's current liabilities exceeded its current assets by $255.6m. In addition, the Group's total liabilities exceed its total assets by $15.7m and the Group's cashflow from operations for the year ended 30 June 2019 resulted in an outflow of $8.5m.

The continuing viability of the Group and its ability to continue as a going concern is dependent upon the Group maintaining the support of the syndicated lenders in the immediate term to 31 October 2019, obtaining an extension on the repayment of the current syndicated debt facility expiring on 31 October 2019 and securing sufficient levels of alternative funding from the financing options the Group is pursuing.

As a result of these financing imperatives and other matters noted in Note 35(d), there are material uncertainties that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

Our audit approach

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

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

Materiality

- For the purpose of our audit we used overall Group materiality of $940,000, which represents approximately 5% of the Group's loss before tax from continuing operations adjusted for unusual or infrequently occurring items impacting profit and loss, such as asset impairments and onerous lease and restructuring charges.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose the Group's adjusted loss before tax from continuing operations because, in our view, it is the benchmark against which the performance of the Group would be most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds for the assessment of materiality.

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Audit Scope

- Our audit focused on areas where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group is structured across 5 operating segments, being Bakery Cafe, QSR Systems, Coffee Retail Systems, Coffee and Allied Beverage and Manufacturing and Distribution. Its head office is based on the Gold Cost, Queensland.

Key audit matters

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

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	***How our audit addressed the key audit matter***
Business Restructure *(Refer to note 6) $150.3m* The Group's turnaround strategy has resulted in a number of restructuring initiatives across the Group, including the closure of domestic franchising stores and the exit of the Manufacturing and Distribution business. As a result, significant asset impairments and provisions have been recognised in the 30 June 2019 financial report. This was a key audit matter because in recognising asset impairments and provisions, a number of significant judgements were made by the Group. The most significant judgements included the estimation of: • the recoverability of trade receivables and vendor finance amounts due from franchisees (including master franchisees), based on the store closure plan and other specific indicators of impairment, • the recoverable amount and associated impairment of property, plant and equipment based on the store closure plan and the restructuring review of the Group,	For the impairment of amounts due from franchisees (including master franchisees) we performed the following procedures, amongst others: • developed an understanding of the Group's policies and procedures in relation to the recognition of expected credit losses in light of the store closure plan, • made enquiries of management in respect of debtors who have experienced past defaults along with current and forward looking factors and assessed the risk of the receivables not being settled, • considered selected correspondence between the Group and franchisees in respect of balances past due or on payment plans, • evaluated the accuracy of the aged receivables listing through tracing a sample to the underlying invoices to assess the dates included in the listing, • tested a sample of trade receivables and vendor finance amounts due from franchisees to subsequent receipts in the bank statements, including testing if they were in line with the agreed payment plans for those franchisees, and tested the allocation of these receipts against outstanding debtor balances; and

Key audit matter	How our audit addressed the key audit matter
• the provisions for onerous lease contracts at certain store locations, • the provision for costs and other expenses directly linked to the restructuring the Group is committed to incur, • the determination of the fair value of the Manufacturing and Distribution division which has been classified as held for sale; and • the recoverable amounts of intangible assets (including goodwill) attributed to franchise brand systems. This has been addressed in a separate key audit matter.	• considered the appropriateness of expected credit loss allowances raised in respect of a sample of amounts due from franchisees who had overdue amounts and not paid subsequently. For impairments in respect of property, plant and equipment, we performed the following audit procedures, amongst others: • developed an understanding of the Group's policy in respect of assessing the net realisable value of property, plant and equipment associated with store closures or business units, • made enquiries of management in respect of the nature of property, plant and equipment and assessed the risk of the net realisable value being lower than the carrying value; and • considered whether impairments of property, plant and equipment were appropriate in light of the Group's planned store closure plan and business restructure. For onerous lease contract provisions, we performed the following audit procedures, amongst others: • assessed the Group's assumptions relating to onerous contracts by comparing them to selected evidence, including current trading performance of stores, planned store closure dates and correspondence with landlords, • evaluated whether the onerous contract provisions met the criteria in Australian Accounting Standards for recognition as liabilities at 30 June 2019; and • for those onerous contract provisions recognised, assessed whether the measurement of the provision was in accordance with criteria outlined in Australian Accounting Standards.

Key audit matter	*How our audit addressed the key audit matter*
	For the provision of costs and other expenses associated with restructuring we performed the following procedures, amongst others: • obtained an understanding and assessed the Group's assumptions relating to expected costs and other expenses associated with the restructuring of the business; and • for a sample of associated provisions, assessed the evidence for the level of provisions raised. For impairments of assets in respect of the Manufacturing and Distribution division, we performed the following audit procedures, amongst others: • developed an understanding of the Group's policies and procedures in relation to applying the classification and measurement criteria outlined in AASB 5 Non-Current *Assets Held for Sale and Discontinued Operations,* • considered board resolutions, management plans and other selected documentation underpinning the planned disposal of the Manufacturing and Distribution division to assess the basis of the conclusion that the disposal is highly probable of completing within the next 12 months, • assessed whether the Manufacturing and Distribution division was available for immediate sale in its present condition by considering the current structure of this division within the Group, • compared the Group's assessment of assets and liabilities identified and classified as held for sale to the underlying accounting records, • tested that the assets classified as held for sale were held at the lower of their carrying amounts and fair value less costs to sell through obtaining evidence of the fair value less costs to sell, including the expected sales proceeds; and • assessed if the measurement of the carrying value of assets complies with the relevant Australian Accounting Standards.

Key audit matter	*How our audit addressed the key audit matter*
Assessment of recoverability of goodwill and intangible assets *(Refer to note 15) $256.2m* The Group recognises goodwill, indefinite and finite life intangible assets which relate to the businesses it operates. As required by Australian Accounting Standards, these non-amortising and amortising assets are tested each year end for impairment. The Group performed impairment assessments over each of its cash generating units (CGUs) by calculating the recoverable amount of each CGU. The recoverable amount was determined by either a value in use or fair value less cost of disposal methodology using discounted cash flow models (the models). The Group has recorded impairment charges on goodwill and indefinite life intangible assets totaling $98.7m for the year ended 30 June 2019. The key judgements in the models are the budgeted year 1 cash flows, the expected average percentage growth rate in years 2 to 5, discount rates and terminal growth rates. The assessment of impairment was a key audit matter due to the size of goodwill and indefinite life intangible assets in the Consolidated Statement of Financial Position sheet, the impairments taken during the year and the key judgements and assumptions incorporated in the impairment models prepared to assess the recoverable amount of the goodwill and indefinite life intangible assets.	In assessing the recoverable amount of goodwill and intangible assets, we performed the following procedures, amongst others: • assessed whether the Group's identification of CGUs was consistent with our knowledge of the operations, internal reporting lines and the level of largely independent cash-flows, • assessed the mathematical accuracy of the calculations in the models and compared the future cash flow forecasts in the models to the Board approved budgets, • considered the Group's historical accuracy in budgeting and forecasting by comparing the historical budget to actual performance of the Group over the previous years, • assessed the 2020 year cash flow forecasts in each of the models by developing an understanding of the underlying drivers for the budget in the context of the Group's future operational plans, • assessed if the discount rates used by the Group were reasonable with the assistance of PwC valuation experts, • compared the expected average percentage growth rates and terminal growth rates to industry data with the assistance of PwC valuation experts, • compared the combined recoverable amount of the CGUs to the market capitalisation of the Group at 30 June 2019, • checked that the impairments to intangible assets and goodwill identified in the impairment models were consistent with the Group's financial records at balance date; and • assessed if the presentation and disclosures made in the financial report in respect of impairment were compliant with the relevant Australian Accounting Standard.

Key audit matter	How our audit addressed the key audit matter

Revenue recognition and the implementation of new revenue accounting policy
(Refer to note 2) $172.5m for revenue from continuing operations and (note 28) $177.2m for revenue from discontinuing operations
 	
The Group adopted a new revenue accounting policy during the year due to the mandatory introduction of AASB 15 *Revenue from Contracts with Customers*. The new policy is disclosed in Note 35.2 and the transition impacts disclosed in Note 35.1.
 	
The adoption of a new revenue accounting policy was a key audit matter due to:
 	
• the high volume of transactions across each of the different businesses, with each having several streams of revenue,
• the complexity involved in applying the new AASB 15 requirements given the significance of potential differences between the new and old accounting standards for the Group,
• the significant judgements employed by the Group in the recognition and measurement of revenue from franchise arrangements and supply of distribution rights and the timing of its recognition based on the terms of the relevant agreements,
• each revenue stream is underpinned by different systems, processes and controls; and
• the opportunity for manual intervention, the high volume of transactions and the interfaces of multiple systems with the general ledger presenting conditions for transactions to be recorded incorrectly.
	We performed the following procedures, amongst others:
	
	• developed an understanding of and evaluated the operating effectiveness of relevant key revenue internal controls (including both new and updated controls),
	• assessed the adequacy of the methodology and sample sizes used by the Group for determining the extent of contract reviews required to identify AASB 15 impacts,
	• assisted by PwC financial reporting specialists, assessed whether the Group's new accounting policies were in accordance with the requirements of AASB 15 through consideration of accounting papers on key areas of judgement prepared by the Group,
	• considered the appropriateness of accounting models applied by the Group including whether key judgements such as the identification of performance obligations within franchising arrangements were consistent with the interpretations of AASB 15,
	• obtained the Group's updated policies and procedures to support recognition of revenue in accordance with the new accounting policy,
	• for a sample of contracts for selected revenue streams we:
	    ◦ developed an understanding of the key terms of the arrangement including parties, term dates, background of agreement, performance obligations and payments to be made; and
	    ◦ considered the Group's identification of performance obligations and allocation of selling prices to the performance obligations.
	• evaluated the adequacy of the disclosures made in notes 35.1 and 35.2 in light of the requirements of Australian Accounting Standards.

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Key audit matter	*How our audit addressed the key audit matter*
Threatened legal actions and regulatory investigations *(Refer to note 31.1)* The Group has assessed the need to recognise provisions and include disclosures in relation to threatened franchisee class actions, threatened shareholder class actions and investigations of the Group being undertaken by the Australian Competition and Consumer Commission (ACCC) and the Australian Securities and Investments Commission (ASIC) for alleged breaches of Australian Consumer Law and the Corporations Act. We considered this a key audit matter due to the subjective judgements exercised by the Group in determining: • the likelihood of formal legal actions commencing; and • the estimate of the potential amounts which may be awarded against the Group under each of threatened class actions and ACCC and ASIC investigations.	We performed the following procedures, amongst others: • read the minutes of the Group's key governance meetings (i.e. Audit and Risk Management Committee and Board of Directors) and considered key correspondence with relevant regulatory bodies and external legal advisors, • discussed the matters with the Directors, members of management and the Group's external legal advisors, • obtained written representations from the Chief Executive Officer and Chief Financial Officer, • considered the Group's assessment of whether provisions should be recognised in respect of these matters based on available information and advice from the Group's legal counsel, • assessed the appropriateness of the Group determination that they were unable to reliably estimate any possible financial impact of a legal or regulatory action that may arise in future; and • assessed the adequacy of related disclosures against the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 11 to 19 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Retail Food Group Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Steven Bosiljevac

Steven Bosiljevac
Partner

Brisbane
30 August 2019

ADDITIONAL STOCK EXCHANGE INFORMATION

Number of holders of equity securities as at 14 August 2018

Ordinary share capital

- 182,745,510 fully paid ordinary shares are held by 16,543 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	6,041	2,910,964	1.60%	-	-
1,001 - 5,000	6,527	16,973,346	9.29%	-	-
5,001 - 10,000	1,818	14,001,759	7.66%	-	-
10,001 - 100,000	1,984	56,071,815	30.68%	-	-
100,001 and over	173	92,787,626	50.77%	-	-
	16,543	182,745,510	100.00%	-	-

The number of shareholders holding less than a marketable parcel of ordinary shares is 10,037.

Substantial shareholders

Ordinary shareholders	Fully paid		Partly paid	
	Number held	Percentage	Number held	Percentage
Invesco Australia Limited	26,466,528	14.48%	-	-

Twenty largest holders of quoted equity instruments

Ordinary shareholders	Fully paid		Partly paid	
	Number	Percentage	Number	Percentage
HSBC Custody Nominees (Australia) Limited	28,816,667	15.77%	-	-
AXNA Pty Ltd	4,984,177	2.73%	-	-
Citicorp Nominees Pty Limited	4,013,911	2.20%	-	-
Mr Jisi Liu	3,075,829	1.68%	-	-
Molves Pty Ltd	2,620,000	1.43%	-	-
Commasia Australia Pty Ltd	2,435,000	1.33%	-	-
Mr Noel Diago Lawrence Francis D'souza + Mrs Christine Ann D'souza	2,046,795	1.12%	-	-
J P Morgan Nominees Australia Limited	1,542,310	0.84%	-	-
Mrs Christine Ann D'souza	1,395,000	0.76%	-	-
Vel-Ilanga Pty Ltd	1,380,000	0.76%	-	-
BNP Paribas Nominees Pty Ltd	1,335,894	0.73%	-	-
AMA Holdings No 2 Pty Ltd	1,294,042	0.71%	-	-
ACE Property Holdings Pty Ltd	1,000,000	0.55%	-	-
Anttra Pty Ltd	988,717	0.54%	-	-
WSS Holdings (Aust) Pty Ltd	927,217	0.51%	-	-
Tea & Coffee Traders Pty Ltd	841,912	0.46%	-	-
CSF Investments (Qld) Pty Ltd	816,421	0.45%	-	-
Ms Julianita Yososemito	780,000	0.43%	-	-
Mr Neil Peter Goosen	700,000	0.38%	-	-
Mr Attilio Bruno Longo + Mrs Helen Anne Longo	700,000	0.38%	-	-
	61,693,892	33.76%	-	-