

Retail Food Group Limited

APPENDIX 4E (Rule 4.3A)
PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 1 July 2022
RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to the period ended 2 July 2021)

				FY22 A\$'000	FY21 A\$'000
Revenue and other income from continuing operations	<i>Down</i>	(4.9%)	<i>to</i>	111,843	117,586
Revenue and other income from discontinued operations				-	24,705
Total revenues and other income	<i>Down</i>	(21.4%)	<i>to</i>	111,843	142,291
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	<i>Down</i>	(20.1%)	<i>to</i>	21,508	26,935
Discontinued Operations and Disposal costs				400	(4,407)
AASB 15 & AASB 16				10,234	6,939
Business restructuring, impairment, provisioning and marketing expenses				(14,810)	(12,901)
Reported earnings before interest, tax, depreciation and amortisation (EBITDA)	<i>Up</i>	4.6%	<i>to</i>	17,332	16,566
Profit from continuing operations before income tax	<i>Down</i>	(37.7%)	<i>to</i>	5,076	8,152
Profit/(loss) from discontinued operations before income tax				400	(5,983)
Profit before income tax	<i>Up</i>	152.5%	<i>to</i>	5,476	2,169
Income tax expense from continuing operations				(217)	(708)
Income tax benefit/(expense) from discontinued operations				-	-
Profit for the year attributable to members of the parent entity	<i>Up</i>	260.0%	<i>to</i>	5,259	1,461
Net Tangible Assets/(Liabilities) per security				(2.0) cents	(2.5) 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 - 1 July 2022

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CORPORATE DIRECTORY

Directors	Mr Peter George Executive Chairman
	Mr David Grant Independent Non-Executive Director
	Ms Kerry Ryan Independent Non-Executive Director
Company Secretary	Mr Anthony Mark Connors
Registered office	c/- KPMG, Level 11 2 Corporate Court Bundall QLD 4217
Principal place of business	Level 4, 35 Robina Town Centre Drive Robina QLD 4226
Share register	Computershare Investor Services Level 1, 200 Mary Street Brisbane QLD 4000
Solicitors	Baker McKenzie Lawyers Level 8, 175 Eagle Street Brisbane QLD 4000
	Arnold Bloch Leibler Level 21, 333 Collins Street Melbourne VIC 3000
Auditors	KPMG Level 16, 71 Eagle Street Brisbane QLD 4000
Bankers	National Australia Bank Limited Level 18, 259 Queen Street Brisbane QLD 4000
	Westpac Banking Corporation Level 7, 260 Queen Street Brisbane QLD 4000
Stock exchange listings	Retail Food Group Limited (ASX: RFG) shares are listed on the Australian Securities Exchange
Website Address	www.rfg.com.au

DIRECTORS' REPORT

The Directors of Retail Food Group Limited (referred to hereafter as the Company) submit herewith the Annual Report of the Company for the financial year ended 1 July 2022 in accordance with the provisions of the *Corporations Act 2001*.

Information about the Directors

Name	Particulars
Mr Peter George	Executive Chairman, Bachelor of Commerce/Bachelor of Laws. Mr George joined the Board of RFG as a non-executive Director on 25 September 2018. He was appointed Executive Chairman on 7 November 2018, and subsequently assumed CEO responsibilities on 3 December 2018. Mr George has had a successful 30-year career as a senior executive and non-executive Director, including extensive professional experience of corporate turnarounds. Mr George was recruited to the Board as a turnaround specialist and has previously led the restructuring and merger of PMP Limited as Managing Director from 2012-2017 and was Executive Chairman of Nylex Limited from 2004-2008. Mr George was a non-executive Director and Chair of the Audit and Risk Committee of Isentia Group Limited (between April and September 2021) and Asciano Limited (from 2007 – 2016), and a non-executive Director of Optus Communications from 1994 - 1998.
Mr David Grant	Independent Non-Executive Director, Bachelor of Commerce (Accounting, Finance & Systems), Graduate of the Australian Institute of Company Directors, Chartered Accountants Australia & New Zealand. Mr Grant was appointed a non-executive Director on 25 September 2018. He is an experienced public company director with a broad financial and commercial resume. He is currently a non-executive Director of Event Hospitality and Entertainment Limited, The Reject Shop Limited and A2B Australia Limited (where he also briefly served as Executive Chairman between 8 February and 2 March 2022). Former directorships include iiNet Limited, Consolidated Rutile Limited and Murray Goulburn Cooperative Limited (including its associated listed unit trust). Mr Grant has deep experience chairing key board subcommittees, especially in relation to audit and risk, and assumed Chairmanship of RFG's Audit & Risk Management Committee contemporaneously with his appointment to the Board. He is also Chairman of RFG's Nominations & Remuneration Committee. Mr Grant's executive career included extensive food industry experience through a range of accounting, finance and commercial roles with Goodman Fielder Limited, including the position of Group M&A Director. He was also Chief Financial Officer of Iluka Resources Limited.
Ms Kerry Ryan	Independent Non-Executive Director, Bachelor of Laws, Bachelor of Arts, Fellow of the Australian Institute of Company Directors, Fellow of the Governance Institute of Australia. Ms Ryan was appointed to the Board on 27 August 2015. She is an experienced non-executive director across a range of industries, including professional services, sport, health and fitness, and education. Ms Ryan's professional background is in commercial law. She is a former partner at international law firm, Norton Rose Fulbright, where she worked predominantly in the consumer markets area. She has substantial international experience, including on-the-ground experience in Asia, and has worked with many well-known retail, food and beverage brands in relation to their international business dealings. Ms Ryan is an external member of the audit committee of the Parliament of Victoria, and is currently on the board of the Richmond Football Club and Aligned Leisure, which runs the Club's health and fitness business and its education arm, the Richmond Institute of Sports Leadership (in conjunction with Swinburne University of Technology). In the not-for-profit sector, she serves on the boards of Mental Health First Aid International and Kids First Australia.

DIRECTORS' REPORT

Directorships of other listed companies

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

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

Directors' shareholdings

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

Directors	Fully paid ordinary shares Number
Mr Peter George ⁽¹⁾	6,060,000
Mr David Grant	1,540,000
Ms Kerry Ryan	1,189,579

(1) Contemporaneously with the date of this report, the Board (excluding Peter George) approved the vesting of 4,655,000 performance rights previously granted to Peter George. On vesting each performance right will convert to one fully paid ordinary share in the Company. Those shares will remain subject to the disposal restrictions detailed in the remuneration report of this Directors' report.

Remuneration of Directors and Key Management Personnel

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

Share options granted to Directors and senior executive management

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

Performance rights granted to Directors and senior executive management

During the financial year, there were no performance rights granted to the Directors as part of their remuneration.

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

Directors' meetings

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, 12 Board meetings, 6 Audit & Risk Management Committee meetings and 5 Nominations & Remuneration Committee meetings were held.

Directors	Board of Directors		Audit & Risk Management Committee		Nominations & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr Peter George	12	12	6	6	5	5
Mr David Grant	12	12	6	6	5	5
Ms Kerry Ryan	12	12	6	6	5	5

DIRECTORS' REPORT

Company Secretary

The Company Secretary is Mr Anthony Mark Connors. Mr Connors was appointed Company Secretary on 26 April 2006, having prior to that time acted as the Company's Legal Counsel. Mr Connors also holds the role of Director of Corporate Services.

Corporate governance

The Company recognises the importance of good corporate governance both to RFG shareholders and also to the broader stakeholder community including franchise partners, regulators and consumers. The Company's practice is to publish its Corporate Governance Statement, which will detail the Company's observance of the Corporate Governance Principles & Recommendations (4th Edition) via its website at www.rfg.com.au when releasing its Annual Report.

Principal activities

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

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

The Group disposed of the Dairy Country manufacturing business on 19 October 2020 and the Hudson Pacific distribution business on 3 January 2020. These businesses were classified as a discontinued operations for the year ended 2 July 2021. To the extent post disposal adjustments have been booked in the current year they have been similarly classified as discontinued operations.

Important Information

This Directors' report contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events and future financial prospects. Forward looking statements include those containing words such as 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan', 'consider', 'foresee', 'aim', 'will' and other similar expressions. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. Forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause actual outcomes to be materially different from the events or results expressed or implied by such statements, and outcomes are not all within the control of RFG. Statements about past performance are not necessarily indicative of future performance.

Neither RFG nor any of its subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (the 'Relevant Persons') 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 Directors' report reflect views held only at the date hereof and except as required by applicable law or the ASX Listing Rules. The Relevant Persons disclaim any obligation or undertaking to publicly update any forward-looking statements, or discussion of future financial prospects, whether as a result of new information or future events.

This Directors' report refers to RFG's financial results, including RFG's statutory performance and underlying performance. RFG's statutory performance contains a number of items that when excluded provide a different perspective on the financial and operational performance of the business (underlying performance). Consolidated Statement of Profit or Loss and Other Comprehensive Income amounts, presented on an underlying basis such as Underlying EBITDA, are non-IFRS financial measures, and exclude the impact of certain items consistent with the manner in which senior management reviews the financial and operating performance of the business. Each underlying measure disclosed has been adjusted to remove the impact of these items on a consistent basis. A 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. A reconciliation of Underlying to Statutory results is presented in the Group's FY22 Investor Presentation accompanying these financial statements.

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

DIRECTORS' REPORT

Important Information (continued)

Impact of coronavirus (COVID-19)

The COVID-19 pandemic and the measures undertaken to contain it have materially changed the global economic outlook, directly or indirectly causing large-scale economic disruption in all markets the Group operates in. The economic disruption could lead to elevated levels of credit losses from business insolvencies, inflation and supply-side pressures, and ongoing disruption to trading conditions. In an attempt to mitigate the economic effect of the COVID-19 pandemic, governments, regulators and central banks provided significant fiscal and regulatory support in the 2020 and 2021 years to allow businesses to remain liquid and solvent, and to support employees and the unemployed. Some residual government and industry support measures continued in FY22. The extent to which these efforts will reduce the adverse financial effects of the COVID-19 pandemic remains uncertain.

Overview

Having regard to the significant COVID-19 related challenges experienced during the 1H22, the Company's FY22 results, which also reflect the absence of net \$3.7 million in Government financial support (JobKeeper and other assistance) received during the previous corresponding period (PCP), represented a creditable performance, particularly during a strong 2H22 where positive momentum demonstrated the underlying resilience of RFG's Brand System portfolio.

Despite the pandemic's influence, a number of positive indicators were evident in FY22 performance, including:

- Strong network Average Transaction Value (ATV) growth of +7.7% on PCP, which helped to mitigate the full impact on franchise partners of a COVID-19 influenced FY22 network Customer Count decline of 5.0% and contributed to FY22 network Same Store Sales (SSS) growth of 2.3% on PCP;
- Operational successes enjoyed by the Company's QSR Division, which delivered exceptional Same Store Sales (SSS) growth of +10.1% on PCP, further validating Crust's and Pizza Capers' FY21 brand repositioning and introduction of new value models promising 'quality pizza at affordable prices';
- Positive operational performances amongst the Gloria Jean's Drive Thru network and Brumby's Bakery Brand System;
- Considerable momentum being generated across the Group's international franchise network as trading conditions improved; and, underpinned by a 'franchisee first' philosophy;
- Further advancement of the Group's transformational journey and steadfast focus on building upon those initiatives implemented in prior periods to drive a firm platform for consistent future profitability and growth.

These outcomes partially offset COVID-19's significant impact on the Group's business in FY22.

During the 1H22, the full impact of 'Delta' induced lockdowns, border closures, vaccine mandates and other trading restrictions took effect, with all States and Territories having been impacted by lockdowns of various degrees and time frames. These lockdowns were both extensive in their reach and sustained in terms of their duration for NSW, Victoria and the ACT, where a large proportion of the Group's domestic network is based.

Whilst various indicators of a positive retail recovery were observed during November and early December 2021, the subsequent emergence of the 'Omicron' strain and resulting close contact isolation requirements operated to adversely impact consumer shopping habits and operational effectiveness, including staff shortages and lost trading days for many outlets.

The impact resulting from these conditions was particularly acute across the Company's coffee based Brand Systems (Donut King, Gloria Jean's and Michel's Patisserie), which are predominantly situated in shopping centres and metro locations where customer traffic declines were most evident. This is best illustrated by 1H22 Customer Count declines vs PCP recorded across NSW by Donut King (-31.5%), Gloria Jean's (-26.1%) and Michel's Patisserie (-27.9%).

While still below pre-pandemic levels, during the 2H22 RFG enjoyed a weighted average increase in network Customer Count of c.10% vs 1H22. That increase was more pronounced within the Donut King and Michel's Patisserie (+14.3%), and Gloria Jean's (+13.4%), Brand Systems.

The positive momentum described above is however best illustrated by comparing key 1H22 and 2H22 performance metrics:

- During 1H22, network SSS declined 2.5% on PCP, however, during the 2H22, increased 6.6% on PCP; and
- In the 2H22, ATV grew 8.1% on PCP, building on the positive growth (of 7.4% on PCP) enjoyed in the 1H22.

As noted above, network performance over the full financial year translated to 2.3% growth in SSS, and 7.7% growth in ATV, on PCP.

The later metric, +7.7% ATV growth on PCP, was of particular importance during COVID-19 influenced trading conditions as the increased basket size resulting at store level mitigated the full impact of Customer Count declines.

Over 120 marketing campaigns or product launches were implemented across all Brand Systems during FY22, with an emphasis on:

- Driving additional revenues at outlet level;
- Showcasing 'hero' products, core brand competencies and strategic partnerships;

DIRECTORS' REPORT

Overview (continued)

- Introducing new products to encourage trial and attract new customers;
- Leveraging Brand System milestones, including Donut King's 40th and Pizza Capers' 25th anniversaries; and
- Leveraging the new Loyalty Platforms introduced to all Brand Systems (save Mobile) during 2020-2021, and which include over 4.3 million members.

Ultimately, a constant focus on marketing and new product development has contributed to an exceptional 19.6% growth in network ATV (on a same store basis) since FY19. Despite that growth, the Company's Brand Systems continue to maintain a relatively low ATV coupled with a strong value proposition, which affords scope and flexibility to better compete and more effectively manage retail prices during the inflationary environment which has developed during 2022. In other words, the products offered within each of the Company's Brand Systems remain eminently affordable for consumers.

The FY22 performance of the Group's QSR Division (Crust and Pizza Capers) was particularly satisfying, with FY21 momentum sustained, delivering strong FY22 SSS growth of 10.1% on PCP. Whilst each QSR Division Brand System has benefited from consumer preferences for takeaway or delivery meal options during the pandemic, pleasingly, 2H22 performance (during which Crust grew SSS +13.6%, Customer Count +9.1% and ATV +4.1%; and Pizza Capers grew SSS +12.2%, Customer Count +8.5% and ATV +3.4%, on PCP) demonstrated the positive impact of both Brand System's FY21 introduction of new value models, which have been complemented by the FY22 introduction of new product launches, including innovative plant-based ranges appealing to flexitarian, vegetarian and vegan consumers.

At a broader network level, given the challenging trading environment in which many of its franchise partners operated during FY22, the Company has continued to prioritize financial, operational and other support.

A key element of the various measures taken during the year has been the negotiation of rental relief for COVID-19 impacted outlets, where the Group continued to leverage its leasing portfolio, engaging closely with landlords to negotiate additional abatements and deferrals in connection with franchised store leases. A number of landlords have provided formal notification of additional rental abatements and deferrals in respect of the FY22 year.

That relief, together with the improved trading conditions evident in RFG's 2H22 performance, close engagement with franchise partners and the implementation of proactive credit management processes, has served to reduce gross lease arrears reported by landlords in respect to franchise stores where the Group is head on lease to c.\$8.4 million as at 1 July 2022. This total reflects a c.\$2.2 million reduction on gross arrears reported as at 31 December 2021. The Group has retained a provision of c.\$6.4 million against lease receivable balances from franchise partners with respect to the foregoing lease arrears position as at the end of FY22.

The Company continues to prioritise engagement with relevant stakeholders to procure more favourable leasing outcomes and the ongoing payment by franchise partners towards current arrears, particularly as trading conditions improve.

In terms of network population, the COVID-19 influenced conditions experienced throughout FY22 and prior periods contributed to the permanent closure during the year of 112 domestic outlets, 27 of which were Mobile units. The majority of these closures (69) occurred during the 1H22 when COVID-19's influence was at its peak.

Domestic new outlet activity during the period was similarly impacted by COVID-19, with travel restrictions and border closures constraining recruitment activity and contributing to delays associated with new site commissionings. Ultimately 9 new outlets were established during FY22, however, a strong pipeline has been developed for both new and existing outlets with over 80 applicants across all Brand Systems. 16 new outlets are presently at 'build/commence build' stage as at the date of this report.

Over 80 FY22 existing store transfers (25) or renewals (58) also demonstrates the continuing relevance and attraction of RFG's Brand Systems and franchise offer.

The Company continues to explore opportunities to facilitate effective and sustainable expansion via new sites and concepts, and creating pathways for the Group's 72 multi-site owners to grow their portfolios. These opportunities include:

- The establishment of 'dark kitchens' to access third party aggregator opportunities, unlock new consumption opportunities and support Donut King mobile van growth (which has been delayed to date by COVID-19 influenced vehicle import delays);
- Operational execution and proof of concept for the Donut King 'mini' concept (now launching August 22 following COVID-19 influenced delays) which contemplates lower establishment costs, a smaller retail footprint and occupancy cost, and facilitating access to previously inaccessible site locations;
- Execution of the Crust intra-territory satellite store program, which provides scope for growing territory customer base, improved delivery times and enhanced customer experience (the 1st satellite outlet is scheduled to open in the 1H23, with further sites currently under review);
- Expansion of the Gloria Jean's Drive Thru network and refinement of the recently trialled new food offer to unlock growth opportunities;
- Leveraging existing bricks and mortar outlets to harness virtual store opportunities to expand customer appeal, increase market share and 'sweat' existing assets; and
- Exploration of partnership opportunities that build brand profile and scale.

DIRECTORS' REPORT

Overview (continued)

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

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

Together these principals inform five over-arching themes (internally dubbed RFG's "5 Big Plays") to support sustainable growth across the Group's domestic franchise business:

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

This roadmap will be complemented by the facilitation of growth opportunities evident in the Group's international franchise network, together with sustainably growing Di Bella Coffee wholesale operations.

In terms of the former, improved trading conditions reported by Master Franchise Partners, together with the benefits derived from prior restructuring activity, drove International Division FY22 underlying EBITDA to \$3.2 million, a 35.5% increase on PCP. Master Franchise Partners reported 77 new outlets (70 stores/7 vans) during FY22, offsetting 83 outlet closures (73 stores/10 vans). A third of those closures were attributable to five territories substantially impacted by COVID-19.

Importantly, the International Division enjoyed net outlet growth of 14 outlets during the 2H22, demonstrating strong momentum which is complemented by an FY23 new outlet pipeline of c.50 outlets across 15 countries. As at 1 July 2022, RFG's international operations comprised 584 outlets across 54 territories in 41 countries.

Di Bella Coffee FY22 results were relatively consistent with PCP with the positive impact of FY21 - FY22 restructuring activity and the 2H22 implementation of a new route to market strategy for the independent foodservice channel driving improved customer retention and revenue per account, offset by gross margin pressures and a circa \$10.0 million reduction in revenue attributable to:

- Sustained negative COVID-19 related impacts, most acute during 1H22, on independent café and contract roasting customer volumes;
- Transition of international roasting operations to third party contract roasting and wholesale distribution arrangements; and
- Exit from certain low-margin supermarket supply contracts, albeit this had minimal impact on the overall profitability of the Division.

In terms of Di Bella Coffee gross margin, a combination of increased global freight costs and environment factors contributed to a rapid increase in Arabica green bean prices during 2021, resulting in a circa 10-year high late in the 1H22. In order to provide additional support to independent foodservice customers and franchise partners experiencing extremely challenging trading conditions, RFG absorbed these additional costs for the majority of the 1H22. Wholesale coffee prices were increased for both franchise and independent foodservice customers in December 2021, and this has contributed to margin recovery during the 2H22. To coincide with this increase, recommended retail prices across the Group's coffee Brand Systems were also revised upwards to further insulate franchise partners against the COGS impact.

Pleasingly the restructuring activity undertaken in respect of the Wholesale Coffee Division throughout FY21 and FY22 (contemplating the cessation of direct coffee roasting activities in the USA and New Zealand markets and establishment of a wholesale distribution centre in Dubai to more efficiently service the Group's international network) have now been fully implemented and are demonstrating positive outcomes. Sales from the Dubai facility in particular recovered strongly in late FY22 as trading conditions improved in many international territories. With the cessation of international roasting and migration to the wholesale distribution centre, the revenues of supplying the international franchise network are now recognised in the Coffee Retail segment, contributing to the reduction on PCP of coffee segment revenues mentioned above.

Further restructuring of Di Bella Coffee's domestic operations to extract additional efficiency opportunities continues.

At a Group level, during FY22 the Company implemented a number of ESG related initiatives.

DIRECTORS' REPORT

Overview (continued)

RFG recognises the importance of implementing sustainable strategies to equitably meet business needs and is motivated to better preserve, protect or support the ecosystem, natural resources, people and communities impacted by its business and supply chain. To further demonstrate that motivation, during FY22 RFG:

- Adopted its inaugural Environmental Statement;
- Formalised and adopted a Sustainability Policy;
- Appointed a dedicated Sustainability Manager, reporting directly to the Executive Chairman; and
- Established a Sustainability Committee, chaired by the Executive Chairman, to steer the Group's sustainability related activities.

The Group's sustainability roadmap focuses on supply chain, environmental impact, community, customers, employees, franchise partners and their teams.

Amongst other things, it also contemplates the measurement of RFG's carbon emissions and the implementation of strategies to reduce or optimise carbon footprint. In this regard, the Company has engaged a leading carbon and energy management specialist, Pangolin Associates, to help it establish the Group's inaugural baseline carbon footprint assessment to inform a credible starting point for determining the steps the Company will need to take in the future as part of its sustainability strategy, and to inform future reporting on the Group's progress in setting achievable targets and the outcomes realised in response.

Also at a Group level, during FY22:

- The Company recorded a total of \$0.3 million in profit before tax in COVID-19 related Government assistance relating to its international operations, which was significantly less than the PCP where the Group recognised \$4.0 million in profit before tax under the Australian Government's JobKeeper program and similar international programs, with \$4.6 million received in cash in FY21; and
- The Company extended the tenor of its senior debt facility, which is now due to mature in September 2023. The Company is pursuing a number of options regarding the refinance of the senior debt facility ahead of the revised maturity date, and will keep the market informed of developments.

The various positive indicators observed across the Group's business during FY22, particularly during the 2H22, provides confidence that the Company's turnaround journey remains headed in the right direction, although with a clear appreciation of the challenging trading environment that continues to exist.

The Company's domestic network is yet to return to optimum trading levels, with lost trading days and hours attributable to a robust labour market and ongoing COVID-19 isolation protocols continuing to weigh on performance. The Group is also closely managing inflationary pressures on its supply chain, albeit beyond increases to green bean raw material costs referenced above, these have largely had relatively limited impact to date. There also remains a risk of heightened store closures attributable to sustained COVID-19 related trading pressures occurring earlier in the year and in prior periods, particularly in NSW and Victoria. In that respect, RFG continues to work with its franchise partner community and other stakeholders to minimise these potential impacts where reasonably possible.

These factors are balanced by the positive operational results accomplished during FY22, despite the challenges outlined above, and which serve to illustrate the resilience of the Group's multi-Brand System portfolio and the strong value proposition each of RFG's brands offer consumers. As noted previously, whilst compelling marketing and new product innovation has delivered strong ATV growth over the past three years, ATV remains relatively low and the Group continues to maintain scope and flexibility to better compete and more effectively manage retail prices in a challenging trading environment.

Significant progress has been achieved in RFG's turnaround journey, albeit much work remains to be done. Despite the challenges outlined above, and tempered by the ongoing distraction and litigation risk attributable to litigious action in connection with historical matters, your Directors retain confidence that RFG has established a firm platform for a much stronger FY23.

DIRECTORS' REPORT

FY22 Results

Item	FY22	FY21	Change
Revenue (including discontinued operations)	\$111.8m	\$142.3m	(\$30.5m)
Revenue from continuing operations	\$111.8m	\$117.6m	(\$5.8m)
NPAT	\$5.3m	\$1.5m	\$3.8m
NPAT (Underlying) ⁽¹⁾	\$18.5m	\$23.2m	(\$4.7m)
EBITDA ⁽¹⁾	\$17.3m	\$16.6m	\$0.7m
EBITDA (Underlying) ⁽¹⁾⁽²⁾	\$21.5m	\$26.9m	(\$5.4m)

(1) These figures are not subject to audit or review. A reconciliation of Underlying to Statutory results is presented in the Group's FY22 Investor Presentation accompanying these financial statements.

(2) Underlying EBITDA excludes the impact of restructuring costs, impairment charges, AASB 15 and AASB 16 and discontinued operations.

FY22 Underlying EBITDA of \$21.5 million was \$5.4 million below PCP and evidenced progress of the Company's turnaround strategy despite the significant impact of COVID-19 on the Group's performance.

Statutory revenue from continuing operations for FY22 was \$111.8 million, representing a decrease of \$5.8 million on PCP.

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

- A \$10.0 million decrease in Di Bella Coffee revenue, attributable to exiting low margin supermarket supply contracts during the year, exiting international roasting operations and outsourcing coffee supply, and the impact of COVID-19 on domestic and international coffee customers; and
- A \$3.3 million decrease in revenues on PCP attributable to AASB 15 and AASB 16 related revenues; offset by
- A \$7.5 million increase in Brand System segment revenues, excluding AASB 15 and AASB 16, including a \$5.6 million increase in revenues from the trading of corporate stores compared to PCP.

Cash inflows from operating activities for FY22 were \$15.4 million (FY21: \$11.0 million). Operationally, net cash inflows were attributable to a return to more normalised operations in FY22. FY21 benefited from a \$4.6 million inflow from the proceeds of JobKeeper and other Government assistance payments received. Gross cash inflows and gross cash outflows reduced in FY22 compared to PCP, due to the sale of the Dairy Country business on 19 October 2020.

Impairment of Intangible Assets

A non-cash impairment charge of \$5.0 million was recognised against the Michel's Patisserie Brand System intangible asset during the year, writing down the carrying value of this Brand System to nil, given the current and future forecast trading performance and decline in store numbers in this Brand System.

Restructuring costs

Restructuring costs from continuing operations were \$10.9 million, comprising consulting costs associated with corporate and Di Bella Coffee restructure activities, ACCC and class action response activities, software, salary and associated costs of functions and roles identified as redundant.

Contingent Liabilities

The proceedings commenced by the ACCC in FY21 against certain members of the Group (ACCC Proceedings) have not, to date, been resolved or finally determined. The Company, along with two of its related entities, is also a respondent to representative proceedings brought in the Federal Court of Australia during FY22 by a former Michel's Patisserie franchisee on behalf of herself and other Michel's Patisserie franchisees, former franchisees and their related parties (Michel's Patisserie Class Action). In addition, the Group may potentially be the subject of a shareholder class action claim, albeit no such claim has yet been commenced. Provisions for costs incurred but unpaid at balance date have been raised in line with the Group's accounting policy.

ACCC Proceedings

The Australian Competition and Consumer Commission (ACCC) commenced the ACCC Proceedings in the Federal Court of Australia against RFG and five of its related entities, which operate the Gloria Jean's, Michel's Patisserie, Brumby's Bakery and Donut King brand systems on 15 December 2020.

The ACCC Proceedings allege contraventions of the Australian Consumer Law (ACL), the Franchising Code of Conduct (Code) and, by reason of the alleged contravention of the Code, the Competition & Consumer Act, during the period 2015 to 2019 in relation to the sale or licence of 47 corporate-owned stores as well as the management of marketing funds. The claims the subject of the ACCC Proceedings are therefore historical in nature and relate to a period under former RFG leadership.

DIRECTORS' REPORT

Contingent Liabilities (continued)

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

Since commencing the ACCC Proceedings, the ACCC has filed a Statement of Claim in April 2021 and an Amended Statement of Claim in November 2021. The Group has filed its Defence in response to each of these.

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

The Group is defending the ACCC Proceedings.

Michel's Patisserie Class Action:

The Company, along with two of its related entities involved in the operation of the Michel's Patisserie brand system, is a respondent to representative proceedings commenced in the Federal Court of Australia, the possibility of which was disclosed in the Company's past accounts.

The representative proceedings have been commenced by a former Michel's Patisserie franchisee on behalf of herself and certain other Michel's Patisserie franchisees, former franchisees and their related parties. No allegations have been made in the proceedings in respect of the other brand systems operated by the Group.

The proceedings were commenced in October 2021 and relate to the historical conduct and operation of the Michel's Patisserie brand system under former RFG leadership, including changes implemented to the supply chain during the period 2015 to 2016 (the 'fresh to frozen' model). The applicant alleges breach of Franchise Agreement, contraventions of the *Australian Consumer Law* and the *Franchising Code of Conduct*.

The proceedings have been commenced by way of Originating Application and Concise Statement and not by way of a fully particularised Statement of Claim. The representative applicant has agreed to file a Statement of Claim in the proceedings by 2 September 2022.

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

That said, the Company denies the allegations raised against it and its related entities and will be vigorously defending the proceedings.

Possible Class Action:

The legal firm Phi Finney McDonald continues to advertise a possible shareholder class action claim (first announced 10 May 2018) against RFG. RFG has had no contact with any plaintiff law firm in relation to the threatened class action, and no shareholder class action claim has been lodged against the Group to date.

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

Divisional Operating Review

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

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

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

Franchise Operations - Domestic

Segment EBITDA for Franchise Operations in FY22 was \$26.6 million and included \$9.5 million of EBITDA contribution from AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases).

EBITDA from domestic underlying operations (excluding AASB 15 and AASB 16) was \$17.1 million, representing a decrease of \$6.3 million on PCP attributable to the impact of COVID-19 on trading results, the reduction of trading store numbers experienced in 2H21 and FY22, and the non-recurring contribution in FY21 of JobKeeper assistance (\$3.6 million).

FY22 network Same Store Sales (SSS) grew 2.3% compared to PCP, however, this result was heavily influenced by COVID-19's impact, particularly in the 1H22. Network SSS grew 6.6% compared to PCP during the 2H22.

The QSR Division, which demonstrated SSS growth of 10.1% on PCP, was a standout performer during the period. The Crust Gourmet Pizza Brand System in particular enjoyed SSS and Customer Count growth on PCP of 10.6% and 8.4% respectively, without impacting ATV which also grew 2.0% in FY22 vs PCP.

DIRECTORS' REPORT

Franchise Operations - Domestic (continued)

Brumby's Bakery, which continues to successfully engage with local communities via its 'local born and bread' positioning, also delivered positive SSS growth of 1.4% on PCP, aided by a 3.2% increase in ATV versus PCP. These results build on prior period performance and contributed to 12.4% SSS growth vs pre-COVID-19 FY19 performance.

The Gloria Jean's Drive Thru network also demonstrated its continuing relevance and appeal during a COVID-19 influenced environment, achieving SSS growth of 11.3% on PCP.

These respectable performances were offset by the considerable impact of significant Customer Count declines, acute during the 1H22, amongst those Brand Systems predominantly situated within shopping centre environments and most impacted by COVID-19 measures, particularly within NSW, Victoria and the ACT. Despite these factors, 2H22 performance improved considerably with Donut King factoring 2H22 SSS growth of 6.6% on PCP (vs a 1H22 decline of 9.3% on PCP) and Gloria Jean's enjoying 2H22 SSS growth of 3.8% on PCP (vs a 1H22 decline of 10.2%). Whilst SSS across the Michel's Patisserie network improved during the 2H22 (improving a 1H22 decline of 14.2% on PCP to a 2H22 decline of 6.2% on PCP), a slower return to normal shopping routines following the formation of new rituals for social outings amongst the brand's older customer base has limited momentum to date.

FY22 outlet closures comprised 27 mobile vans and 85 domestic outlets, including exiting non-trading sites. As at 1 July 2022, domestic sites totalled 840 (including non-trading sites).

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

Franchise operations - International

EBITDA from underlying operations (excluding AASB 15 and AASB 16) was \$3.2 million, representing an increase of \$0.8 million on PCP attributable to improving trading conditions within international licensed territories, the positive benefit delivered by prior restructuring activity, and the return to a full staffing complement to support this division.

Master Franchise Partners reported 77 new outlets (70 stores/7 vans) within licensed international territories, offsetting the reported closure of 73 stores and 10 vans, the majority of which were attributable to the impact of COVID-19. Of particular note, buoyed by improving trading conditions, a number of Master Franchise Partners are actively planning network expansion, which contributed to 2H22 net outlet growth of 14 outlets, together with a robust FY23 new outlet pipeline of circa 50 outlets across 15 countries.

As at 1 July 2022, international operations comprised 584 outlets across 54 international territories in 41 countries.

Di Bella Coffee

Underlying FY22 segment EBITDA for Di Bella Coffee's wholesale coffee operations was \$1.2 million, reflecting decreased earnings on independent coffee channel sales attributable to reduced trading as a consequence of local COVID-19 measures, a customer decline in the independent contract roasting sector, and margin erosion attributable to raw material cost increases (partially balanced by the December 2021 introduction of wholesale price increases across franchise and independent coffee accounts), offset by the benefits of restructuring activities on the cost base.

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

FY22 benefits were derived from additional restructuring activities commenced in FY21, focused on driving cost and operational efficiencies amongst Di Bella Coffee's domestic and international manufacturing operations. This activity included the closure of New Zealand and North American coffee roasting facilities, and outsourcing of wholesale coffee supply in those countries, coupled with the reduction in scale and cost base of domestic coffee roasting facilities. Additional restructuring activity is being undertaken to further improve efficiencies within this division.

Discontinued Operations

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

Senior Debt Facilities

As at 1 July 2022, the Group had \$22.3 million in unrestricted cash, and senior debt, ancillary facilities and financial guarantees of \$40.9 million, resulting in a sustainable net debt position of \$18.6 million. \$10.0 million of the facility is shown as a current liability, reflecting the quarterly loan repayment obligations of the facility. The senior debt facility is due to mature in September 2023 following an extension secured during FY22.

DIRECTORS' REPORT

Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. As reported at 1 July 2022, the Group had \$22.3 million (FY21: \$29.2 million) in unrestricted cash, and senior debt, ancillary facilities and financial guarantees of \$40.9 million (FY21: \$48.2 million), resulting in a sustainable net debt position of \$18.6 million. The Group had a net current liability position of \$3.7 million at 1 July 2022 (FY21: \$1.4 million net current asset position), which includes the classification of the Group's net liabilities arising from recognition of lease assets and liabilities under AASB 16 - Leases.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. In assessing the reasonableness of cash flow projections directors have had regard to the track record of underlying resilience of the business demonstrated during the circa 2 years of COVID-19 impact, as well as the observed propensity for trading to recover as circumstances normalise.

These cash flow projections assume the Group will successfully refinance or repay its senior debt facility via debt refinancing, new equity raising and/or sale of assets by September 2023. As outlined above in Contingent Liabilities, there remains uncertainty with respect to the current ACCC proceedings as well as an existing Class Action, and a possible Class Action, which if unfavourable may impact the Group's ability to refinance.

The Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business.

Subsequent Events

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

Dividend

The Directors have resolved that no dividend will be declared or paid with respect to the FY22 year.

DIRECTORS' REPORT

Environmental regulations

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

In circumstances where the nature of the Group's operations requires, the Group is committed to compliance with all prescribed environmental laws and regulations. The Company also recognises the important role all businesses can play in positively influencing change within the environments and communities in which they operate. Consistent with this philosophy, the Company adopted its *Policy Regarding Modern Slavery Practices* during FY21, which represents an important step towards implementing and maintaining more effective systems and controls to reduce the risk of modern slavery occurring with the Group's business and supply chain. During FY22 the Group also enhanced its ESG governance framework via the adoption of an inaugural *Environmental Statement*, the adoption of RFG's *Sustainability Policy*, the appointment of a dedicated Sustainability Manager reporting directly to the Executive Chairman, and the establishment of a Sustainability Committee, chaired by the Executive Chairman, to provide oversight in connection with the Group's sustainability roadmap.

Indemnification of Officers and Auditors

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

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

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

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 32 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during FY22, by the auditor, or by another person or firm on the auditor's behalf, is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001 (Cth)*.

The Directors are of the opinion that the services, as disclosed in Note 32 to the financial statements, do not compromise the external auditor's independence, based on advice received from the Audit & Risk Management Committee, for the following reasons:

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

Auditor's independence declaration

The auditor's independence declaration is included on page 32 of the financial report.

Rounding off of amounts

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

DIRECTORS' REPORT

Remuneration report (audited)

The Directors present the Retail Food Group Limited 2022 Remuneration Report, outlining key aspects of the Company's remuneration policy and framework, and remuneration awarded during FY22.

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and senior executive management (together KMP) for the financial year ended 1 July 2022.

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

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

1. Key Management Personnel

RFG has identified the following personnel as Key Management Personnel during the year ended 1 July 2022:

Executive and Non-executive Directors

Mr Peter George
Mr David Grant
Ms Kerry Ryan

Position

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

Senior executive management

Mr Anthony Mark Connors
Mr Peter McGettigan
Mr Matthew Marshall
Mr Damian Zammit

Position

Company Secretary, Director Corporate Services
Chief Financial Officer
Head of Retail
Head of Training and Capability (Appointed 6 March 2022 - formerly
Director of Retail Operations)
Head of Growth

Damian Zammit held the role Director of Retail Operations until 6 March 2022, at which time he was appointed to the role of Head of Training and Capability. While the scope of this role has changed, Damian Zammit is still considered a KMP.

All KMP were also KMP during FY21. Save as noted above, the scope of KMP roles has not changed.

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

2. Remuneration Policy and Framework

Overview

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

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

At present the full Board sits as the Nominations & Remuneration Committee. Executive directors do not vote on matters relating to their own remuneration arrangements.

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

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

- Attract, retain and motivate executive personnel to successfully lead and manage the Group, with a focus on driving long term growth and shareholder value;
- Drive successful performance and achievement of long and short term goals and otherwise reinforce the objectives of the Group;
- Deliver competitive remuneration packages necessary to attract and retain appropriate personnel;
- Ensure fair remuneration, having regard to duties, responsibilities and other demands;

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

- Ensure flexibility, to enable the Group to cope with planned or unforeseen threats and opportunities;
- Ensure compliance with relevant laws; and
- Ensure sustainable value for all stakeholders, including the Group's franchise partner community.

When determining executive remuneration packages, the Group may have regard to:

- The need to attract, retain and motivate appropriate personnel;
- Market practices;
- Alternative benefits including incentive programs, fringe benefits and equity schemes;
- Assessment of individual performance against goals, targets and expectations; and
- The scope of responsibility, duties and other demands.

As important historical context, Retail Food Group underwent major reconstruction of its Board and management in the 2019 financial year in order to address the funding and other existential threats then facing the Company and to begin the operational turn-around journey of the Group. At this time, the Board resolved to suspend all pre-existing incentive plans. The Company then instituted a 3 year performance rights plan, approved at the 2019 AGM, to better assure the continuity of RFG Executive Chairman Peter George's role, which was considered by the Board to be critical to the Company's stabilisation and ultimate return to sustainable creation of shareholder value. Since then, the Group's business has stabilized and, whilst the turn-around is not yet complete, your Board is approaching the future with cautious confidence.

A critical enabler for success going forward is the Company's ability to attract, retain and incentivize key staff. Appropriate remuneration structures are an important element of this. Accordingly, the Company has implemented, effective from 1 July 2021, a Senior Management Incentive Program comprising:

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

As at the date of this report, the Senior Management Incentive Program extends to 27 senior managers. To the extent that participants are considered Key Management Personnel (KMP) for the purposes of the Corporations Act 2001 (Cth), details of their participation in the program are reported in the Company's Remuneration Report herein.

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

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

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

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

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

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Executive Remuneration Composition

Executive Remuneration comprises fixed compensation, plus performance linked compensation.

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

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

Executive Chairman Performance Rights Plan

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

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

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

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

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

- (1) The number of Rights which may vest will be determined by the Board as soon as practical following release of audited accounts in respect to the financial year in which the relevant measurement period falls, and the fair value of rights expected to vest is recognised as an expense. Financial years noted are as per the terms of the performance rights plan.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Executive Chairman Performance Rights Plan (continued)

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

Aspect	Details
Number of Performance Rights	<p>A total of 15,000,000 Performance Rights - eligible to vest in three tranches as follows:</p> <ul style="list-style-type: none">• Tranche 1: 3,000,000 Performance Rights;• Tranche 2: 5,000,000 Performance Rights; and• Tranche 3: 7,000,000 Performance Rights.
Measurement Period	<p>The measurement period in respect of each tranche of Performance Rights is as follows:</p> <ul style="list-style-type: none">• Tranche 1: The period from grant on 6 December 2019 to 30 June 2020;• Tranche 2: The period commencing 1 July 2020 and ending 30 June 2021; and• Tranche 3: The period commencing 1 July 2021 and ending 30 June 2022.
Vesting Conditions	<p>Vesting occurs in the financial year subsequent to the performance period and is conditional upon board approval.</p> <p>The criteria for vesting is structured to reflect both financial outcomes and qualitative indicators which pertain to sustainable improvements in the Company's business. These criteria are directly referable to the roadmap of key initiatives and deliverables the Board established in connection with the turnaround of RFG over the period of Mr Georges' anticipated tenure through to 30 June 2022.</p> <p>The criteria the Board (excluding Mr George) identified for vesting of the performance rights includes:</p> <ul style="list-style-type: none">• (Metric 1) 40% to the achievement of certain underlying EBITDA performance criteria.• (Metric 2) 20% to the achievement of certain growth related criteria which include targets in relation to annual weighted Same Store Sales (SSS) growth, new franchise outlet additions, and improved margins extracted from the Company's business portfolio.¹• (Metric 3) 20% to the achievement of certain operational and organisational criteria, which reference the roadmap of key imperatives identified for the period through to 30 June 2022.• (Metric 4) 20% to the achievement of certain qualitative measures associated with improving the reputation of the Company. <p>The Board (excluding Mr George) retains discretion to modify vesting in the case that the circumstances that prevailed over the relevant measurement period materially differed from those expected at the time the vesting scale/conditions were determined.</p> <p>¹ Where appropriate, criteria which are subject to commercial sensitivity have been described in generic terms. Further details regarding the key features of the aforesaid Rights are detailed in the Company's Notice of Meeting in respect to its 2019 Annual General Meeting, released to the ASX on 29 October 2019.</p>
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.
Termination of Employment	<p>In the case of dismissal for cause, or in other circumstances classified as "Bad Leaver" by the Board in its discretion, unvested Performance Rights will be forfeited. In other cases, on termination of employment a portion of Performance Rights whose Measurement Period falls within the financial year in which the termination occurs will be forfeited. The proportion is that which the remainder of the financial year following the termination represents of the full financial year. This provision recognises that grants of Performance Rights are part of the remuneration for the year of grant and that if part of the year is not served then some of the Performance Rights will not have been earned.</p> <p>Continued service during the period between 30 June and the assessment of Vesting Conditions achievement, following the completion of the financial year in which the grant is made, is not a requirement in order for Performance Rights to vest.</p>

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Executive Chairman Performance Rights Plan (continued)

Aspect	Details
Disposal Restrictions	Shares acquired on exercise of vested Performance Rights will be subject to disposal restrictions until all of the following cease to restrict disposals: a) The Company's share trading policy; b) The insider trading provisions of the Corporations Act 2001 (Cth) c) The Specified Disposal Restrictions. The Specified Disposal Restrictions attaching to the shares acquired on exercise of Performance Rights are that those shares may not be sold or otherwise disposed of until 30 September 2022, regardless of whether Mr George remains an employee of the Company or not.

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

Total share-based payment expense during the year, arising from the Performance Rights granted to Mr George, was \$189 thousand.

Details of performance rights affecting current and future remuneration

Details of vesting profiles applied to determine the accounting expense and the Rights held by the Executive Chairman are detailed below.

	Instrument		Grant date	% achieved in year	% not achieved in year	Financial years in which grants assessed	Maximum value yet to vest ⁽¹⁾
Peter George	Rights	3,000,000	6 December 2019	70%	30%	FY20	-
	Rights	5,000,000	6 December 2019	79%	21%	FY21	-
	Rights	7,000,000	6 December 2019	67%	33%	FY22	-

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

Proposed Additional Grant Performance Rights upon Contract Extension

The vesting cycle of the 2019 Performance Rights Grant through to FY22 reflected tenure of the Executive Chairman's contract, executed 19 November 2019 (which had a term expiring 30 June 2022, and which now persists on an 'open ended' basis pending execution of a replacement agreement or termination by either party). The initial term of the Executive Chairman's contract was based on an assessment of the reasonable time period required to deliver the key elements of the Company's turnaround. However, given the advent of the COVID-19 pandemic and the protracted nature of the ACCC litigation, the board considers it in the best interests of the Company that continuity of Mr George's current role be preserved. The board and Mr George are in the process of finalising discussions regarding a replacement contract for Mr George, which is intended to contemplate the grant (subject to shareholder approval at the Company's 2022 Annual General Meeting) of up to 7,000,000 performance rights which, if they vest, will entitle the holder to one ordinary share in RFG per each vested right. The Company will keep the market informed of developments regarding this matter.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Executive Chairman Performance Rights Plan (continued)

Executive Chairman Incentive Program (continued)

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

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

The table below shows a reconciliation of performance rights held by the Executive Chairman for the FY22 year, including the movement during the reporting period, by number of Rights over ordinary shares in the Company, held directly, indirectly or beneficially, by the Executive Chairman.

FY22 Executive	Grant Date	Balance at the start of the year	Number of rights granted during FY22	Number of Rights Vested	Vested %	Number of Rights Forfeited or Lapsed	Forfeited or Lapsed %	Balance of unvested rights at the end of the year
Peter George ⁽¹⁾	6 December 2019	12,000,000	-	3,960,000	33%	1,040,000	9%	7,000,000 ⁽²⁾

(1) 3,960,000 ordinary shares have been issued on vesting of 3,960,000 performance rights granted in accordance with the terms set out in the explanatory notes to RFG's 2019 Notice of Annual general meeting released to ASX on 26 August 2021.

(2) Subsequent to year end, 4,655,000 ordinary shares will be issued on the vesting of 4,655,000 performance rights, and 2,345,000 rights will be forfeited.

Senior Management Incentive Program

The Company has implemented, effective from 1 July 2021, a Senior Management Incentive Program (SMIP) comprising:

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

As at the date of this report, the Senior Management Incentive Program extends to 27 senior managers. To the extent that participants are considered Key Management Personnel (KMP) for the purposes of the Corporations Act 2001 (Cth), details of their participation in the program are reported in the Company's Remuneration Report herein.

Pursuant to this program, shareholders approved the issue of 22,555,210 performance rights to eligible senior managers at the Company's Annual General Meeting on 24 November 2021 (only five of which are KMP). Performance rights were issued under both the Short Term Incentive Plan (STI) and Long Term Incentive Plan (LTI). The SMIP is designed to attract, retain and motivate key individuals within a framework which aligns the interests of management with those of the Company's shareholders. Under the plan, participants are granted rights which only vest if certain performance standards are met.

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

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

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Senior Management Incentive Program (continued)

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

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

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

Key Management Personnel	Number of rights granted during FY22	Financial years in which rights vest ⁽¹⁾	Vesting conditions apply to all rights granted	Grant Date	Fair value at grant date
Mr Matthew Marshall	302,945	FY22	EBITDA and role specific KPIs	26 August 2021	\$0.08
	3,029,445	FY24	EBITDA growth	26 August 2021	\$0.08
			Total Shareholder Return	26 August 2021	\$0.04
Mr Peter McGettigan	301,529	FY22	EBITDA and role specific KPIs	26 August 2021	\$0.08
	1,507,644	FY24	EBITDA growth	26 August 2021	\$0.08
			Total Shareholder Return	26 August 2021	\$0.04
Mr Anthony Mark Connors	239,241	FY22	EBITDA and role specific KPIs	26 August 2021	\$0.08
	1,196,206	FY24	EBITDA growth	26 August 2021	\$0.08
			Total Shareholder Return	26 August 2021	\$0.04
Mr Damian Zammit	240,657	FY22	EBITDA and role specific KPIs	26 August 2021	\$0.08
	1,203,285	FY24	EBITDA growth	26 August 2021	\$0.08
			Total Shareholder Return	26 August 2021	\$0.04
Ms Nicola Swarbrick	161,382	FY22	EBITDA and role specific KPIs	26 August 2021	\$0.08
	806,907	FY24	EBITDA growth	26 August 2021	\$0.08
			Total Shareholder Return	26 August 2021	\$0.04

- (3) The number of Rights which may vest will be determined by the Board as soon as practical following release of audited accounts in respect to the financial year in which the relevant measurement period falls, and the fair value of rights expected to vest is recognised as an expense. Financial years noted are as per the terms of the performance rights plan.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Senior Management Incentive Program (continued)

The key features of the SMIP applicable to KMP are summarised below:

Aspect	Details
Number of Performance Rights	<p>A total of 8,989,241 Performance Rights - eligible to vest are as follows:</p> <ul style="list-style-type: none">• STI: 1,245,754 Performance Rights; and• LTI: 7,743,487 Performance Rights.
Measurement Period	<p>The measurement period in respect of each tranche of Performance Rights is as follows:</p> <ul style="list-style-type: none">• STI: The period commencing 1 July 2021 and ending 30 June 2022; and• LTI: The period commencing 1 July 2021 and ending 30 June 2024.
Vesting Conditions - STI Tranche	<p>The number of Performance Rights (if any) that vest in relation to the STI Measurement Period will be determined by reference to outcomes achieved against pre-determined criteria. On establishment of the SMIP, the following STI vesting conditions applied:</p> <p>STI Metric 1: 70% weighting to the achievement of certain earnings performance criteria:</p> <ul style="list-style-type: none">• Stretch - 100% vesting where FY22 underlying EBITDA is \$30.0 million or more• Greater than Target and less than Stretch - Pro-rata vesting where FY22 underlying EBITDA is more than \$27.3 million and less than \$30.0 million• Target - 50% vesting where FY22 underlying EBITDA is \$27.3 million• Less than Target - Nil vesting where FY22 underlying EBITDA is less than \$27.3 million <p>STI Metric 2: 30% weighting to the relative achievement of certain Key Performance Indicators (KPIs) linked to the Participant's role and which are aligned with the Company's FY22 strategic imperatives.</p> <p>The Board retained discretion to modify vesting in the case that the circumstances that prevailed over the STI Measurement Period materially differed from those expected at the time the vesting scale/conditions were determined, which was intended to be used when the application of vesting scale/conditions would lead to an outcome that may be viewed as inappropriate.</p> <p>Contemporaneous with the adoption of this Remuneration Report, the Board exercised the discretion afforded to it and referred to above so that STI Metric 1 is varied to allow for 50% vesting referable to the Company's FY22 underlying EBITDA of \$21.5m. The Board considered it appropriate to exercise its discretion as aforesaid given:</p> <ul style="list-style-type: none">• The SMIP was established on the assumption of an orderly transition to normal trading conditions during 1H22 where increasing COVID-19 vaccination rates would facilitate an expedient recovery in business conditions. The contrary was however the case, with both 'Delta' related restrictions and the emergence of the 'Omicron' strain having a significant impact on the Company's performance during FY22;• Having regard to the above factors, the Board considered the Group's FY22 underlying EBITDA performance to represent a creditable result.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Senior Management Incentive Program (continued)

Aspect	Details
Vesting Conditions - LTI Tranche	<p>The number of Performance Rights (if any) that vest in relation to the LTI Measurement Period will be determined by reference to outcomes achieved against pre-determined criteria. On establishment of the SMIP, the following LTI vesting conditions applied:</p> <p>Original LTI Metric 1: 50% weighting to the Company's achievement of certain Cumulative Average Annual Growth (CAAGR) in underlying earnings criteria set out is as follows:</p> <ul style="list-style-type: none">• Stretch - 100% vesting where 3 Year CAAGR of at least 12% applies• Greater than Target and less than Stretch - Pro-rata vesting where 3 Year CAAGR exceeds 8% but is less than 12%• Target - 50% vesting where Minimum 3 Year CAAGR is 8%• Less than Target - Nil vesting where Minimum 3 Year CAAGR is less than 8% <p>Underlying earnings for the purposes of assessing CAAGR are the Company's underlying EBITDA as published in the Company's audited annual accounts. The starting metric for establishing 3 Year CAAGR will be the Company's FY21 underlying EBITDA as published in RFG's FY21 audited accounts. For the purposes of LTI metric 1, references to underlying EBITDA excludes the impact of AASB15 and AASB16 and significant items. The Board also retains discretion to adjust for changes to composition of underlying EBITDA should the Board consider such an adjustment necessary to avoid any unintended benefit or detriment to the Participant.</p> <p>Original LTI Metric 2: 50% weighting to the Company's achievement of certain absolute Total Shareholder Return (aTSR) criteria set out is as follows:</p> <ul style="list-style-type: none">• Stretch - 100% vesting where aTSR represents a Cumulative Average Annual Return of 40% or more• Greater than Target and less than Stretch - Pro-rata vesting where aTSR represents a Cumulative Average Annual Return of more than 20% and less than 40%• Target - 50% vesting where aTSR represents a Cumulative Average Annual Return of at least 20%• Less than Target - Nil vesting where aTSR represents a Cumulative Average Annual Return of less than 20%. <p>The Board retains discretion to modify vesting in the case that the circumstances that prevailed over the LTI Measurement Period materially differed from those expected at the time the vesting scale/conditions were determined, which is intended to be used when the application of vesting scale/conditions would lead to an outcome that may be viewed as inappropriate.</p> <p>Having regard to the same factors described above (i.e. COVID-19's impact on 1H22 and subsequent performance), together with the imperative to retain critical talent, during February 2022 the Board exercised its discretion to modify the vesting scale/conditions applicable to the LTI Measurement Period. The revised LTI Metrics are as follows:</p> <p>Revised LTI Metric 1: 50% weighting to the Company's achievement of certain Cumulative Average Annual Growth (CAAGR) in underlying earnings criteria set out is as follows:</p> <ul style="list-style-type: none">• Stretch - 100% vesting where 3 Year CAAGR of at least 10% applies• Greater than Target and less than Stretch - Pro-rata vesting where 3 Year CAAGR exceeds 6% but is less than 10%• Target - 50% vesting where Minimum 3 Year CAAGR is 6%• Less than Target - Nil vesting where Minimum 3 Year CAAGR is less than 6% <p>Revised LTI Metric 2: 50% weighting to the Company's achievement of certain absolute Total Shareholder Return (aTSR) criteria set out is as follows:</p> <ul style="list-style-type: none">• Stretch - 100% vesting where aTSR represents a Cumulative Average Annual Return of 25% or more• Greater than Target and less than Stretch - Pro-rata vesting where aTSR represents a Cumulative Average Annual Return of more than 12.5% and less than 25%• Target - 50% vesting where aTSR represents a Cumulative Average Annual Return of at least 12.5%• Less than Target - Nil vesting where aTSR represents a Cumulative Average Annual Return of less than 12.5%. <p>NOTE: All SMIP metrics are for the sole purpose of the SMIP and assisting the Board to assess and reward senior executive manager performance. Vesting scales/conditions established under the SMIP do not represent, and are not intended to represent, guidance in whole or in part regarding the future performance of the Group or the Company's share price.</p>

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Senior Management Incentive Program (continued)

Aspect	Details
Exercise Price	No amount will be payable to exercise a Performance Right that has vested.
Termination of Employment	If you cease to be an Employee your Performance Rights will be forfeited, unless the Board (in its absolute discretion) determines otherwise.
Disposal Restrictions	Shares acquired on exercise of vested Performance Rights will be subject to disposal restrictions until all of the following cease to restrict disposals: <ul style="list-style-type: none"> a) The Company's share trading policy; b) The insider trading provisions of the Corporations Act 2001 (Cth)

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

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

Total share-based payment expense during the year, arising from the Performance Rights granted to Key Management Personnel was, \$168 thousand.

Details of performance rights affecting current and future remuneration

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

	Instrument	Grant date	% achieved in year ⁽³⁾	% not achieved in year	Financial years in which grants assessed	Maximum value yet to vest ⁽¹⁾
Mr Matthew Marshall	Rights 302,945	26 August 2021	60%	40%	FY22	-
	Rights 3,029,445	26 August 2021	n/a	100%	FY24	\$106,031
Mr Peter McGettigan ⁽²⁾	Rights 301,529	26 August 2021	60%	40%	FY22	-
	Rights 1,507,644	26 August 2021	n/a	100%	FY24	\$52,768
Mr Anthony Mark Connors	Rights 239,241	26 August 2021	60%	40%	FY22	-
	Rights 1,196,205	26 August 2021	n/a	100%	FY24	\$41,867
Mr Damian Zammit	Rights 240,657	26 August 2021	60%	40%	FY22	-
	Rights 1,203,285	26 August 2021	n/a	100%	FY24	\$42,115
Ms Nicola Swarbrick	Rights 161,382	26 August 2021	60%	40%	FY22	-
	Rights 806,907	26 August 2021	n/a	100%	FY24	\$28,242

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

(2) Subsequent to 1 July 2022 Peter McGettigan has resigned from Retail Food Group.

(3) n/a: LTI performance rights for KMP are assessed at the end of the 3 year performance period (end FY24). No assessment of % achieved at end FY22 is made with respect of the LTI performance rights.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

2. Remuneration Policy and Framework (continued)

Senior Management Incentive Program (continued)

Performance Rights Plan

Under the Senior Management Incentive Program (SMIP), Rights will only vest if certain performance and service conditions are met (i.e., the duration of the measurement period for each tranche and whether the Rights holder was employed for the entirety of that measurement period).

The table below shows a reconciliation of performance rights held by each Key Management Personnel granted rights under the SMIP for the FY22 year, including the movement during the reporting period, by number of Rights over ordinary shares in the Company, held directly, indirectly or beneficially, by each key management person.

FY22 Executive	Grant Date	Balance at the start of the year	Number of rights granted during FY22	Number of Rights Vested ⁽¹⁾⁽²⁾	Vested %	Number of Rights Forfeited or Lapsed	Forfeited or Lapsed %	Balance of unvested rights at the end of the year
Mr Matthew Marshall	26 August 2021	-	3,332,390	-	0%	-	0%	3,332,390
Mr Peter McGettigan	26 August 2021	-	1,809,173	-	0%	-	0%	1,809,173
Mr Anthony Mark Connors	26 August 2021	-	1,435,447	-	0%	-	0%	1,435,447
Mr Damian Zammit	26 August 2021	-	1,443,941	-	0%	-	0%	1,443,941
Ms Nicola Swarbrick	26 August 2021	-	968,290	-	0%	-	0%	968,290

- (1) The number of Rights which may vest will be determined by the Board as soon as practical following release of audited accounts in respect to the financial year in which the relevant measurement period falls. Financial years noted are as per the terms of the performance rights plan.
- (2) Subsequent to year end, 747,452 ordinary shares will be issued on the vesting of 747,452 performance rights, and 498,302 rights will be forfeited in connection with the FY22 short-term incentive outcomes.

3. Relationship between Remuneration Policy and Group Performance

The following summary information in relation to the Group's earnings and movements in shareholder wealth for the five years to 1 July 2022 is provided in accordance with the requirements of the Corporations Act as follows:

Metrics	FY18	FY19	FY20	FY21	FY22
Share price at start of financial year	\$4.70	\$0.54	\$0.13	\$0.07	\$0.07
Share price at end of financial year	\$0.54	\$0.13	\$0.07	\$0.07	\$0.04
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic EPS (Underlying)	18.4 cps	5.9 cps	1.4 cps	1.1 cps	0.9 cps
Basic EPS ⁽¹⁾	(169.5 cps)	(81.7 cps)	(0.3 cps)	0.1 cps	0.2 cps
Diluted EPS ⁽¹⁾	(169.5 cps)	(81.7 cps)	(0.3 cps)	0.1 cps	0.2 cps

- (1) EPS figures are as historically reported.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

4. Remuneration of Directors and Senior Executive Management

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

FY22 Name	Short-term Benefits				Long-term Benefits			Total
	Salary & fees ⁽¹⁾	Bonus ⁽²⁾	Other ⁽⁴⁾	Performance Rights	Super-annuation	Performance Rights	Other ⁽³⁾	
	\$	\$	\$	\$	\$	\$	\$	
Non-Executive Directors								
Ms Kerry Ryan	130,587	-	-	-	13,059	-	-	143,646
Mr David Grant	135,221	-	-	-	13,522	-	-	148,743
Executive Director								
Mr Peter George	596,166	-	26,980	-	23,568	189,471	-	836,185
Senior Executive Management								
Mr Peter McGettigan	422,949	13,102	1,800	13,227	23,568	22,112	8,303	505,061
Mr Anthony Mark Connors	330,884	10,395	1,800	10,495	23,568	17,544	6,415	401,101
Mr Matthew Marshall	408,318	13,163	16,500	13,289	23,568	44,432	-	519,270
Mr Damian Zammit ⁽⁵⁾	305,083	10,457	116,189	10,557	22,921	17,648	-	482,855
Ms Nicola Swarbrick	237,091	7,012	-	7,079	22,551	11,835	-	285,568
	2,566,299	54,129	163,269	54,647	166,325	303,042	14,718	3,322,429

- (1) Salary and fees include Short-term benefits as per Corporations Regulation 2M.3.03(1) Item 6 comprising of cash salary and annual leave entitlements.
- (2) Bonus includes short-term incentive bonus relating to performance during the reporting period using the criteria set out on page 19. The amount has been recognised as an expense during the year. The final amount paid will be determined after reporting date when performance reviews are completed and approved by the remuneration committee.
- (3) Other long-term benefits as per Corporations Regulation 2M.3.03(1) Item 8. The amounts disclosed in this column represent the movements in the associated long service leave provisions.
- (4) Other short-term benefits include allowances and benefits paid or provided to individuals as part of their respective employment contract.
- (5) Included within 'Other' for Mr Damian Zammit is an ex gratia payment upon his appointment to the position of Head of Training and Capability.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

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

FY21 Name	Short-term Benefits			Long-term Benefits			Termination Benefits	Total
	Salary & fees ⁽¹⁾	Bonus	Other ⁽⁶⁾	Super-annuation	Performance Rights ⁽⁷⁾	Other ⁽²⁾		
	\$	\$	\$	\$	\$	\$		
Non-Executive Directors								
Ms Kerry Ryan	89,526	-	-	8,329	-	-	-	97,855
Mr David Grant	110,042	-	-	10,238	-	-	-	120,280
Executive Director								
Mr Peter George	586,719	-	25,410	21,694	452,054	-	-	1,085,877
Senior Executive Management								
Mr Peter McGettigan	439,671	-	1,800	21,694	-	8,796	-	471,961
Mr Anthony Mark Connors	340,021	-	1,800	21,694	-	22,708	-	386,223
Mr Matthew Marshall ⁽⁴⁾	389,165	-	16,500	21,694	-	-	-	427,359
Mr Damian Zammit	336,567	-	1,298	21,702	-	-	-	359,567
Ms Nicola Swarbrick ⁽⁵⁾	83,379	-	-	6,508	-	-	-	89,887
Former								
Ms Jessica Buchanan ⁽³⁾	197,239	-	706	21,694	(28,536)	-	240,900	432,003
	<u>2,572,329</u>	<u>-</u>	<u>47,514</u>	<u>155,247</u>	<u>423,518</u>	<u>31,504</u>	<u>240,900</u>	<u>3,471,012</u>

- (1) Salary and fees include Short-term benefits as per Corporations Regulation 2M.3.03(1) Item 6 comprising of cash salary and annual leave entitlements.
- (2) Other long-term benefits as per Corporations Regulation 2M.3.03(1) Item 8. The amounts disclosed in this column represent the movements in the associated long service leave provisions.
- (3) On 17 November 2020 Jessica Buchanan ceased employment as Head of Retail.
- (4) On 18 November 2020 Matthew Marshall was appointed as Head of Retail.
- (5) On 3 March 2021 Nicola Swarbrick was appointed as Head of Growth and as a result of this appointment, is considered to be a KMP from this date.
- (6) Other short-term benefits include allowances and benefits paid or provided to individuals as part of their respective employment contract.
- (7) Performance Rights for Ms Jessica Buchanan includes the reversal of expenses recognised in relation to 1,519,737 performance rights granted on 1 April 2020 cancelled and 7,480,263 performance rights granted on 1 April 2020 forfeited upon her departure on 17 November 2020.

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	
	FY22 %	FY21 %	FY22 %	FY21 %	FY22 %	FY21 %
Non-Executive Directors						
Ms Kerry Ryan	100.0	100.0	-	-	-	-
Mr David Grant	100.0	100.0	-	-	-	-
Executive Director						
Mr Peter George	77.3	58.4	-	-	22.7	41.6
Senior Executive Management						
Mr Peter McGettigan	90.4	100.0	5.2	-	4.4	-
Mr Anthony Mark Connors	90.4	100.0	5.2	-	4.4	-
Mr Damian Zammit	68.2	100.0	28.1	-	3.7	-
Mr Matthew Marshall ⁽²⁾	86.3	100.0	5.1	-	8.6	-
Ms Nicola Swarbrick ⁽³⁾	90.9	100.0	4.9	-	4.1	-
Former						
Ms Jessica Buchanan ⁽¹⁾	-	106.6	-	-	-	(6.6)

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

DIRECTORS' REPORT

Remuneration report (audited) (continued)

5. Key Management Personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited:

FY22	Balance 3 July 2021	Granted as Compensation ⁽¹⁾	Received on Vesting of Rights ⁽¹⁾	Net Other Change	Balance 1 July 2022	Balance Held Nominally
Name	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Mr David Grant	1,100,000	-	-	440,000	1,540,000	-
Ms Kerry Ryan	1,189,579	-	-	-	1,189,579	-
Executive Director						
Mr Peter George	2,100,000	-	3,960,000	-	6,060,000	-
Senior Executive Management						
Mr Peter McGettigan	150,000	-	-	-	150,000	-
Mr Anthony Mark Connors	195,567	-	-	-	195,567	-
Mr Damian Zammit	-	-	-	-	-	-
Mr Matthew Marshall	-	-	-	-	-	-
Ms Nicola Swarbrick	-	-	-	-	-	-
	4,735,146	-	3,960,000	440,000	9,135,146	-

(1) The performance rights vested and shares were issued in FY22. With respect of the FY22 performance period, shares will be issued in FY23. With respect of the 3 year FY24 performance period for long term incentive plan, any qualifying rights will vest and shares will be issued in FY25.

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

DIRECTORS' REPORT

Remuneration report (audited) (continued)

5. Key Management Personnel equity holdings (continued)

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

(1) On 3 March 2021 Nicola Swarbrick was appointed as Head of Growth and as a result of this appointment, is considered to be a KMP from this date.

(2) On 17 November 2020 Jessica Buchanan ceased employment as Head of Retail.

(3) The performance rights vested and shares were issued in FY21. With respect of the FY21 performance period, rights will vest and shares will be issued in FY22.

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

DIRECTORS' REPORT

Remuneration report (audited) (continued)

6. Key terms of employment contracts

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. Non-Executive Director remuneration takes the form of a set fee plus superannuation entitlements and may comprise other benefits or rewards in certain circumstances. ⁽²⁾

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

Role	FY22	FY21
Chairman ⁽¹⁾	-	-
Non-executive Director ⁽²⁾	\$110,000	\$110,000
Audit & Risk Management Committee Chairman	\$20,000	\$20,000
Nomination & Remuneration Committee Chairman	\$17,500	\$17,500
Committee Member*	\$10,000	\$10,000

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

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

(2) On 26 March 2020, the Board resolved to temporarily reduce Director fees by 20% in response to COVID-19. Normal remuneration levels were reinstated effective 1 July 2021.

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

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. The maximum amount which has been approved by the Company's shareholders for payment to Non-Executive Directors is \$1.1 million.

DIRECTORS' REPORT

Remuneration report (audited) (continued)

6. Key terms of employment contracts (continued)

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

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

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

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

7. Loans to Key Management Personnel

There were no loans outstanding at the end of the financial year (FY21: \$nil) to Directors or Senior Executive Management or their related parties.

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

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

Consolidated	FY22 \$	FY21 \$
Consolidated loss includes the following expenses arising from transactions with key management personnel of the Group or their related parties:		
Consulting services	8,047	11,501
	<u>8,047</u>	<u>11,501</u>

During FY22, the Group engaged the services of production agency, Light up Gold Pty Ltd, being a related party of Mr Peter George. \$8,047 was billed to the Group during FY22 (FY21: \$11,501) and there was no balance payable as at 1 July 2022 (FY21: nil).

DIRECTORS' REPORT

This Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the *Corporations Act 2001*.

RETAIL FOOD GROUP LIMITED



Mr Peter George
Executive Chairman

Robina
24 August 2022

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

To the Directors of Retail Food Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Retail Food Group Limited for the financial year ended 1 July 2022 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Stephen Board
Partner

Brisbane
24 August 2022

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 1 JULY 2022

Consolidated	Notes	FY22 \$'000	FY21 \$'000
Continuing operations			
Revenue from contracts with customers	2	102,575	109,098
Cost of sales	5	(27,531)	(31,378)
Gross profit		<u>75,044</u>	<u>77,720</u>
Other revenue	2	9,268	8,488
Other gains and losses	5	1,144	1,118
Selling expenses	5	(11,846)	(4,651)
Marketing expenses		(13,276)	(14,438)
Occupancy expenses		(2,471)	(155)
Administration expenses		(20,847)	(22,826)
Operating expenses	5	(16,107)	(17,892)
Finance costs	3	(3,090)	(3,582)
Other expenses	5	(12,743)	(15,630)
Profit before income tax		<u>5,076</u>	<u>8,152</u>
Income tax expense	4	(217)	(708)
Profit for the year from continuing operations		<u>4,859</u>	<u>7,444</u>
Profit/(loss) from discontinued operations	27	400	(5,983)
Profit for the year		<u>5,259</u>	<u>1,461</u>
Other comprehensive loss, net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations	20	77	(114)
Other comprehensive income/(loss) for the year, net of tax		<u>77</u>	<u>(114)</u>
Total comprehensive profit for the year		<u>5,336</u>	<u>1,347</u>
Total comprehensive profit is attributable to:			
Equity holders of the parent		<u>5,336</u>	<u>1,347</u>
Earnings per share			
From continuing operations:			
Basic (cents per share)	6	0.2	0.4
Diluted (cents per share)	6	0.2	0.4
Total:			
Basic (cents per share)	6	0.2	0.1
Diluted (cents per share)	6	0.2	0.1

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 1 JULY 2022

Consolidated	Notes	FY22 \$'000	FY21 \$'000
Current assets			
Cash and cash equivalents	7	29,217	34,649
Trade and other receivables	8	7,745	7,148
Lease receivables	13	19,275	24,922
Other financial assets	9	1,678	1,541
Inventories	10	6,434	4,287
Other	11	2,968	4,361
Total current assets		67,317	76,908
Non-current assets			
Lease receivables	13	30,157	37,161
Other financial assets	9	83	576
Property, plant and equipment	12	23,552	20,972
Intangible assets	14	225,461	230,705
Other	11	3,511	3,443
Total non-current assets		282,764	292,857
Total assets		350,081	369,765
Current liabilities			
Trade and other payables	15	10,731	9,248
Borrowings	18	9,747	9,812
Lease liabilities	13	39,360	45,297
Current tax liabilities	4	-	708
Provisions	16	7,536	6,045
Unearned income	17.1	2,816	3,727
Other	17.2	843	647
Total current liabilities		71,033	75,484
Non-current liabilities			
Borrowings	18	27,218	34,592
Lease liabilities	13	52,093	63,682
Deferred tax liabilities	4	217	-
Provisions	16	5,836	6,479
Unearned income	17.1	9,802	11,508
Other	17.2	105	164
Total non-current liabilities		95,271	116,425
Total liabilities		166,304	191,909
Net assets		183,777	177,856
Equity			
Issued capital	19	615,541	615,145
Reserves	20	7,539	6,191
Retained earnings	21	(439,303)	(443,480)
Total equity		183,777	177,856

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 1 JULY 2022

Consolidated	Notes	Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2020		614,935	6,863	(445,713)	176,085
Profit for the year	21	-	-	1,461	1,461
Transfer from retained earnings to marketing fund reserve	20, 21	-	(772)	772	-
Other comprehensive loss	20	-	(114)	-	(114)
Total comprehensive (loss)/income		-	(886)	2,233	1,347
Transfer from equity-settled employee benefits reserves	19	210	(210)	-	-
Recognition of share-based payments	20	-	424	-	424
Balance at 2 July 2021		615,145	6,191	(443,480)	177,856
Balance at 3 July 2021		615,145	6,191	(443,480)	177,856
Profit for the year	21	-	-	5,259	5,259
Transfer from retained earnings to marketing fund reserve	20, 21	-	1,082	(1,082)	-
Other comprehensive income	20	-	77	-	77
Total comprehensive income		-	1,159	4,177	5,336
Transfer from equity-settled employee benefits reserves	19	396	(396)	-	-
Recognition of share-based payments	20	-	585	-	585
Balance at 1 July 2022		615,541	7,539	(439,303)	183,777

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 1 JULY 2022

Consolidated	Notes	FY22 \$'000	FY21 \$'000
Cash flows from operating activities			
Receipts from customers		110,144	142,781
Payments to suppliers and employees		(93,102)	(128,532)
Interest and other costs of finance paid		(925)	(3,218)
Income taxes paid		(708)	-
Net cash provided by operating activities	7	<u>15,409</u>	<u>11,031</u>
Cash flows from investing activities			
Interest received		24	41
Repayment of advances to other entities		1,126	1,212
Disposal of discontinued operations		900	3,112
Payments for property, plant and equipment		(3,090)	(2,662)
Proceeds from sale of property, plant and equipment		236	216
Net cash provided by/(used in) investing activities		<u>(804)</u>	<u>1,919</u>
Cash flows from financing activities			
Lease payments		(12,635)	(9,176)
Proceeds from borrowings		-	277
Repayment of borrowings		(7,500)	(9,535)
Debt issue costs		(107)	-
Net cash provided by/(used in) financing activities		<u>(20,242)</u>	<u>(18,434)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(5,637)</u>	<u>(5,484)</u>
Effects of exchange rate changes on cash and cash equivalents		205	(115)
Cash and cash equivalents at the beginning of the year		34,649	40,248
Cash and cash equivalents at end of year	7	<u>29,217</u>	<u>34,649</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

Significant changes in the reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

Impact of coronavirus (COVID-19)

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

The Group has carefully considered the impacts of COVID-19 in preparing its financial statements for the year ended 1 July 2022. The severe disruption to the retail food and beverage sector caused by Government imposed COVID-19 restrictions, and the franchised store lease arrears position discussed below, were deemed indicators of impairment, and therefore required assets held by the Group to be tested for impairment.

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

Receivables and other financial assets

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

The Group has recognised a provision for expected credit losses against > 80% of trade and other receivables that are 30+ days past due.

Lease assets and liabilities

As at 1 July 2022, landlords reported with respect to franchised store leases where the Group is head on lease (HOL) there were lease arrears accrued over the COVID-19 period of \$8.4 million (FY21: \$9.0 million). The lease arrears balances reported to the Group by landlords are on a net basis, and do include the application by landlords of COVID-19 rental relief in the form of rental abatements.

The Group has recognised a current lease liability at 1 July 2022 for \$8.4 million (FY21: \$9.0 million), and a corresponding gross lease receivable of \$8.4 million (FY21: \$9.0 million) from the respective franchise partners occupying the stores to which these arrears apply. An expected credit loss provision (ECL) of \$6.4 million (FY21 \$6.4 million) was recognised against the lease receivable balance.

In addition, the Group assessed the underlying right-of-use (ROU) assets and lease receivable assets for indicators of impairment. An additional \$2.1 million of lease assets were impaired following this assessment, where the franchised outlets were considered a risk of becoming non-viable due to current trading performance. Refer to Note 13.

Assessment of impairment of non-financial assets

The Group tested goodwill and indefinite life intangible assets for impairment, updating the assumptions, and cash flow forecasts, where relevant, to reflect the FY22 actual and potential impacts of COVID-19, including referring to independent expert long-term forecasts for the markets in which the Group operates. The indefinite life intangible assets of the Michel's Patisserie Brand System were assessed as impaired, resulting in an impairment expense of \$5.0 million before tax. The Group assessed the remaining carrying values of indefinite life intangible assets and goodwill were not impaired as at 1 July 2022.

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

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

No other property, plant and equipment was assessed as impaired as at 1 July 2022.

Contingent liabilities

The Group has disclosed contingent liabilities with respect of the current ACCC and a Michel's Patisserie Class Action proceedings, and a possible Class Action, the outcomes of which remain uncertain. If the ACCC is successful in the Proceedings this could result in the imposition of potentially significant penalties and other outcomes as sought by the ACCC. If the Michel's Patisserie Class Action proceedings are successful, this could result in the imposition of potentially significant outcomes as sought by the Michel's Patisserie Class Action.

NOTES TO THE FINANCIAL STATEMENTS

Significant changes in the reporting period (continued)

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

Going concern

The Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business. These cash flow projections assume the Group will successfully refinance or repay its senior debt facility via debt refinancing, new equity raising and/or sale of assets by September 2023.

As outlined above in Contingent Liabilities, there remains uncertainty with respect to the current ACCC proceedings as well as an existing Class Action and possible Class Action, which if unfavourable may impact the group's ability to refinance.

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

For a detailed discussion about the Group's performance and financial position please refer to our FY22 Results on pages 9 to 12.

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NOTES TO THE FINANCIAL STATEMENTS

Results for the year

1. Segment information

1.1 Description of segments and principal activities

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

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

- Bakery/Café Division (incorporating the Michel's Patisserie, Donut King and Brumby's Bakery Brand Systems);
- QSR Division (incorporating the Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Coffee Retail Division (incorporating the Gloria Jean's Coffees, Esquires, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating wholesale coffee operations); and
- Manufacturing and Distribution (discontinued operations) incorporating the Dairy Country business which was disposed of on 19 October 2020, and the Hudson Pacific business which was disposed of on 3 January 2020. The Manufacturing and Distribution segment is classified as discontinued operations in the FY22 financial year, and the FY21 comparative year.

1.2 Segment information provided to the Chief Operating Decision Makers

Segment Revenue

Revenue from external parties reported to the CODMs is measured in a manner consistent with that in the segment note. Sales between segments are 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.

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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/Café		OSR Systems		Coffee Retail Systems ⁽¹⁾		Di Bella Coffee		Manufacturing and Distribution		Discontinued Operations		Total Continuing Operations	
	FY22 \$'000	FY21 \$'000	FY22 \$'000	FY21 \$'000	FY22 \$'000	FY21 \$'000	FY22 \$'000	FY21 \$'000	FY22 \$'000	FY21 \$'000	FY22 \$'000	FY21 \$'000	FY22 \$'000	FY21 \$'000
External revenue	23,479	26,213	13,148	11,568	35,817	34,371	6,294	16,327	-	24,705	-	(24,705)	78,738	88,479
Impact of AASB 15 & AASB 16	4,474	4,831	466	964	2,867	5,112	22	213	-	-	-	-	7,829	11,120
External revenue - Marketing Funds	6,011	5,682	5,837	5,486	2,425	2,142	-	-	-	-	-	-	14,273	13,310
External revenue - Corporate stores	6,621	2,367	-	-	3,355	2,057	1,027	253	-	-	-	-	11,003	4,677
Inter-segment revenue	186	80	-	-	841	174	(1,027)	(254)	-	-	-	-	-	-
Segment revenue ⁽²⁾	40,771	39,173	19,451	18,018	45,305	43,856	6,316	16,539	-	24,705	-	(24,705)	111,843	117,586
Operating EBITDA	7,137	11,150	6,040	6,090	7,115	8,503	1,216	1,192	-	1,086	-	(1,086)	21,508	26,935
Impact of AASB 15 & AASB 16	6,495	489	231	1,444	3,560	4,057	(52)	949	-	1,163	-	(1,163)	10,234	6,939
Segment EBITDA	13,632	11,639	6,271	7,534	10,675	12,560	1,164	2,141	-	2,249	-	(2,249)	31,742	33,874
Marketing Funds EBITDA													1,082	(772)
Restructuring and provisioning													(10,882)	(12,129)
Impairment of intangible assets ⁽³⁾													(5,010)	-
Depreciation & amortisation													(8,766)	(9,239)
Finance costs													(3,090)	(3,582)
Profit before tax from continuing operations													5,076	8,152
Income tax (expense)/benefit													(217)	(708)
Profit/(loss) after tax for the period from continuing operations													4,859	7,444

(1) Coffee Retail Systems	Domestic		International Franchising	
	FY22 \$'000	FY21 \$'000	FY22 \$'000	FY21 \$'000
External revenue	24,060	27,508	11,757	6,863
Impact of AASB 15 & AASB 16	2,124	2,794	743	2,318
External revenue - Marketing Funds	2,425	2,142	-	-
External revenue - Corporate stores	3,355	2,057	-	-
Inter-segment revenue	841	174	-	-
Segment revenue	32,805	34,675	12,500	9,181
Operating EBITDA	3,920	6,144	3,195	2,359
Impact of AASB 15 & AASB 16	2,750	1,839	810	2,218
Segment EBITDA	6,670	7,983	4,005	4,577

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

	FY22 \$'000	FY21 \$'000
Revenue for the year – Statutory	111,843	117,586
Inter-segment revenue: eliminated on consolidation	-	-
Total segment revenue	111,843	117,586

(3) The Michel's Patisserie (MP) Brand System was assessed as impaired in FY22. Michel's Patisserie is included within the Bakery/Café Segment.

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	FY22 \$'000	FY21 \$'000
Revenue from the sale of goods	45,523	48,288
Revenue from franchise agreements	51,660	54,936
Revenue from the sale of distribution rights	5,392	5,874
	<u>102,575</u>	<u>109,098</u>
Operating lease income	5,237	5,608
Other revenue	4,031	2,880
	<u>9,268</u>	<u>8,488</u>
	<u>111,843</u>	<u>117,586</u>

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

FY22	Bakery/Cafe	OSR	Coffee Retail	Di Bella Coffee	Manufacturing & Distribution	Discontinued Operations	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from the sale of goods	12,156	-	26,493	6,874	-	-	45,523
Revenue from the sale of franchise agreements	21,235	16,179	14,246	-	-	-	51,660
Revenue from the sale of distribution rights	3,382	1,055	782	173	-	-	5,392
Operating lease income	3,373	214	1,446	204	-	-	5,237
Other revenue	439	2,003	1,497	92	-	-	4,031
TOTAL	40,585	19,451	44,464	7,343	-	-	111,843

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

Assets and liabilities related to contracts with customers

The Group has recognised trade receivables, against which an allowance for impairment has been recognised. Further information can be found in note 8.1 and note 5.

The Group has recognised unearned income in relation to contracts with customers arising from initial fees on entering into franchise and master franchise agreements, and distribution agreements. Further information can be found in note 17.1.

NOTES TO THE FINANCIAL STATEMENTS

2. Revenue and other revenue (continued)

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to initial fees (for which revenue is deferred) is \$12.6 million (2021: \$15.2 million). Refer to note 17.1.

Management expects that \$2.8 million of the transaction price allocated to unsatisfied performance obligations as of 1 July 2022 will be recognised as revenue during the next reporting period. The remaining amounts will be recognised from 30 June 2023 onwards.

Significant judgements

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

3. Finance costs

Consolidated	FY22 \$'000	FY21 \$'000
Finance lease interest	4,090	5,628
Bank interest	908	1,395
Interest expense from continuing operations	4,998	7,023
Finance lease interest income	(2,352)	(3,747)
Other finance costs	444	306
Total finance costs from continuing operations	3,090	3,582

4. Income taxes

4.1 Income tax recognised in profit or loss

Consolidated	FY22 \$'000	FY21 \$'000
Current tax:		
In respect of the current year	-	-
In respect of prior periods	-	708
	-	708
Deferred tax:		
In respect of the current year	217	-
In respect of prior periods	-	-
	217	-
Total Income tax expense recognised in the current year relating to continuing operations	217	708

NOTES TO THE FINANCIAL STATEMENTS

4. Income taxes (continued)

4.1 Income tax recognised in profit or loss (continued)

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

Consolidated	FY22 \$'000	FY21 \$'000
Profit/(loss) from continuing operations before income tax expense	5,076	8,152
Income tax expense calculated at 30% (FY21: 30%)	1,523	2,446
Effect of:		
Amounts that are (not assessable)/not deductible in determining taxable income/(loss)	(350)	755
Tax adjustments in respect of prior years	-	708
(Recognition)/De-recognition of carried forward tax losses	(1,095)	(1,405)
Tax losses attributable to discontinued operations	120	(1,796)
Other	19	-
Income tax expense/(benefit) recognised in profit or loss (relating to continuing operations)	217	708

The tax rate used for the FY22 reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

4.2 Current tax assets

Consolidated	Notes	FY22 \$'000	FY21 \$'000
Current tax assets		-	-
Current tax liabilities		-	(708)
		-	(708)

NOTES TO THE FINANCIAL STATEMENTS

4. Income taxes (continued)

4.3 Deferred tax balances

Consolidated FY22	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
	\$'000	\$'000	\$'000	\$'000
Temporary differences				
Intangible assets	(49,047)	1,542	-	(47,505)
Unrealised exchange differences	(65)	283	-	218
Leases - ROU asset	(5,066)	46	-	(5,020)
Leases - receivable	(18,626)	2,206	-	(16,420)
Leases - liability	29,629	(2,588)	-	27,041
Fixed assets	1,222	(482)	-	740
Employee benefits	690	41	-	731
Provisions	3,271	735	-	4,006
Doubtful debts	3,476	(723)	-	2,753
Unearned income	4,597	(914)	-	3,683
Share issue costs	1,887	(648)	-	1,239
Other	1,789	(689)	-	1,100
	<u>(26,243)</u>	<u>(1,191)</u>	-	<u>(27,434)</u>
Unused tax losses and credits				
Tax losses/(credits) ⁽¹⁾	26,243	974	-	27,217
	<u>26,243</u>	<u>974</u>	-	<u>27,217</u>
	-	(217)	-	(217)

(1) Unused tax losses reconciliation

	Unused tax losses	Tax benefit at 30%
	\$'000	\$'000
Balance at 3 July 2021 - recognised	87,477	26,243
Balance at 3 July 2021 - unrecognised	16,807	5,042
Losses generated/(used) in the year ended 1 July 2022	<u>(3,804)</u>	<u>(1,141)</u>
Total unused losses at 1 July 2022	100,480	30,144
Balance at 1 July 2022 - recognised	90,723	27,217
Balance at 1 July 2022 - unrecognised	9,757	2,927

- (1) The Group has unused tax losses for which no deferred tax asset has been recognised in the amount of \$9.8 million (FY21: \$16.8 million). The potential tax benefit of these tax losses at the corporate tax rate of 30% (FY21: 30%), equates to \$2.9 million (FY21: \$5.0 million). These tax losses can be carried forward until such time as the Group generates taxable profits against which these losses can be offset, subject to complying with loss carry forward tests applicable under the relevant tax laws of the jurisdictions in which the losses were incurred.

NOTES TO THE FINANCIAL STATEMENTS

4. Income taxes (continued)

4.3 Deferred tax balances (continued)

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

NOTES TO THE FINANCIAL STATEMENTS

4. Income taxes (continued)

4.3 Deferred tax balances (continued)

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

Consolidated	Notes	FY22 \$'000	FY21 \$'000
Deferred tax assets		68,728	72,965
Deferred tax liabilities		(68,945)	(72,965)
		<u>(217)</u>	<u>-</u>

4.4 Tax consolidation

Relevance of tax consolidation to the Group

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

NOTES TO THE FINANCIAL STATEMENTS

5. Profit for the year from continuing operations

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

Consolidated	FY22 \$'000	FY21 \$'000
Cost of sales	27,531	31,378
Other gains and losses:		
Gain on lease termination	(1,135)	(1,031)
Gain on disposal of assets	(9)	(87)
Total other gains and losses	<u>(1,144)</u>	<u>(1,118)</u>
Selling expenses:		
Wages associated with operating corporate stores	6,726	2,551
Corporate store occupancy expenses	3,851	1,689
Corporate store operating expenses	1,269	411
Total selling expenses	<u>11,846</u>	<u>4,651</u>
Operating expenses:		
Wages	15,179	16,290
Franchise partner assistance	374	616
Repairs and maintenance	365	855
Other	189	131
Total operating expenses	<u>16,107</u>	<u>17,892</u>
Other expenses:		
Impairment loss/(gain) on lease assets	(350)	7,904
Impairment loss/(gain) on trade and other receivables	25	1,560
Inventory related write-downs and provisioning	-	(468)
Impairment (gain)/loss on property, plant and equipment	87	(535)
Impairment loss on intangible assets	5,010	-
Provision (decrease) & business restructuring	(627)	(2,315)
Depreciation of property, plant and equipment	8,595	8,932
Amortisation - other	171	306
Other	(168)	246
Total other expenses	<u>12,743</u>	<u>15,630</u>
Employee benefits expense:		
Equity settled share based payments	585	424
Government wage subsidies	(332)	(4,064)
Post-employment benefits (defined contribution plans)	2,095	1,995
Other employee benefits (wages and salaries)	27,307	28,198
Total employee benefits expense ⁽¹⁾	<u>29,655</u>	<u>26,553</u>

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

NOTES TO THE FINANCIAL STATEMENTS

6. Earnings per share

Consolidated	FY22 Cents	FY21 Cents
Basic earnings per share		
From continuing operations	0.2	0.4
From discontinued operations	-	(0.3)
Basic (cents per share)	0.2	0.1
Diluted earnings per share ⁽¹⁾		
From continuing operations	0.2	0.4
From discontinued operations	-	(0.3)
Diluted (cents per share)	0.2	0.1

(1) Diluted EPS has been determined to be the same as basic EPS and on the basis that potential ordinary shares cannot be anti-dilutive.

6.1 Basic earnings per share

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

Consolidated	FY22 \$'000	FY21 \$'000
Profit/(loss) for the year		
From continuing operations	4,859	7,444
From discontinued operations	400	(5,983)
Earnings used in the calculation of basic EPS from continuing and discontinued operations	5,259	1,461

Consolidated	2022 No. '000	2021 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS	2,123,457	2,119,757

Calculation of weighted average number of fully paid ordinary shares		Fully paid ordinary shares issued	Weighted shares ⁽¹⁾
FY22	Date of issue	No. '000	No '000
Balance at beginning of period		2,120,095	2,120,095
Shares issued upon vesting of performance rights	26 August 2021	3,960	3,362
Total		2,124,055	2,123,457

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

NOTES TO THE FINANCIAL STATEMENTS

6. Earnings per share (continued)

6.2 Diluted earnings per share

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

Consolidated	FY22 \$'000	FY21 \$'000
Profit/(loss) for the year		
From continuing operations	4,859	7,444
From discontinued operations	400	(5,983)
Earnings used in the calculation of diluted EPS from continuing and discontinued operations	<u>5,259</u>	<u>1,461</u>

Consolidated	2022 No. '000	2021 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS ⁽¹⁾	2,123,457	2,119,757
Adjustments for calculation of diluted EPS – Performance rights	6,513	8,160
Weighted average number of ordinary shares for the purpose of diluted EPS	<u>2,129,970</u>	<u>2,127,917</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

Operations

Assets and liabilities

7. Cash and cash equivalents

7.1 Reconciliation to Consolidated Statement of Cash Flows

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

Consolidated	FY22 \$'000	FY21 \$'000
Cash and bank balances	29,217	34,649
Less: Restricted cash	(6,881)	(5,417)
	<u>22,336</u>	<u>29,232</u>

7.2 Restricted cash

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

7.3 Financing facilities

At 1 July 2022, the Group had unused facilities as detailed in the following table. Further details can be found in Notes 18 and 24.

Consolidated	FY22 \$'000	FY21 \$'000
Secured bank loan facility:		
Amount used (before deducting debt issue costs)	<u>37,279</u>	<u>44,779</u>
Secured ancillary bank facilities (guarantees):		
Amount used	2,832	2,648
Amount unused	<u>1,168</u>	<u>1,352</u>
	<u>4,000</u>	<u>4,000</u>
Secured ancillary bank facilities (other):		
Amount used	-	-
Amount unused	<u>1,000</u>	<u>1,000</u>
	<u>1,000</u>	<u>1,000</u>

NOTES TO THE FINANCIAL STATEMENTS

7. Cash and cash equivalents (continued)

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

Consolidated	FY22 \$'000	FY21 \$'000
Profit/(loss) for the year	5,259	1,461
Depreciation of non-current assets	8,595	10,028
Amortisation of intangible assets	171	587
(Gain)/loss on disposal of property, plant and equipment	(9)	3,845
Impairment loss on property, plant and equipment	4,031	3,098
Write-down/(write back) of inventory to net realisable value	-	(465)
Impairment loss on intangible assets	5,010	-
Impairment loss/(write back) on trade and other receivables	25	1,572
Non-cash employee benefits expense share based payments	585	424
Unrealised foreign exchange (gain)/loss	725	(218)
Interest income	(26)	(41)
Non-cash operating lease income	(5,237)	(5,340)
Non-cash interest expense	4,090	5,827
Non-cash finance lease income	(2,352)	(3,747)
(Gain)/loss on lease modifications	(1,135)	(1,031)
Impairment charges on lease receivables	(3,886)	4,389
Lease expenses recognised within financing cash flows	2,754	3,578
Non-cash restructuring and provisioning	(1,300)	(4,558)
Other	322	809
Increase/(decrease) in Current tax liability	(708)	734
Increase/(decrease) in Deferred tax balances	217	-
Movements in working capital:		
(Increase)/decrease in Trade and other receivables	(642)	(917)
(Increase)/decrease in Inventories	(2,236)	1,994
(Increase)/decrease in Other assets	2,369	6,075
Increase/(decrease) in Trade and other payables	1,909	(7,084)
Increase/(decrease) in Provisions	552	(2,280)
Increase/(decrease) in Other liabilities	(3,674)	(7,709)
Net cash generated by operating activities	<u>15,409</u>	<u>11,031</u>

7.5 Non-cash investing and financing activities

Acquisition of property, plant and equipment by means of leases was nil (FY21: nil).

NOTES TO THE FINANCIAL STATEMENTS

7. Cash and cash equivalents (continued)

7.6 Debt reconciliation

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

Consolidated	Current bank loans \$'000	Current other borrowings \$'000	Current borrowing costs \$'000	Non-current bank loans \$'000	Non-current borrowing costs \$'000	Leases \$'000
Balance at 3 July 2021	10,000	277	(465)	34,779	(187)	108,979
Repayment of borrowings	(7,500)	-	-	-	-	-
Debt forgiveness	-	(277)	-	-	-	-
Debt issue costs	-	-	(107)	-	-	-
Amortisation of deferred borrowing costs	-	-	445	-	-	-
Reclassification of debt	7,500	-	(126)	(7,500)	126	-
Lease liability additions	-	-	-	-	-	26,267
Lease liability terminations	-	-	-	-	-	(4,615)
Lease Liability - reduction ⁽¹⁾	-	-	-	-	-	(39,062)
Lease Liability - effect of movement in exchange rates	-	-	-	-	-	(116)
Balance at 1 July 2022	10,000	-	(253)	27,279	(61)	91,453

(1) Includes \$12.6 million paid by the Group with the balance paid by Franchise Partners directly to landlords.

8. Trade and other receivables

8.1 Trade receivables

Consolidated	FY22 \$'000	FY21 \$'000
Current		
Trade receivables	12,403	14,107
Allowance for impairment	(8,819)	(10,737)
	3,584	3,370
Accrued income	2,400	2,213
Sundry debtors	1,352	1,109
Other	409	456
	7,745	7,148

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

The average credit period on sales of goods and rendering of services is 30 days and no interest is charged.

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

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

The Group holds collateral over the majority of domestic franchise related receivable balances that are deemed recoverable, in the form of the franchised outlets.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recoverability includes, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

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.

NOTES TO THE FINANCIAL STATEMENTS

8. Trade and other receivables (continued)

8.1 Trade receivables (continued)

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

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
1 July 2022					
Expected loss rate	25%	83%	90%	98%	
Gross carrying amount - trade receivables	4,471	410	648	6,874	12,403
Loss allowance	1,139	342	583	6,755	8,819
2 July 2021					
Expected loss rate	23%	77%	91%	100%	
Gross carrying amount - trade receivables	4,158	549	575	8,825	14,107
Loss allowance	964	422	526	8,825	10,737

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	FY22 \$'000	FY21 \$'000
Balance at the beginning of the year	10,737	13,045
Reclassification to 'Other' receivables	(164)	(891)
Reclassification from 'Lease receivables - allowance for expected credit loss' ⁽¹⁾	2,366	1,036
Reclassification from 'ROU asset - accumulated impairment' ⁽¹⁾	677	301
Reclassification from 'Make-good receivable - loss allowance' ⁽¹⁾	144	-
(Decrease)/increase in loss allowance recognised in profit or loss during the year	(238)	1,740
Receivables written-off during the year as uncollectible	(4,703)	(4,494)
Balance at the end of the year	8,819	10,737

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

NOTES TO THE FINANCIAL STATEMENTS

9. Other financial assets

Consolidated	FY22 \$'000	FY21 \$'000
Current		
Loans and receivables carried at amortised cost		
Gross carrying amount - vendor finance ⁽¹⁾	761	1,690
Loss allowance - vendor finance	(418)	(1,269)
Gross carrying amount - other receivables ⁽²⁾	1,630	1,677
Loss allowance - other receivables	(295)	(557)
	1,678	1,541
Non-current		
Loans and receivables carried at amortised cost		
Gross carrying amount - vendor finance ⁽¹⁾	83	100
Gross carrying amount - other receivables ⁽²⁾	1,161	1,485
Loss allowance - other receivables	(1,161)	(1,009)
	83	576
	1,761	2,117

(1) Vendor finance represents funding provided to franchise partners for the purpose of acquiring a franchised outlet or undertaking refurbishment, and are primarily secured by the franchised outlet, including the business and shop fittings, with guarantors as co-signatories to the loan agreement. These loans receivable are undertaken at arm's length and can be interest bearing. Recoverability of these loans receivable are assessed on the same basis as trade receivables (Note 8). The impairment recognised represents the difference between the carrying amount of these loan receivables and the present value of the estimated recoverable amount. During the year \$0.7 million of vendor finance receivables that were impaired in prior periods were written-off as uncollectable.

(2) Other receivables includes trade receivables under formal or contractual payment arrangements. Recoverability of these other receivables are assessed on the same basis as trade receivables (Note 8).

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NOTES TO THE FINANCIAL STATEMENTS

10. Inventories

Consolidated	FY22 \$'000	FY21 \$'000
Stock held for wholesale supply	6,434	4,113
Stores held for resale	-	174
	<u>6,434</u>	<u>4,287</u>

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$27.5 million (FY21: \$31.4 million).

11. Other assets

Consolidated	FY22 \$'000	FY21 \$'000
Current		
Prepayments	1,108	3,263
Receivables - make-good ⁽¹⁾	3,544	1,710
Allowance for expected credit loss	(1,684)	(612)
	<u>2,968</u>	<u>4,361</u>
Non-current		
Prepayments	72	107
Receivables - make-good ⁽¹⁾	3,807	4,200
Allowance for expected credit loss	(368)	(864)
	<u>3,511</u>	<u>3,443</u>
	<u>6,479</u>	<u>7,804</u>

- (1) Receivables - make-good relate to the provision recognised for make-good costs associated with franchise store leases. The Group expects that the Franchise Partner will pay the make-good cost at the end of the lease term. Recoverability of these amounts are assessed on the same basis as trade receivables (note 8).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

12. Property, plant and equipment

Consolidated	Leasehold improvements at cost	Plant & equipment at cost	Motor vehicles at cost	Right-of-use assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2020	1,493	62,358	1,244	39,322	104,417
Additions	327	2,335	-	7,428	10,090
Disposals	(1,173)	(31,605)	(610)	(9,905)	(43,293)
Reclassification of inventories	-	207	-	-	207
Reclassification of right-of-use assets ⁽¹⁾	-	-	-	(10,551)	(10,551)
Reclassification of lease receivables ⁽²⁾	-	-	-	10,441	10,441
Effect of movements in exchange rates	(5)	(456)	-	(148)	(609)
Balance as at 3 July 2021	642	32,839	634	36,587	70,702
Additions	801	1,892	475	18,537	21,705
Disposals	(205)	(554)	(590)	(4,713)	(6,062)
Reclassification of inventories	-	161	-	-	161
Reclassification of right-of-use assets ⁽¹⁾	-	-	-	(10,229)	(10,229)
Reclassification of lease receivables ⁽²⁾	-	-	-	3,622	3,622
Effect of movements in exchange rates	(4)	(10)	(1)	158	143
Balance as at 1 July 2022	1,234	34,328	518	43,962	80,042
Accumulated depreciation and impairment					
Balance as at 1 July 2020	(250)	(48,118)	(951)	(16,053)	(65,372)
Reclassification of right-of-use assets	-	-	-	3,128	3,128
Disposals	614	19,910	456	4,123	25,103
Depreciation charge	(46)	(2,290)	(112)	(7,580)	(10,028)
Impairment losses	(595)	1,130	-	(3,633)	(3,098)
Reclassification to 'trade receivable-loss allowance' ⁽³⁾	-	-	-	274	274
Effect of movements in exchange rates	2	352	-	(91)	263
Balance as at 3 July 2021	(275)	(29,016)	(607)	(19,832)	(49,730)
Reclassification of right-of-use assets	-	-	-	741	741
Disposals	205	512	450	3,498	4,665
Depreciation charge	(178)	(1,057)	(29)	(7,331)	(8,595)
Impairment losses ⁽⁴⁾	(88)	(1)	2	(3,944)	(4,031)
Reclassification of inventories	-	(61)	-	-	(61)
Reclassification to 'trade receivable-loss allowance' ⁽³⁾	-	-	-	615	615
Effect of movements in exchange rates	(1)	14	1	(108)	(94)
Balance as at 1 July 2022	(337)	(29,609)	(183)	(26,361)	(56,490)
Net book value					
As at 2 July 2021	367	3,823	27	16,755	20,972
As at 1 July 2022	897	4,719	335	17,601	23,552

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

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

(3) Amounts relate to trade receivables for impaired lease payments made by the Group on behalf of franchise partners.

(4) Amount includes adjustment for terminated impaired leases.

NOTES TO THE FINANCIAL STATEMENTS

13. Leases

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

13.1 Amounts recognised in the consolidated statement of financial position

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

Consolidated	FY22 \$'000	FY21 \$'000
Finance lease receivables		
Current		
Lease receivable	24,804	33,679
Allowance for expected credit loss	(6,049)	(9,344)
	<u>18,755</u>	<u>24,335</u>
Non-current		
Lease receivable	35,265	44,584
Allowance for expected credit loss	(5,111)	(7,454)
	<u>30,154</u>	<u>37,130</u>
Operating lease receivables ⁽¹⁾		
Current		
Lease receivable - ROU assets	4,466	2,564
Allowance for expected credit loss	(3,946)	(1,977)
	<u>520</u>	<u>587</u>
Non-current		
Lease receivable - ROU assets	7	84
Allowance for expected credit loss	(4)	(53)
	<u>3</u>	<u>31</u>
	<u>49,432</u>	<u>62,083</u>
Right-of-use (ROU) assets		
Land & buildings	17,530	16,652
Vehicles & equipment	71	103
	<u>17,601</u>	<u>16,755</u>
Lease liabilities		
Current	39,360	45,297
Non-current	52,093	63,682
	<u>91,453</u>	<u>108,979</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

13. Leases (continued)

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

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

Consolidated	FY22 \$'000	FY21 \$'000
Balance at the beginning of the year	18,828	11,438
Reclassification from 'right-of-use assets'	21	3,128
Lease impairment recognised/(reversed) during the year	(3,055)	(1,158)
Reclassification to 'trade receivables - loss allowance' ⁽²⁾	(2,151)	(942)
Expected credit loss on rental arrears & deferrals	1,467	6,362
Balance at the end of the year	15,110	18,828

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

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

	FY22 \$'000	FY21 \$'000
Within 1 year	30,989	38,976
Between 1 and 2 years	15,940	21,160
Between 2 and 3 years	10,672	13,604
Between 3 and 4 years	6,113	7,814
Between 4 and 5 years	2,578	3,256
Later than 5 years	2,565	2,607
	68,857	87,417

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

	FY22 \$'000	FY21 \$'000
Within 1 year	10,370	9,612
Between 1 and 2 years	6,921	7,741
Between 2 and 3 years	4,797	5,190
Between 3 and 4 years	3,714	3,203
Between 4 and 5 years	2,042	1,790
Later than 5 years	1,033	2,517
	28,877	30,053

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NOTES TO THE FINANCIAL STATEMENTS

13. Leases (continued)

13.2 Amounts recognised in the consolidated statement of profit or loss and other comprehensive income

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

	FY22 \$'000	FY21 \$'000
Operating lease income	5,237	5,340
Finance lease interest income	2,352	3,747
Interest expense (finance lease)	(2,352)	(3,747)
Interest expense (operating leases)	(1,738)	(2,080)
Depreciation expense of ROU assets	(7,331)	(7,580)
Impairment charges of ROU assets	(3,536)	(3,515)
Expected credit gain/(loss) - lease receivables	3,886	(4,389)
Gain on lease modification	1,135	1,031

The total cash outflow for leases in FY22 was \$12.6 million (FY21: \$9.2 million).

13.3 Make-good provisions

The Group is required to restore the leased premises of its franchise stores and certain corporate leases, to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements for impaired and unimpaired leases. Refer to note 16 for additional detail on provisions.

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

Refer to note 33 for accounting policies for AASB 16.

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NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets

14.1 Intangible assets

Consolidated	Indefinite Life			Finite Life	Total
	Goodwill	Brand Networks	Intellectual Property Rights	Other	
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount					
Balance as at 1 July 2020	273,057	429,487	5,337	16,550	724,431
Exchange differences	-	-	-	(10)	(10)
Disposals	-	-	-	(11,300)	(11,300)
Balance as at 3 July 2021	273,057	429,487	5,337	5,240	713,121
Exchange differences	-	-	-	(11)	(11)
Disposals	-	-	-	(3,000)	(3,000)
Balance as at 1 July 2022	273,057	429,487	5,337	2,229	710,110
Accumulated amortisation and impairment					
Balance as at 1 July 2020	(206,220)	(271,190)	-	(8,933)	(486,343)
Amortisation expense	-	-	-	(587)	(587)
Disposals	-	-	-	4,514	4,514
Balance as at 3 July 2021	(206,220)	(271,190)	-	(5,006)	(482,416)
Amortisation expense	-	-	-	(171)	(171)
Disposals	-	-	-	2,948	2,948
Impairment losses	-	(5,010)	-	-	(5,010)
Balance as at 1 July 2022	(206,220)	(276,200)	-	(2,229)	(484,649)
Net book value					
As at 2 July 2021	66,837	158,297	5,337	234	230,705
As at 1 July 2022	66,837	153,287	5,337	-	225,461

14.2 Overview

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

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

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

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

In assessing the carrying value of RFG's intangible assets, the Directors have based their assessment and subsequent impairment position to reflect both the Group's expected FY23 sustainable earnings, including assumptions to reflect actual impacts of COVID-19 experienced by the Group to date, and future potential impacts of COVID-19 on the Group.

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

NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets (continued)

14.3 Useful Life

Brand Networks

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

14.4 Assessment of cash-generating units

Indefinite and finite life intangible assets

Indefinite and finite life intangible assets are tested at a cash generating unit level that is the smallest level that generates cash inflows that are largely independent from other cash inflows of other assets of the Group. In this case, the cash generating units are considered to be the Group's Brand Systems and the Group's Di Bella Coffee roasting business.

Goodwill

Goodwill is monitored by management at the level of the four operating segments identified in Note 1 and is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill.

14.5 Allocation of goodwill to cash-generating units

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

Goodwill allocation	FY22 \$'000	FY21 \$'000
Bakery/Café Systems	37,168	37,168
OSR Systems	12,431	12,431
Coffee Retail Systems	17,238	17,238
	<u>66,837</u>	<u>66,837</u>

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

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

Indefinite life intangibles allocation	FY22 \$'000	FY21 \$'000
Donut King Brand System	36,037	36,037
Brumby's Bakery Brand System	20,552	20,552
Michel's Patisserie Brand System	-	5,010
Crust Gourmet Pizza Bars Brand System	41,932	41,932
Café2U Brand System	5,670	5,670
Gloria Jeans Brand System	44,783	44,783
Di Bella Coffee	9,650	9,650
	<u>158,624</u>	<u>163,634</u>

NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets (continued)

14.7 Impairment losses and recoverable amounts

During FY22, impairment losses totalling \$5.0 million have been recognised in respect of the following cash-generating units and operating segments.

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

Cash-generating unit	Impairment charge	Recoverable amount
<i>Brands</i>		
Michel's Patisserie (included within the Bakery/Café CGU)	\$5.0m	-
Total	\$5.0m	-

14.8 Key assumptions used for calculating recoverable amounts

Goodwill

The recoverable amount of each group of cash generating units (operating segments) to which goodwill is allocated has been determined by reference to a fair value less costs of disposal (FVLCD) calculation. The valuation technique adopted was an income-based approach by using a discounted cash-flow model. Since the key assumptions and estimates are significant unobservable inputs, this is classified as a level 3 fair value.

The FVLCD used cash flow projections based on internal forecasts for the FY23 year extended over the subsequent 4 year period and applied a terminal value calculation using estimated growth rates approved by the Board. The expected costs of disposal for each segment are deducted from the recoverable amount to determine fair value less costs of disposal.

Identifiable intangible assets

The recoverable amount of each intangible asset with an indefinite useful life has been determined by reference to a fair value less costs of disposal (FVLCD) calculation based on the following key assumptions and estimates.

Impact of COVID-19 on key assumptions

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the severity of the impacts of the downturn caused by COVID-19 to date, and the speed of economic recovery. In the FY22 year as a result of COVID-19 the Group experienced reduced revenues in franchise and coffee operations, temporary and permanent closures of franchised stores, international territories and coffee customers, and incurred additional costs and experienced reduced cash inflows from the provision of franchise partner and customer support initiatives. Towards the end of the FY22 year, revenues and cash inflows improved as the impacts of COVID-19 and resultant imposed trading restrictions abated.

Year 1 cash-flows

The Group determined the recoverable amount of each CGU and operating segment based on a scenario that includes assumptions and cash flow forecasts to reflect actual impacts of COVID-19 experienced by the Group to date as discussed, and future potential impacts of COVID-19. FY23 year one cash flow projections are based on internal forecasts. The Group prepared a range of forecast scenarios for the FY23 year, and selected the lower case scenario for the purposes of impairment testing, which anticipates reduced revenues in franchise and coffee operations, temporary and permanent closures of franchised stores, international territories and coffee customers, and ongoing provision of franchise partner and customer support initiatives prevailing across the year. The Group utilised certain internal forecasting and referred to independent experts FY23 forecasts (incorporating their COVID-19 assumptions), for the markets in which the Group operates, as a basis for selecting a cash-flow growth rate in year one.

Years 2 cash-flow growth

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

Years 3 to 5 cash-flow growth

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

Terminal growth

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

The lower case scenario adopted for impairment testing incorporating the internal forecasting and growth rates nominated assumes the extent and duration of recovery to the FY22 EBITDA base by mid-FY24, noting FY22 EBITDA is significantly impacted by COVID-19.

The lower case scenario adopted for impairment testing does not assume the extent and duration of recovery to the FY21 EBITDA of the Group occurs within the 5 year cash flow forecast period.

Discount rates

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

NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets (continued)

14.8 Key assumptions used for calculating recoverable amounts (continued)

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

Cash-generating unit	Average EBITDA growth rate years 3 - 5	Long term growth rate	FY22 Pre-tax discount rate	FY21 Pre-tax discount rate
<i>Operating Segments for Goodwill testing</i>				
Bakery/Café Systems	1.9%	2.2%	12.08%	12.20%
OSR Systems	2.0%	2.5%	12.34%	12.10%
Coffee Retail Systems	2.0%	2.4%	12.43%	12.40%
Di Bella Coffee	2.0%	2.5%	13.19%	11.80%
<i>Brand Systems</i>				
Donut King Brand System	2.0%	2.5%	11.73%	12.00%
Brumby's Bakery Brand System	2.0%	2.0%	12.35%	12.70%
Michel's Patisserie Brand System	0.8%	0.5%	12.64%	11.90%
Crust Gourmet Pizza Bars Brand System	2.0%	2.5%	12.56%	12.10%
Café 2U Brand System	2.0%	2.0%	12.80%	12.80%
Gloria Jeans Brand System	2.0%	2.5%	12.34%	12.00%
Di Bella Coffee Brand System	2.0%	2.5%	13.19%	11.80%

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NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets (continued)

Significant estimate: Impact of reasonably possible changes in key assumptions

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

In 2018 to 2020 years, the Group significantly reduced the carrying values of intangible assets, recognising \$429.4 million impairment against the carrying value of the assets in those financial years. A \$5.0 million impairment against the Michel's Patisserie Brand System in the current year has also reduced the carrying value of this asset to nil, and lowered the carrying value of the Bakery/Café Systems segment by the same amount.

This significant reduction in carrying values prior to the 2021 year and in the current year has lowered the sensitivity of the respective cash-generating units recoverable amounts to negative changes in earnings assumptions, and the quantum of potential intangible asset impairment in future periods.

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

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

Cash-generating unit	Headroom	Average growth rate years 2 – 5 to trigger impairment	Terminal rate to trigger impairment	Discount rate to trigger impairment
<i>Brand System</i>				
Di Bella Coffee Brand System	\$0.6m	0.1%	1.8%	13.9%
<i>Operating Segments for Goodwill testing</i>				
Bakery/Café Systems Segment	\$0.9m	1.3%	2.0%	12.19%

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

Sensitivity scenario	Cash-generating unit impaired	Impairment
<i>Brand System</i>		
0.5% reduction in growth rates - years 2 - 5 and terminal rate	Di Bella Coffee Brand System	\$0.1m
0.7% increase in discount rate	Di Bella Coffee Brand System	\$0.1m
<i>Operating Segments for Goodwill testing</i>		
0.5% reduction in growth rates - years 2 - 5 and terminal rate	Bakery/Café Systems Segment	\$4.1m
0.7% increase in discount rate	Bakery/Café Systems Segment	\$3.9m

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other payables

Consolidated	FY22 \$'000	FY21 \$'000
Current		
Trade payables ⁽¹⁾	8,252	4,773
Accruals and other creditors	2,507	4,504
Goods and services tax (GST) payable	(28)	(29)
	<u>10,731</u>	<u>9,248</u>

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

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

16. Provisions

Consolidated	FY22 \$'000	FY21 \$'000
Current		
Employee benefits	2,526	2,186
Make-good	4,458	2,072
Other provisions	552	1,787
	<u>7,536</u>	<u>6,045</u>
Non-current		
Employee benefits	117	147
Make-good	5,675	5,526
Other provisions	44	806
	<u>5,836</u>	<u>6,479</u>
	<u>13,372</u>	<u>12,524</u>

Consolidated	Employee benefits	Make-good	Other
	\$'000	\$'000	\$'000
Balance at 3 July 2021	2,333	7,598	2,593
Movement in provisions	1,580	2,822	(515)
Payments made ⁽¹⁾	(1,270)	(287)	(1,482)
Balance at 1 July 2022	<u>2,643</u>	<u>10,133</u>	<u>596</u>

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

NOTES TO THE FINANCIAL STATEMENTS

17. Other liabilities

17.1 Unearned income

Consolidated	FY22 \$'000	FY21 \$'000
Current		
Unearned income	2,816	3,727
Non-current		
Unearned income	9,802	11,508
	<u>12,618</u>	<u>15,235</u>

The following table shows the movement in unearned income:

Consolidated	FY22 \$'000	FY21 \$'000
Balance at the beginning of the year	15,235	21,613
Additions	1,194	225
Decrease in unearned income recognised in profit or loss during the year from:		
- Franchise agreements	(2,964)	(5,734)
- Distribution agreements	(847)	(869)
Balance at the end of the year	<u>12,618</u>	<u>15,235</u>

17.2 Other Liabilities

Consolidated	FY22 \$'000	FY21 \$'000
Current		
Retention bonds and deposits	843	647
Non-current		
Retention bonds and deposits	105	164
	<u>948</u>	<u>811</u>

NOTES TO THE FINANCIAL STATEMENTS

Capital

18. Borrowings

Consolidated	FY22 \$'000	FY21 \$'000
Secured at amortised cost		
Current		
Bank loans ⁽¹⁾	10,000	10,000
Loans from other parties	-	277
Borrowing costs (deferred)	(253)	(465)
	<u>9,747</u>	<u>9,812</u>
Secured at amortised cost		
Non-current		
Bank loans ⁽¹⁾	27,279	34,779
Borrowing costs (deferred)	(61)	(187)
	<u>27,218</u>	<u>34,592</u>
	<u>36,965</u>	<u>44,404</u>

- (1) As at 1 July 2022, the Group's total gross debt decreased to \$37.3 million (FY21: \$44.8 million). Current bank loans represent the maximum quarterly loan principle repayments as required under the senior lending facility.

The Group's senior debt facilities mature in September 2023.

The Group is compliant with all debt covenants as at 1 July 2022.

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

NOTES TO THE FINANCIAL STATEMENTS

19. Issued capital

Consolidated	FY22 \$'000	FY21 \$'000
2,124,055,198 fully paid ordinary shares (FY21: 2,120,095,198)	615,541	615,145
	<u>615,541</u>	<u>615,145</u>

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	FY22 No. '000	FY22 \$'000	FY21 No. '000	FY21 \$'000
Fully paid ordinary shares ⁽¹⁾				
Balance at beginning of year	2,120,095	615,145	2,117,995	614,935
Transfer from equity-settled employee benefits reserve	3,960	396	2,100	210
Balance at end of year	<u>2,124,055</u>	<u>615,541</u>	<u>2,120,095</u>	<u>615,145</u>

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

20. Reserves

Equity-settled employee benefits reserve	FY22 \$'000	FY21 \$'000
Balance at beginning of year	658	444
Recognition of share-based payments	585	424
Transfer from equity-settled employee benefits reserve	(396)	(210)
Balance at end of year	<u>847</u>	<u>658</u>

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

Foreign Currency Translation reserve	FY22 \$'000	FY21 \$'000
Balance at beginning of year	1,003	1,117
Exchange difference on translation of foreign operations	77	(114)
Balance at end of year	<u>1,080</u>	<u>1,003</u>

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

Marketing Fund surplus	FY22 \$'000	FY21 \$'000
Balance at beginning of year	4,530	5,302
Surplus during the period transferred from retained earnings	1,082	(772)
Balance at end of year	<u>5,612</u>	<u>4,530</u>

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

Total Reserves	<u>7,539</u>	<u>6,191</u>
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NOTES TO THE FINANCIAL STATEMENTS

21. Retained earnings

Consolidated	FY22 \$'000	FY21 \$'000
Balance at beginning of year	(443,480)	(445,713)
Net profit/(loss) attributable to members of the parent entity	5,259	1,461
Net profit/(loss) attributable to marketing funds reclassified to other reserves	(1,082)	772
Balance at end of year	(439,303)	(443,480)

22. Dividends

Company	FY22		FY21	
	Cents per share	Total \$'000	Cents per share	Total \$'000

Declared and paid during the financial year

Final dividend - fully franked at 30% tax rate ⁽¹⁾	-	-	-	-
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(1) The Directors have resolved that no final dividend will be paid in respect of FY22.

Company	FY22 \$'000	FY21 \$'000
Adjusted franking account balance	50,279	50,279

23. Share-based payments

23.1 Performance Rights Plan

On 29 November 2019, shareholders approved the grant of 15,000,000 performance rights to Mr Peter George, Executive Chairman of the Company. The RFGRP is designed to provide long-term incentives for selected senior executives to deliver long-term shareholder returns. Under the plan, participants are granted rights which only vest if certain performance standards are met.

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

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

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

Grant date	Tranche 1	Tranche 2	Tranche 3	Total	Vesting conditions
On 6 December 2019	3,000,000	5,000,000	7,000,000	15,000,000	<ul style="list-style-type: none"> - EBITDA, franchise growth and health-related objectives - Operational and organisational criteria - Quantitative measurements relating to company - Quantitative measurements relating to company reputation improvement - Group Normalised EBITDA and Top Line Growth

NOTES TO THE FINANCIAL STATEMENTS

23. Share-based payments (continued)

23.1 Performance Rights Plan (continued)

Fair value of rights granted

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

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

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

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

(i) Reconciliation of performance rights

A reconciliation of performance rights held during FY22 is as follows:

	Number of rights FY22
Balance as at 2 July 2021	12,000,000
Granted during the year	-
Vested during the year	(3,960,000)
Forfeited during the year	(1,040,000)
Balance as at 1 July 2022	7,000,000

(ii) Expense recognised in profit or loss

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

NOTES TO THE FINANCIAL STATEMENTS

23. Share-based payments (continued)

23.2 Senior Management Incentive Program

On 24 November 2021, Shareholders approved the issue of 22,555,210 performance rights to eligible senior managers in accordance with RFG's Senior Management Incentive Program (SMIP). A further 1,952,285 performance rights were granted to senior managers who commenced employment subsequent to the initial grant. Performance rights were issued under both the Short Term Incentive Plan (STI) and Long Term Incentive Plan (LTI). The SMIP is designed to attract, retain and motivate key individuals within a framework which aligns the interests of management with those of the Company's shareholders. Under the plan, participants are granted rights which only vest if certain performance standards are met.

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

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

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

Grant date	STI	LTI	Total	Vesting conditions
26 August 2021	3,900,057		3,900,057	EBITDA and role specific KPIs
26 August 2021		18,655,155	18,655,155	EBITDA growth and Shareholder Return
04 May 2022	133,045		133,045	EBITDA and role specific KPIs
04 May 2022		815,350	815,350	EBITDA growth and Shareholder Return
30 June 2022	30,991		30,991	EBITDA and role specific KPIs
30 June 2022		972,897	972,897	EBITDA growth and Shareholder Return
Total			24,507,495	

NOTES TO THE FINANCIAL STATEMENTS

23. Share-based payments (continued)

23.2 Senior Management Incentive Program (continued)

Fair value of rights granted

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

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

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

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

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

(i) Reconciliation of SMIP performance rights

A reconciliation of SMIP performance rights held during FY22 is as follows:

	Number of rights FY22
Balance as at 2 July 2021	-
Granted during the year	24,507,495
Vested during the year	-
Forfeited during the year	(5,026,191)
Balance as at 1 July 2022	19,481,304

(ii) Expense recognised in profit or loss

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

NOTES TO THE FINANCIAL STATEMENTS

Risk

24. Financial instruments

24.1 Capital risk management

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

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

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

24.2 Gearing ratio

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

Consolidated	FY22 \$'000	FY21 \$'000
Debt ⁽¹⁾	37,279	45,056
Cash and bank balances - unrestricted	(22,336)	(29,232)
Net debt	14,943	15,824
Equity ⁽²⁾	183,777	177,856
Net debt to equity (gearing) ⁽³⁾	8%	9%

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

(2) Equity includes all capital and reserves of the Group that are managed as capital.

(3) Net debt divided by total equity as shown in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.3 Categories of financial instruments

Consolidated	FY22 \$'000	FY21 \$'000
Financial assets		
Loans and receivables		
Trade and other receivables	7,745	7,148
Lease receivables	49,432	62,083
Other financial assets	1,761	2,117
Other	6,479	7,804
Cash and cash equivalents	29,217	34,649
Financial liabilities		
Trade payables	8,252	4,773
Other payables	2,479	4,475
Retention bonds and deposits	948	811
Loans (at amortised cost)	36,965	44,404
Lease liabilities	91,453	108,979

24.4 Financial risk management objectives

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

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

24.5 Market risk

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

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

24.6 Interest rate risk management

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

At 1 July 2022, the Group's weighted average interest rate is 2.1% and total debt at variable interest rates is \$37.3 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.

Sensitivity	Impact on post-tax profit		Impact on other components of equity	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Interest rates - increase by 100 basis points (1%)	(261)	(313)	-	-
Interest rates - decrease by 100 basis points (1%)	261	313	-	-

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.7 Foreign exchange risk

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

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

Exposure	Assets		Liabilities	
	FY22 \$'000	FY21 \$'000	FY22 \$'000	FY21 \$'000
US Dollar	4,049	5,465	1,293	787
New Zealand Dollar	762	937	129	44

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.

Impact of Sensitivity to Profit or Loss	FY22		FY21	
	10%	-10%	10%	-10%
US Dollar	(175)	214	(298)	364
New Zealand Dollar	(40)	49	(57)	69
Total increase/(decrease)	(215)	263	(355)	433

24.8 Credit risk

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

Credit risk management

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

Trade receivables consist of a large number of unrelated customers. Ongoing credit evaluation is performed on the financial conditions of accounts receivable and, where appropriate, additional collateral is obtained for balances identified as "at risk". Often this collateral is in the form of franchised outlets. Refer to note 8.1 for impairment loss allowance and aging analysis.

Lease receivables consist of amounts receivable from a large number of unrelated franchise partners with respect to back to back lease arrangements where the Group is head on lease. Ongoing credit evaluation is performed on the financial conditions of lease receivable amounts, and the Group recognises an expected credit loss allowance (ECL) against lease receivables where there is a high risk of default. The Group has lease receivables of \$64.5 million due from franchise partners at 1 July 2022 and has recorded a total allowance for ECL of \$15.1 million. Included in these receivables are amounts of \$8.4 million due from franchise partners in relation to past due arrears over the COVID-19 period. An ECL provision of \$6.4 million has been recorded against these arrears. Refer to note 13.1 for a breakdown of these balances.

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

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.8 Credit risk (continued)

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

Financial assets and other credit exposures	FY22 \$'000	FY21 \$'000
Contingent liabilities		
Financial guarantees	814	814
Rental guarantees	2,832	2,648
	<u>3,646</u>	<u>3,462</u>

Trade receivables

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

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NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.9 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and undrawn borrowing facilities, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Note 7.3 sets out details of additional undrawn facilities that the Group had at 1 July 2022. Note 18 sets out details of the Group's borrowings at 1 July 2022.

Liquidity and interest rate risk tables

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

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Over 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000
FY22					
Non-derivatives					
Trade payables	-	8,252	-	-	8,252
Other payables	-	2,479	-	-	2,479
Retention bonds and deposits	-	843	105	-	948
Bank loans	2.1	10,695	27,544	-	38,239
Lease liabilities	-	39,360	48,496	3,597	91,453
		<u>61,629</u>	<u>76,145</u>	<u>3,597</u>	<u>141,371</u>
FY21					
Non-derivatives					
Trade payables	-	4,773	-	-	4,773
Other payables	-	4,475	-	-	4,475
Retention bonds and deposits	-	647	164	-	811
Bank loans	1.9	10,803	35,048	-	45,851
Loan from other parties	1.0	276	-	-	276
Lease liabilities	-	45,297	62,451	1,231	108,979
		<u>66,271</u>	<u>97,663</u>	<u>1,231</u>	<u>165,165</u>

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 (FY21: \$3.5 million).

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.9 Liquidity risk management (continued)

Liquidity and interest rate risk tables (continued)

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

Consolidated	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Over 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000
FY22					
Cash and cash equivalents - unrestricted	-	22,336	-	-	22,336
Loans and receivables	-	9,423	83	-	9,506
Lease receivables	4.9	19,275	28,953	1,204	49,432
Other	-	2,968	3,309	202	6,479
		<u>54,002</u>	<u>32,345</u>	<u>1,406</u>	<u>87,753</u>
FY21					
Cash and cash equivalents - unrestricted	-	29,232	-	-	29,232
Loans and receivables	-	8,689	576	-	9,265
Lease receivables	2.5	24,922	36,156	1,005	62,083
Other	-	4,361	3,232	211	7,804
		<u>67,204</u>	<u>39,964</u>	<u>1,216</u>	<u>108,384</u>

The Group has access to financing facilities, as described in Note 7.3, of which \$2.2 million was unused at the end of the reporting period (FY21: \$2.4 million). Note 18 sets out details of the Group's borrowings at 1 July 2022.

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

24.10 Fair value of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

Group structure

25. Subsidiaries

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

Entity	FY22 %	FY21 %	Entity	FY22 %	FY21 %
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⁾⁽⁴⁾	-	100	Gloria Jean's Coffees International (UK) Pty Ltd*	100	100
Associated Smallgoods Distributors Pty. Ltd. ⁽²⁾⁽⁴⁾	-	100	Gloria Jean's Coffees UK Limited*	100	100
ACN 159 149 872 Pty Ltd ⁽²⁾	100	100	Gloria Jean's Gourmet Coffees Corp. (GJ Stores, GJ Ecommerce)*	100	100
BB's Cafe System Pty Ltd ⁽²⁾	100	100	Gloria Jean's Gourmet Coffees Franchising Corp (GJ Franchising, GJ Ad Fund, GJ Gift Card)*	100	100
bb's New Zealand Limited ^A	100	100	Gourmet Foods Australia Pty Limited ⁽²⁾⁽⁴⁾	-	100
BDP Franchise Pty Ltd ⁽²⁾	100	100	HDCZ (NZ) Limited ^A	100	100
BDP System Pty Ltd ⁽²⁾	100	100	Hot Dog Construction Zone (Aust) Pty Ltd ⁽²⁾⁽⁴⁾	-	100
Booming Pty Ltd ⁽²⁾	100	100	A.C.N. 125 810 059 Pty Ltd ⁽²⁾	100	100
Brumby's Bakeries Corporate Retail Division Pty Ltd ⁽²⁾⁽⁴⁾	-	100	International Franchisor Pty Ltd ⁽²⁾	100	100
Brumby's Bakeries Holdings Pty Ltd ⁽²⁾	100	100	Jireh Group Pty Limited ⁽²⁾	100	100
Brumby's Bakeries Pty Ltd ⁽²⁾	100	100	Jireh International Retail Pty Limited ⁽²⁾	100	100
Brumby's Bakeries System (NZ) Limited ^A	100	100	Jireh International Unit Trust ⁽²⁾	100	100
Brumby's Bakeries System Pty Ltd ⁽²⁾	100	100	Jonamill Pty. Limited ⁽²⁾	100	100
Cafe2U (NZ) Limited ^A	100	100	Maranatha Import Export India Private Limited ^{*(4)}	-	100
Cafe2U International Pty. Ltd. ⁽²⁾	100	100	MEMGMT Pty Ltd ⁽²⁾⁽⁴⁾	-	100
Cafe2U Pty Limited ⁽²⁾	100	100	Michel's Patisserie (S.A.) Pty. Limited ⁽²⁾⁽⁴⁾	-	100
Caffe Coffee (NZ) Limited ^A	100	100	Michel's Patisserie (VQ) Pty Ltd ⁽²⁾	100	100
Caper Construction Pty Ltd ⁽²⁾⁽⁴⁾	-	100	Michel's Patisserie (VOL) Pty Ltd ⁽²⁾	100	100
Capercorp Pty Ltd ⁽²⁾	100	100	Michel's Patisserie (W.A.) Pty. Limited ⁽²⁾⁽⁴⁾	-	100
Capers Gourmet Kitchen Pty Ltd ⁽²⁾⁽⁴⁾	-	100	Michel's Patisserie Corporate Retail Division Pty Ltd ⁽²⁾⁽⁴⁾	-	100
CGP (NZ) Limited ^A	100	100	Michel's Patisserie Management Pty Ltd ⁽²⁾⁽⁴⁾	-	100
CGP Systems Pty Ltd ⁽²⁾	100	100	Michel's Patisserie Operations Pty Ltd ⁽²⁾	100	100
Coffee Houses CRD Pty Ltd ⁽²⁾⁽⁴⁾	-	100	Michel's Patisserie System Pty Ltd ⁽²⁾	100	100
C-Store Trading Pty Ltd ⁽²⁾	100	-	Michel's Patisserie Systems (NZ) Limited ^A	100	100
DBC Services Pty Ltd ⁽²⁾	100	100	Mules Enterprises Pty Ltd ⁽²⁾	100	100
DCM System Pty Ltd ⁽²⁾⁽⁴⁾	-	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⁾⁽⁴⁾	-	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) * ⁽⁴⁾	-	100	PRCH Holdings Pty Ltd ⁽²⁾	100	100

NOTES TO THE FINANCIAL STATEMENTS

25. Subsidiaries (continued)

Entity	FY22 %	FY21 %	Entity	FY22 %	FY21 %
DK China Pty Ltd ⁽²⁾⁽⁴⁾	-	100	Regional Franchising Systems Pty Ltd ⁽²⁾	100	100
Donquay Pty Limited ⁽²⁾	100	100	Retail Food Group Limited ⁽¹⁾	100	100
Donut King (NZ) Limited ^Δ	100	100	Retail Food Group USA, Inc (previously Praise International North America Inc)*	100	100
Donut King Corporate Retail Division Pty Ltd ⁽²⁾⁽⁴⁾	-	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⁾⁽⁴⁾	-	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 Addition Pty Ltd ⁽²⁾	100	100
Freezer Rental Pty Ltd ⁽²⁾	100	100	Systems Franchisor Pty Ltd ⁽²⁾⁽⁴⁾	-	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
- (4) These companies were deregistered in the FY22 year.

NOTES TO THE FINANCIAL STATEMENTS

26. Parent entity disclosures

26.1 Financial position

Parent entity	FY22 \$'000	FY21 \$'000
Assets		
Current assets	8,598	17,939
Non-current assets	225,461	230,705
Total assets	234,059	248,644
Liabilities		
Current liabilities	9,825	10,412
Non-current liabilities	46,069	34,591
Total liabilities	55,894	45,003
Equity		
Issued capital	615,541	615,145
Retained earnings	(439,303)	(413,165)
Reserves	1,927	1,661
Total equity	178,165	203,641

26.2 Financial performance

Parent entity	FY22 \$'000	FY21 \$'000
Profit/(loss) for the year	(26,138)	1,199
Other comprehensive income	77	-
Total comprehensive income	(26,061)	1,199

26.3 Other Commitments

The parent entity has no expenditure commitments as at 1 July 2022 (2021: nil).

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

NOTES TO THE FINANCIAL STATEMENTS

27. Discontinued operations

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

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

Consolidated	FY22 \$'000	FY21 \$'000
Revenue	-	24,705
Expenses	(500)	(26,742)
Other gains/(losses)	900	(3,946)
Profit/(loss) before income tax from operations	400	(5,983)
Attributable tax (expense)/benefit	-	-
Net loss attributable to discontinued operations	400	(5,983)
Earnings per share		
From discontinuing operations:		
Basic (cents per share)	-	(0.3)
Diluted (cents per share)	-	(0.3)

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

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

NOTES TO THE FINANCIAL STATEMENTS

28. Related party transactions

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

28.1 Equity interests in related parties

Equity interests in subsidiaries

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

Equity interests in associates and joint ventures

There are no equity interests in associates or joint ventures.

Equity interests in other related parties

There are no equity interests in other related parties.

28.2 Transactions with Key Management Personnel

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

Key management personnel compensation - Summary	FY22 \$'000	FY21 \$'000
Short term Benefits	2,783	2,619
Long term Benefits	181	187
Termination Benefits	-	241
Performance Rights	358	424
Total comprehensive income	<u>3,322</u>	<u>3,471</u>

During FY22, the Group engaged the services of production agency, Light up Gold Pty Ltd, being a related party of Mr Peter George. \$8,047 was billed to the Group during FY22 (FY21: \$11,501) and there was no balance payable as at 1 July 2022 (FY21: nil).

NOTES TO THE FINANCIAL STATEMENTS

Other

29. Events after the reporting period

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

Final dividend

The Directors have resolved that no dividend will be declared or paid with respect to the FY22 year.

30. Contingent liabilities

Financial assets and other credit exposures	FY22 \$'000	FY21 \$'000
Contingent liabilities		
Financial guarantees	814	814
Rental guarantees	2,832	2,648
	<u>3,646</u>	<u>3,462</u>

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

30.1 Contingent liabilities

The proceedings commenced by the ACCC in FY21 against certain members of the Group (ACCC Proceedings) have not, to date, been resolved or finally determined. The Company, along with two of its related entities, is also a respondent to representative proceedings brought in the Federal Court of Australia during FY22 by a former Michel's Patisserie franchisee on behalf of herself and other Michel's Patisserie franchisees, former franchisees and their related parties (Michel's Patisserie Class Action). In addition, the Group may potentially be the subject of a shareholder class action claim, albeit no such claim has yet been commenced. Provisions for costs incurred but unpaid at balance date have been raised in line with the Group's accounting policy.

ACCC Proceedings

The ACCC Proceedings allege contraventions of the Australian Consumer Law (ACL), the Franchising Code of Conduct (Code) and, by reason of the alleged contravention of the Code, the Competition & Consumer Act, during the period 2015 to 2019 in relation to the sale or licence of 47 corporate-owned stores as well as the management of marketing funds. The claims the subject of the ACCC Proceedings are therefore historical in nature and relate to a period under former RFG leadership.

The Proceedings allege contraventions of the Australian Consumer Law (ACL), the Franchising Code of Conduct (Code) and, by reason of the alleged contravention of the Code, the Competition & Consumer Act, during the period 2015 to 2019 in relation to the sale or licence of 47 corporate-owned stores as well as the management of marketing funds. The claims the subject of the Proceedings are therefore historical in nature and relate to a period under former RFG leadership.

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

Since commencing the ACCC Proceedings, the ACCC has filed a Statement of Claim in April 2021 and an Amended Statement of Claim in November 2021. The Group has filed its Defence in response to each of these.

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

The Group is defending the ACCC Proceedings.

Michel's Patisserie Class Action:

The Company, along with two of its related entities involved in the operation of the Michel's Patisserie brand system, is a respondent to representative proceedings commenced in the Federal Court of Australia, the possibility of which was disclosed in the Company's past accounts.

The representative proceedings have been commenced by a former Michel's Patisserie franchisee on behalf of herself and certain other Michel's Patisserie franchisees, former franchisees and their related parties. No allegations have been made in the proceedings in respect of the other brand systems operated by the Group.

The proceedings were commenced in October 2021 and relate to the historical conduct and operation of the Michel's Patisserie brand system under former RFG leadership, including changes implemented to the supply chain during the period 2015 to 2016 (the 'fresh to frozen' model). The applicant alleges breach of Franchise Agreement, contraventions of the *Australian Consumer Law* and the *Franchising Code of Conduct*.

NOTES TO THE FINANCIAL STATEMENTS

30. Contingent liabilities (continued)

30.1 Contingent liabilities (continued)

The proceedings have been commenced by way of Originating Application and Concise Statement and not by way of a fully particularised Statement of Claim. The representative applicant has agreed to file a Statement of Claim in the proceedings by 2 September 2022.

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

That said, the Company denies the allegations raised against it and its related entities and will be vigorously defending the proceedings.

Possible Class Action:

The legal firm Phi Finney McDonald continues to advertise a possible shareholder class action claim (first announced 10 May 2018) against RFG. RFG has had no contact with any plaintiff law firm in relation to the threatened class action, and no shareholder class action claim has been lodged against the Group to date.

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

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NOTES TO THE FINANCIAL STATEMENTS

31. Commitments for expenditure

Consolidated	FY22 \$'000	FY21 \$'000
Plant and equipment	761	182

32. Remuneration of auditors

Consolidated	FY22 \$	FY21 \$
Audit and review services		
Auditors of the Group - KPMG		
Audit and review of financial statements	715,000	650,000
Other auditors		
Audit and review of financial statements	16,865	18,647
Assurance services		
Auditors of the Group - KPMG		
Audit and review of other financial statements	325,000	180,000
Other assurance services	83,755	60,000
Other services		
Auditors of the Group - KPMG		
Consulting services relating to business restructuring	-	93,096
Taxation advice and tax compliance services	133,330	79,366
Other	232,505	108,795
Other auditors		
Other	-	-
	1,506,455	1,189,904

33. Summary of significant accounting policies

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

33.1 Basis of preparation

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

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

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

(a) Statement of compliance

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

The financial statements were authorised for issue by the Directors on the 24 August 2022.

(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 1 July 2022.

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.1 Basis of preparation (continued)

(d) Foreign currencies

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

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

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Australian Dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

(e) Use of estimates and judgements

The preparation of the consolidated financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is amended and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the consolidated financial statements are included in the following notes:

Recognition of receivables - Note 8

Recognition of revenue - Note 33.2

Estimation of recoverability of deferred tax assets - Note 33.3

Estimation of Impairment of non-financial assets other than goodwill and indefinite life intangible assets - Note 33.6

Estimation of goodwill and indefinite life intangible asset impairment - Note 33.7

Estimation of useful life of indefinite life intangibles - Note 33.7

Estimation of provisions - Note 33.8

Estimation of recoverability of lease receivables - Note 33.12

(f) Goods and services tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.1 Basis of preparation (continued)

(f) Goods and services tax (continued)

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

(g) Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. As reported at 1 July 2022, the Group had \$22.3 million (FY21: \$29.2 million) in unrestricted cash, and senior debt, ancillary facilities and financial guarantees of \$40.9 million (FY21: \$48.2 million), resulting in a sustainable net debt position of \$18.6 million. The Group had a net current liability position of \$3.7 million at 1 July 2022 (FY21: \$1.4 million net current asset position), which includes the classification of the Group's net liabilities arising from recognition of lease assets and liabilities under AASB 16 - Leases.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. In assessing the reasonableness of cash flow projections directors have had regard to the track record of underlying resilience of the business demonstrated during the circa 2 years of COVID-19 impact, as well as the observed propensity for trading to recover as circumstances normalise.

These cash flow projections assume the Group will successfully refinance or repay its senior debt facility via debt refinancing, new equity raising and/or sale of assets by September 2023. As outlined above in Contingent Liabilities, there remains uncertainty with respect to the current ACCC proceedings as well as an existing Class Action, and a possible Class Action, which if unfavourable may impact the Group's ability to refinance.

The Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business.

33.2 Revenue recognition

Revenue from sale of goods

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

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

Revenue from franchise agreements

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

The franchise agreements contain one performance obligation being the grant of a licence to franchise partners in order to allow them to access the Groups intellectual property over the term of the franchise agreements. The franchise agreements do not contain a material right to a discount on renewal.

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

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

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

Renewal fees are payable on commencement of the franchise agreement renewal period. Payment terms are typically 7 days, however longer term settlement periods may be offered to renewing franchise partners.

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

Revenue from sale of distribution rights

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

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.2 Revenue recognition (continued)

Revenue from sale of distribution rights (continued)

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

33.3 Income taxes

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

Current tax

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

Current and deferred tax for the year

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

Deferred tax balances

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised if the temporary difference arises from goodwill.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would flow in the manner the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.3 Income taxes (continued)

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.

33.4 Cash and cash equivalents

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

33.5 Inventories

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

33.6 Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

The gain or loss arising 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.

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.6 Property, plant and equipment (continued)

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.

33.7 Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

Franchise networks and intellectual property

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

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

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

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

Goodwill

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

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

Impairment of goodwill and indefinite life intangible assets

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

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.7 Intangible assets (continued)

Impairment of goodwill and indefinite life intangible assets (continued)

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

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

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

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

Determination as indefinite life

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

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

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

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

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

Internally Generated Intangible Assets, Including Research and Development Expenditure

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

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

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

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

33.8 Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.8 Provisions (continued)

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

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

Employee Benefits

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

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

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

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

Make-good

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

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

Warranties

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

33.9 Share-based payments

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

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

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

Measurement of equity-settled share-based payments

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

33.10 Financial instruments

Financial Assets

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

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.10 Financial instruments (continued)

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 33.2.

Derivatives and hedging activities

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

The Group designates certain derivatives as either:

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

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

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge

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

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.10 Financial instruments (continued)

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

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

(ii) Net investment hedges

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

33.11 Discontinued operations

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

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

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

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

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

33.12 Leases

(i) Variable lease payments

The majority of the Group's lease agreements include fixed percentage increases at specific dates. Accordingly, the Group is not exposed to significant potential future increases in variable lease payments based on an index or rate.

(ii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.12 Leases (continued)

(iii) Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The most significant judgement relates to renewal options of leases of franchise stores where management has concluded that due to the nature of the Group's lease arrangements, there is no basis to conclude with reasonable certainty whether renewal options will be exercised prior to entering into a contractual arrangement.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(iv) Finance lease receivables

The Group's finance lease receivables relate to franchise store leases where the Group is party to the head lease agreement and also has a corresponding back to back lease arrangement with the franchise partner of the stores. In these instances, RFG is both the lessee (under the head lease) and lessor (under the sub-lease).

The Group accounts for the head lease and the sub-lease as two separate contracts and classifies the franchise stores sub-leases as finance or operating leases by reference to the right-of-use asset arising from the head lease. Because of this change, the Group has reclassified its sub-lease agreements as finance leases. Refer to note 13 for amounts receivable under finance leases.

(v) Accounting for leases

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

33. Summary of significant accounting policies (continued)

33.12 Leases (continued)

(vi) Accounting for lease concessions

The Group may receive lease concessions from landlords in the form of rental waivers or rental deferrals. Rental waivers are only recognised once confirmation is received from a landlord that represents a legally binding waiver of rent payable. Lease receivables and lease liabilities are remeasured based on new terms which incorporate the waivers. Gains and losses from waivers received from landlords where the Group has back to back sub-lease agreements with franchise partners offset each other and are recorded through profit and loss. Gains on lease liabilities where a right-of-use asset exist are recorded through profit and loss where they qualify for the COVID-19 lease exemption.

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DIRECTORS' DECLARATION

The Directors declare that:

- (a) In the Directors' opinion, the financial statements and notes set out on pages 33 to 98 and the Remuneration report on pages 14 to 30 in the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated Group's financial position as at 1 July 2022 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 2022 Annual Report;
- (d) The Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors made pursuant to s.295 (5) of the *Corporations Act 2001*.

On behalf of the Directors

RETAIL FOOD GROUP LIMITED



Mr Peter George
Executive Chairman

Robina
24 August 2022

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Independent Auditor's Report

To the shareholders of Retail Food Group Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 1 July 2022 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 1 July 2022;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year ended on that date;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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

Key Audit Matters

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

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

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill and other indefinite life intangible assets (\$225m)

Refer to Note 14 and Note 33.7 of the financial report

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's annual testing of goodwill and other indefinite life intangible assets for impairment, given the size of the balance (being 64% of total assets). Certain conditions impacting the Group increased the judgement applied by us when evaluating the evidence available. We focused on the significant forward-looking assumptions the Group applied in their fair value less costs of disposal model for each cash generating unit (CGU), including:</p> <ul style="list-style-type: none"> • forecast cash flows – the Group has experienced significant business disruption as a result of COVID-19. This impacted the Group through a loss of revenue as there was a reduction in the demand for products and loss of customers for some of the Group's CGUs. These conditions and the uncertainty of their continuation increase the possibility of goodwill and other indefinite life intangible assets being impaired, plus the risk of inaccurate forecasts or a significantly wider range of possible outcomes for us to consider. We focused on the expected rate of recovery for the Group and the Group's proposed future business model when assessing the feasibility of the Group's forecast cashflows. • forecast growth rates and terminal growth rates – In addition to the uncertainties described above, the Group's models are highly sensitive to small changes in these assumptions reducing available headroom. 	<p>Working with our valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the fair value less costs of disposal (FVLCD) method applied by the Group to perform the annual test of goodwill and other indefinite life intangible assets for impairment against the requirements of the accounting standards. • Assessing the integrity of the FVLCD models used, including the accuracy of the underlying calculation formulas. • Meeting with management to understand the impact of COVID-19 to the Group and impact to the FY22 results. • Comparing the forecast cash flows contained in the FVLCD models to Board approved forecasts reflecting the COVID-19 expected recovery rate. • Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. • Assessing the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows contained in the FVLCD models, for consistency with our understanding of the business and the criteria in the accounting standards. • Assessing the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on the requirements of the accounting standards. • Assessing the Group's determination of CGU assets

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Goodwill and other indefinite life intangible assets (\$225m)

Refer to Note 14 and Note 33.7 of the financial report

This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy.

- discount rate - these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time, and the models' approach to incorporating risks into the cash flows or discount rates.

The Group uses complex models to perform their annual testing of goodwill and brand intangible assets for impairment. The models are largely manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

The Group has a number of individual CGUs necessitating our consideration of the Group's determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows.

for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards.

- Considering the sensitivity of the models by varying key assumptions, such as , forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range. We considered the interdependencies of key assumptions when performing the sensitivity analysis and what the Group considers to be reasonably possible. We did this to identify those CGUs at higher risk of impairment and those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.
- Challenging the Group's significant forecast cash flow and growth assumptions. We compared forecast growth rates and terminal growth rates to industry trends and expectations, and considered differences for the Group's operations. We assessed key assumptions such as expected rate of recovery for the Group and the Group's proposed future business model. We used our knowledge of the Group, business and customers, and our industry experience. We sourced authoritative and credible inputs from our specialists.
- Checking the consistency of the growth rates to the Group's revised plans and our experience regarding the feasibility of these in the industry in which they operate.
- Independently developing a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in.
- We considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business and how independent cash inflows were generated, against the requirements of the accounting standards.
- Evaluating the disclosures made in the financials against the requirements of the accounting standards.

Revenue recognition (Revenue \$103m)

Refer to Note 2 and Note 33.2 of the financial report

The key audit matter

The Group has several revenue streams across each of its different operating segments which provide a range of services and product offerings. The Group's significant revenue streams include:

- Sale of franchise agreements;
- Sale of goods; and
- Sale of distribution rights.

Revenue recognition was a key audit matter due to the quantum of the balance, and the significant audit effort and judgment we have applied in assessing the Group's recognition and measurement of revenue.

This was the result of the:

- High volume of transactions within revenue recognised from the sale of franchise agreements and the sale of goods.
- Complexity and judgements involved in applying the requirements of AASB15 *Revenue from Contracts with Customers*.
- Significant judgements made by the Group in the recognition and measurement of revenue and associated unearned revenue contract liabilities from the sale of franchise arrangements and the level of audit effort required by us in assessing the Group's assumptions underlying the timing of its recognition based on the terms of the relevant agreements.
- Opportunity for manual intervention, the high volume of transactions and the interfaces of multiple systems with the general ledger presenting conditions for transactions to be recorded incorrectly.

In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.

How the matter was addressed in our audit

Our procedures included:

- Developing an understanding of key revenue internal controls.
- Evaluating the appropriateness of the Group's accounting policies for revenue recognition for each significant revenue stream against the requirements of AASB 15 and our understanding of the business.
- Reading a sample of executed customer contracts from the sale of franchise agreements and the sale of goods and supplier contracts from the sale of distribution rights to understand the key terms of the arrangements and the performance obligations.
- Comparing the relevant features of a sample of executed customer and supplier distribution contracts to the criteria in the accounting standard, those in the Group's policies, and against the Group's identified performance obligations.
- Testing a sample of revenue transactions for each significant revenue stream, testing the timing of revenue recognised by the Group to underlying documentation such as signed customer contracts, customer invoices, proof of delivery, electronic point-of-sale reports, supplier rebate reports, and the Group's revenue recognition policies. We also checked customer and supplier receipts to bank statements. We compared our testing against amounts recorded in manual spreadsheets, revenue models, sales systems and the Group's general ledger, for reconciliation issues.
- Recalculating a sample of revenue transactions for selected revenue streams, recognised by the Group. This necessitated assessing how the Group allocated revenue to separately identified performance obligations from the same contract. We used underlying documentation obtained from our procedures above and criteria in the accounting standard to assess the allocation of revenue. We compared our assessment to the amount recorded by the Group.

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Revenue recognition (Revenue \$103m)

Refer to Note 2 and Note 33.2 of the financial report

- Assessing the Group's revenue assumptions which included evaluating the underlying documentation of a sample of franchise agreement sales and the Group's assessment of items and amounts they considered highly probable of future receipt. Using our knowledge of the arrangements, experience and industry, we challenged key judgements therein. We also recalculated computations splitting the items into revenue and unearned revenue liability.
- Evaluating the adequacy of the disclosures made in the financials against the requirements of the accounting standards.

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Lease accounting - estimate of lease arrears and assessment of recoverability of lease receivables (\$50m)

Refer to Note 13 and Note 33.12 to the financial report

The key audit matter	How the matter was addressed in our audit
<p>The Group has a significant lease portfolio that includes sub-lease arrangements with franchisees where the Group has entered into the head lease agreement with the landlord.</p> <p>Where the franchise store sub-lease is assessed by the Group as a finance lease using AASB 16 <i>Leases</i>, the Group recognise a finance lease receivable. Following this, the impairment requirements of AASB 9 <i>Financial Instruments</i> apply to the net investment in these leases.</p> <p>Accounting for these leases involved additional complexity for the Group due to the impact of COVID-19 in particular the following factors:</p> <ul style="list-style-type: none"> • Estimating lease arrears due from sub-lease arrangements \$8.4m - due to the impact of COVID-19 to franchisees, lease arrears have decreased, and its continued uncertainty impacts judgements regarding ultimate recoverability; • Judgment required in estimating expected credit losses on lease arrears and lease receivables of \$15.1m; <p>These conditions add wider estimation uncertainty to accounting measurements, in an already complex topic, and therefore a key audit matter.</p> <p>The Group determined their expected loss provisioning amounts using a forward-looking expected credit loss impairment model. This involves significant additional judgement as the expected credit loss reflects information about past, current and future conditions.</p> <p>Overall, the relative size of balances has a significant financial impact on the Group's financial position and performance.</p> <p>We involved our senior audit team members in assessing this key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the Group's lease accounting policies against accounting standard requirements, including for recognising expected credit losses on lease receivables and lease arrears. • Testing the existence of lease arrears, abatements and receivable amounts for a sample of franchise sublease balances by checking these amounts to underlying documentation such as executed lease agreements, landlord statements of lease arrears and applied abatements. • Meeting with management to understand the risk indicators used to identify and categorise the franchisee tenants into high, medium or low risk of default to determine the expected loss ratio for each category. We challenged management's judgements and assumptions in terms of the recoverability indicators adopted within the expected credit loss model using our knowledge of the Group, business and customers, and our industry experience. We considered the sensitivity of the Group's expected credit loss model by varying the assumptions within the model within a reasonably possible range. • Assessing the reasonableness of the Group's methodology and calculation of the expected credit loss allowance at year end against the requirements of AASB 9. • Recalculating the mathematical accuracy of the calculation of leases arrears and expected credit loss amounts as at year end. • Evaluating the completeness of the model by performing a reconciliation against the lease liabilities recorded in external landlord statements and the Group's underlying records. • Checking a sample of lessee specific inputs included in the expected credit loss impairment assessment to underlying documentation of authoritative arrangements. • Testing the consistency of expected credit losses

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Lease accounting - estimate of lease arrears and assessment of recoverability of lease receivables (\$50m)

Refer to Note 13 and Note 33.12 to the financial report

applied to lease receivables and lease arrears for a sample of franchise partners against broader debtor groups such as trade receivables from the same franchisee and cash collections after year end.

- Evaluating the adequacy of the disclosures made in the financials against the requirements of the accounting standards.

Other Information

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

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Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Retail Food Group Limited for the year ended 1 July 2022 complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 14 to 30 of the Directors' report for the year ended 1 July 2022.

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



KPMG



Stephen Board
Partner

Brisbane
24 August 2022

ADDITIONAL STOCK EXCHANGE INFORMATION

Number of holders of equity securities as at 10 August 2022

Ordinary share capital

- 2,124,055,198 ordinary shares are held by 14,453 individual shareholders.

All issued ordinary shares carry one vote per share.

Distribution of holders of equity securities ⁽¹⁾

	Total holders fully paid ordinary shares	Fully paid ordinary shares	% Issued capital	Total holders options	Options
1 - 1000	4,434	1,976,558	0.09%	-	-
1,001 - 5,000	3,626	9,207,687	0.43%	-	-
5,001 - 10,000	1,582	12,065,454	0.57%	-	-
10,001 - 100,000	3,463	124,000,739	5.84%	-	-
100,001 and over	1,348	1,976,804,760	93.07%	-	-
	14,453	2,124,055,198	100.00%	-	-

The number of shareholders holding less than a marketable parcel of ordinary shares is 9,129.

Substantial shareholders ⁽²⁾

Ordinary shareholders	Fully paid	
	Number	Percentage
Regal Funds Management Pty Ltd (RFM)	289,024,905	13.61%
Castle Point Funds Management	193,339,712	9.10%
Washington H. Soul Pattinson and Company Limited	166,710,681	7.85%
Thorney Opportunities LTD	127,350,000	6.00%
Collins St Asset Management	112,856,397	5.31%

Twenty largest holders of quoted equity instruments ⁽¹⁾

Ordinary shareholders	Fully paid	
	Number	Percentage
UBS NOMINEES PTY LTD	274,674,967	12.93%
NATIONAL NOMINEES LIMITED	182,899,432	8.61%
CITICORP NOMINEES PTY LIMITED	182,622,249	8.60%
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	169,736,387	7.99%
SANDHURST TRUSTEES LTD <COLLINS ST VALUE FUND A/C>	122,211,189	5.75%
BNP PARIBAS NOMS (NZ) LTD <DRP>	52,860,563	2.49%
MOLVEST PTY LTD <MOLVEST FAMILY A/C>	50,000,000	2.35%
BROADGATE INVESTMENTS PTY LTD	42,400,000	2.00%
HISHENK PTY LTD	38,000,000	1.79%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	31,096,358	1.46%
CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	27,442,554	1.29%
BRISPTOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	21,270,234	1.00%
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	19,784,182	0.93%
ARCHERFIELD AIRPORT CORPORATION PTY LTD	18,000,000	0.85%
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	13,571,972	0.64%
HORRIE PTY LTD <HORRIE SUPERANNUATION A/C>	12,770,000	0.60%
MR NEIL PETER GOOSEN	12,111,000	0.57%
MOLVER PTY LIMITED <MOLVER SUPER FUND A/C>	12,000,000	0.56%
GROVE INVESTMENT GROUP PTY LTD	10,088,925	0.47%
ABSOLUTE INVESTMENTS AUSTRALIA PTY LTD <ABSOLUTE A/C>	10,000,000	0.47%
DALELAN PTY LIMITED <RUBINSTEIN SUPER A/C>	10,000,000	0.47%
GROVE INVESTMENT GROUP PTY LTD	10,000,000	0.47%
	1,323,540,012	62.31%

(1) Based on reports provided by the Company's share register, Computershare Investor Services.

(2) Based on the most recent substantial shareholder notice (Form 604) lodged with the Australian Securities Exchange by the shareholder.