RETAILFOODGROUP LIMITED

RFG

STRENGTH IN BRANDS

Retail Food Group Limited ACN 106 840 082

05/06 Annual Report

for the financial year ended 30 June 2006

05/06 Annual Report

Chairman's letter

Dear Shareholder,

On behalf of the Board of Directors, I am delighted to present you with Retail Food Group Limited's inaugural annual report, detailing our Company's strong financial and operating performance during the past 12 months.

The 2006 financial year was a watershed year for Retail Food Group, highlighted by the successful listing of the Company on the Australian Stock Exchange following an oversubscribed Initial Public Offer.

Since then, Retail Food Group has cemented its position as one of Australia's leading retail food brand managers and franchisors by not only delivering, but exceeding, its prospectus forecasts for the 2006 financial year.

In 2005–06, Retail Food Group delivered a net profit after tax of $5.9 million—up 73.5% on the previous corresponding period. With this result, Retail Food Group has demonstrated its expertise in managing and growing its brands. The Company is also well-placed to achieve its commercial goals and stated forecasts for the 2007 financial year.

In the year ahead, Retail Food Group is focused on driving organic earnings through continued and sustainable new outlet growth, while maintaining the trend of increasing same outlet retail sales for franchisees.

With this in mind, two important initiatives for the Company are due to be launched in early 2007. These are the Company's first fully-operational Central Manufacturing Facility and a Coffee Roasting Facility, a joint-venture with well-credentialed Koffee-Tek Pty Ltd to supply our franchise networks with our existing proprietary coffee blends.

Both of these facilities will provide an additional platform for further development of the Company's existing businesses while affording new opportunities for future growth.

The Company continues to find itself well positioned to leverage its franchise management systems and national presence to achieve and take advantage of economies of scale through multi-brand ownership. The Board will continue to investigate and assess potential acquisitions which will increase shareholder value.

I would like to take this opportunity to formally welcome Colin Archer to the Board. Colin was appointed a non-executive director in April 2006 and brings with him a wealth of experience which can only enhance the management of the Company and its businesses. I would also like to thank Gary Best, who retired as an executive director in April 2006, for his valued contribution to the Board. While he may have stepped down from the Board, Gary maintains his position as Chief Operating Officer and his ongoing contribution to the success of the Company cannot be overstated.

Importantly, I would like to acknowledge the valued efforts of management, franchisees and staff of Retail Food Group and thank them for the impressive results they have achieved.

I consider a fundamental strength of the Company to be the quality of its people, the efforts they exert and the experience and attitude they bring to the job every working day. In particular, it is our Donut King and bb's café franchisees who remain the heartbeat of the Company—it is their efforts at the point of sale which form the foundation upon which the Company's success is built.

Finally, I would also like to thank you, the shareholder, for your commitment to the Company.

Given the underlying strengths and further objectives of the Company for the 2007 financial year, Retail Food Group Limited remains well placed to deliver rewards for our shareholders in the year ahead. It is with great pleasure that I invite readers to share in the Company's first annual report.

John Cowley, AM
CHAIRMAN

05/06 Annual Report

Managing Director's Report

Retail Food Group is one of Australia's leading multi retail food brand managers and franchisors, operating 332 franchised outlets across the Donut King and bb's café systems in both Australia and New Zealand as at 30 June 2006.

The 2006 financial year marked a substantial milestone for Retail Food Group with its Australian Stock Exchange listing on 22 June 2006. At the same time, the Company demonstrated its capacity and capability as a scaleable business model operating two highly visible and recognised brands by generating a strong and consistent financial performance.

During the financial year under review, Retail Food Group:

- Exceeded prospectus forecasts for its maiden result
- continued its tradition of quality additional outlet growth to the franchised network
- progressed the development of additional business drivers and sustainable growth strategies.

EXCEEDING FORECASTS

For the 2006 financial year, Retail Food Group achieved a net profit of $5.9 million.

This result represented a 73.5% increase on the $3.4 million achieved in the previous corresponding period.

The Company's net profit after tax from continuing operations (the basis upon which the capital raising was successfully undertaken in June 2006) was $6.4 million, an increase of $1.5 million or 30.6% on FY2005.

EBIT (earnings before interest and tax) from continuing operations of $10.5 million was 25% above the FY2005 comparable result and exceeded the prospectus forecast by $0.4 million.

The Company was able to exceed its prospectus forecast as a result of higher franchise and other revenues, together with lower-than-forecast corporate expenses. In particular, franchise revenue growth was driven by new outlet openings and increases in average weekly outlet sales.

The EBIT for the 12 months ending 30 June 2006 was generated from network sales across its Donut King and Australian bb's café systems of $143.1 million, an increase of 10.4% on the previous year and equal to the Company's prospectus forecast.

The substantial increase in EBIT for FY2006 over FY2005 was due to the rationalisation and closure of the Company Store Division, the disposition of the Juice Fusion system, increased revenues and economies from continuing operations as well as further operational and expense efficiencies.

In addition, network sales growth was facilitated by new and innovative marketing programs across the Donut King and bb's café systems, which also witnessed increases in the value of the average transaction. The increase in both franchisee average weekly sales as well as average transaction value is particularly satisfying given the reported decline in positive consumer sentiment and the erosion in discretionary spending.

Consistent with its prospectus, the Directors did not recommend the payment of a final dividend for the year ended 30 June 2006.

Managing Director's Report

Key Results

	2006 Actual	2006 Forecast	Increase / (Decrease)	2005 Actual	Increase / (Decrease)
Network Sales	**$143.1m**	**$143.1m**	0.0%	$129.6m[i]	10.4%
Total Revenue (continuing operations)	**$26.0m**	**$24.0m**	8.3%	$24.1m[i]	7.9%
EBITDA (continuing operations)	**$10.7m**	**$10.3m**	3.9%	$9.1m[i]	17.6%
EBIT (continuing operations)	**$10.5m**	**$10.1m**	4.0%	$8.9m[i]	18.0%
NPAT (actual)	**$5.9m**			$3.4m[ii]	73.5%
NPAT (continuing operations)	**$6.4m**			$4.9m[ii]	30.6%
Earnings Per Share (actual)	**8.6 cents**			4.9 cents	75.5%
Earnings Per Share (continuing operations)	**9.3 cents**			7.0 cents	32.9%
Number of Franchise Outlets	**332**	**332**	0.0%	319	4.1%
New Outlet Commissionings	**27**	**26**	3.8%	26	3.8%

(i) Results are proforma adjusted as per the Company's Prospectus dated 9 May 2006

(ii) Results are actual for FY2005

COMPANY EXPANSION

During the 2006 financial year, 27 new Donut King and bb's café outlets were commissioned—exceeding the prospectus forecast and 2004/2005 new outlet opening result by one outlet.

As at 30 June 2006, Retail Food Group had 332 franchised outlets, including 265 Donut King outlets, an increase of 15 outlets on the previous year, and 67 bb's café outlets, a decrease of two outlets on the previous year.

The Company is already well advanced in its new outlet commissioning program for FY2007, with Donut King outlets being established across all Australian states, with the majority in Queensland and New South Wales where the Company has historically experienced strong and consistent growth in outlet numbers.

The extensive outlet rationalisation and repositioning program for bb's café was substantially completed during FY2006, with the Company now looking forward to a conservative and sustainable growth phase.

The continued proliferation of franchised outlets during the past 12 months is a result of the Company's long standing policy to manage outlet growth in a consistent, sustainable and conservative manner.

The continued outlet rollout of franchised operations, coupled with the strong result for the year, demonstrates the strength and integrity of the Company's business model and depth of expertise in the Company's management team.

Managing Director's Report (continued)

GROWTH STRATEGIES

During the past year, Retail Food Group has continued to refine its management, training and support systems in order to drive growth.

Retail Food Group's growth strategy includes broadening its revenue base, participating in vertical integration opportunities wherever commercially sustainable, and streamlining supply for its Donut King and bb's café franchisees.

In support of these motivations, Retail Food Group recently announced its resolve to establish a national Coffee Roasting Facility (CRF) and fully operational Central Manufacturing Facility (CMF) at dedicated premises.

The CRF initiative is being undertaken through a joint venture with Koffee-Tek Pty Ltd, a well-credentialed boutique Australian coffee blender and roaster. It will blend and roast coffee for the Donut King and bb's café systems, existing Koffee-Tek customers and prospective third-party bulk roasting clients.

The CRF joint venture offers less risk, greater potential for future income and an ongoing program of enhanced quality coffee taste profile for Donut King and bb's café outlets. As previously detailed, Koffee-Tek will meet all capital costs in establishing the facility.

The CMF will build upon on the successful pilot program which has now been supplying fresh products daily to outlets in south-east Queensland for the past 18 months. The pilot program proved the concept of successfully and economically producing high quality products for numerous outlets. The central manufacture and distribution of food and beverages products, which are subject to the Company's proprietary blends and recipes, also ensures uniformity, quality, and consistency throughout all Australian outlets.

As previously detailed to the Market, on 28 July 2006, Retail Food Group entered into a conditional contract to purchase premises at Yatala, in the Gold Coast-Brisbane corridor, from which to commission and conduct the operations of the CRF and CMF.

The purchase price is $2.3 million and will be fully funded by debt. Settlement of the property occurred on the 17th October 2006. The Company will now embark upon an extensive refurbishment and fitout of the premises at a cost of approximately $1.5 million. It remains the Company's intention that, upon completion of the refurbishment program, scheduled for January 2007 that the premises be sold and thereafter leased back on commercial terms.

Management is of the opinion that the CMF and CRF, when fully operational, will provide attractive additional revenues and contribution to earnings together with opportunities for third party supply. The quantum of the financial impact of these initiatives has yet to be fully determined and therefore not included in the Company's FY2007 earnings forecast. That said from a franchisee perspective the positive reception of a CMF manufactured product has been overwhelming, resulting in a substantial increase in multi outlet ownership aspirations, enhanced lifestyle changes and importantly a redoubling by our franchisees on retailing and local store marketing.

OUTLOOK

Supported by the strong results achieved in 2005/2006 as well as the Company's first quarter 2007 results, Retail Food Group remains confident of achieving the 2006/2007 EBIT forecast as detailed in the prospectus of $11.7 million and 2006/2007 net profit after tax forecast of $7.4 million.

Further the Company's outlet opening program is well advanced to realise the forecast net organic outlet growth of 21 outlets, principally within the Donut King network, thereby achieving the Company prospectus forecast of 353 outlets by 30 June 2007. To be sure in terms of new store commissionings for the 2007 financial year, Retail Food Group has already identified sites, secured leases and recruited franchisees to achieve its full year forecast of 25.

It is also relevant to note that the Company is currently investigating licensing opportunities in international markets, such as Asia and India.

Management continues to invest considerable resources in enhancing its fundamental and underlying business drivers, particularly that of developing franchisees' average weekly sales and average transaction value. These two fundamentals, along with new outlet commissionings, have historically formed the cornerstone for revenue growth.

Network sales growth during the next 12 months will be driven by consistent and continued targeted marketing programs for both systems and ongoing development of new menu items.

As detailed previously, the development of the CRF and CMF represent an exciting new growth potential for the Company. In addition, it is envisaged that the CMF will also assist in increasing franchisee multi-outlet ownership by removing some of the day-to-day pre-trade operations required at outlet level.

Clearly, both the Donut King and bb's café networks are benefiting from the proven management, training and support systems of Retail Food Group. Furthermore, and consistent with one of the Company's principal motivations to list on the Australian Stock Exchange, the Company remains confident of the available opportunity within the Australian retail food franchising sector to consolidate a number of franchise systems. In particular, acquisitions are viewed as a mechanism for growing revenue, earnings per share, increasing purchasing power with suppliers and benefiting from economies of scale in marketing, field operations and administration.

The Company continues to assess synergistic acquisition opportunities and will, if and when required, make appropriate announcements to the market concerning these activities.

Through its high-profile brands of Donut King and bb's café, Retail Food Group is confident of executing its business strategy of delivering strong consistent and above all sustainable revenue and earnings for the 2007 financial year.

Anthony James (Tony) Alford

MANAGING DIRECTOR & CHIEF OPERATING OFFICER

Corporate Governance Statement

The following Corporate Governance Statement sets out the Company's corporate governance practices.

Unless otherwise disclosed herein, all principles of good corporate governance and the best practice recommendations of the ASX Corporate Governance Council have been adopted by the Board and applied from the period of Listing to 30 June 2006.

Responsibility for the Company's proper corporate governance rests with the Board.

The Board's guiding principle in meeting its proper corporate governance responsibility is to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Retail Food Group's shareholders (with a view to building sustainable value for them) and those of employees and other stakeholders.

The Board's broad function is to:

- chart strategy and set financial targets for the Company;
- monitor the implementation and execution of strategy and performance against financial targets;
- appoint and oversee the performance of executive management and generally to take and fulfil an effective leadership role in relation to the Company.

Power and authority in certain areas is specifically reserved to the Board consistent with its function as outlined above.

These areas include:

- composition of the Board itself including the appointment and removal of Directors
- oversight of the Company including its control and accountability system;
- appointment and removal of the CEO;
- ratification of the appointment and where appropriate the removal of the CEO and the Company Secretary;
- reviewing and overseeing systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and statutory compliance;
- monitoring senior management's performance and implementation of strategy;
- approving and monitoring financial and other reporting and the operation of Committees.

The Board comprises four Directors two of which are non-executive Directors and are independent. The names of independent Directors of the company are:

- John Cowley (Chairman)
- Colin Archer.

When determining whether a non-executive Director is independent the Director must not fail any of the following materiality thresholds:

- less than 10% of company shares are held by the Director and any entity or individual directly or indirectly associated with the Director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the Director; and
- none of the Directors income or the income of an individual or entity directly or indirectly associated with the Director is derived from a contract with any member of the economic entity other than income derived as a Director of the entity.

The names of the Directors in office, their appointment date and role at the date of this Annual Report are:

Name	Role	Appointed
John Cowley	Chairman and Independent Non-Executive Director	13 October 2005
Anthony (Tony) Alford	Managing Director and Chief Executive Officer	28 October 2003
Nigel Nixon	Executive Director and Corporate Counsel	29 November 2003
Colin Archer	Independent Non-Executive Director	12 April 2006

The skills, experience and expertise relevant to the position of each Director and their term of office are detailed in the Directors Report.

The Board has adopted a charter (which is kept under review and amended from time to time as the Board considers appropriate) to give formal recognition to the Board's corporate governance practices. The charter sets out various other matters that are important for effective corporate governance including the following:

- a detailed definition of 'independence';
- a framework for the identification of candidates for appointment to the Board and their selection;
- a framework for individual performance review and evaluation;
- proper training to be made available to Directors both at the time of their appointment and on an on-going basis;
- basic procedures for meetings of the Board and its Committees —frequency, agenda, minutes and private discussion of management issues among non-executive Directors;
- ethical standards and values—formalised in a detailed code of ethics and values
- dealings in securities—formalised in a detailed code for securities transactions designed to ensure fair and transparent trading by Directors and senior management and their associates;
- communications with shareholders and the market.

The number of Board meetings held and the attendance of the Directors during FY2006 is detailed in the Director's Report.

With the prior approval of the Chairman, which may not be unreasonably withheld or delayed, each Director has the right to seek independent legal and other professional advice concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. Any costs incurred are borne by the Company.

The role of the Board and delegation to management has been formalised in the Company's Corporate Governance Charter and will continue to be refined, in accordance with the ASX document *'Principles of Good Corporate Governance and Best Practice Recommendations* (the Guidelines) and in light of practical experience gained in operating as a listed Company.

The Board has adopted a detailed code of ethics and values and a detailed code of conduct for transactions in securities. The purpose of these codes is to guide Directors in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities.

The Directors, Officers and employees of the Company are permitted to trade in the Company's securities in compliance with the Company's *Code for Securities Transactions*. The Code provides that trading is normally permitted during the four weeks immediately following the announcement of the Company's half and full year results and during the four weeks following the Company's Annual General Meeting (or such other times as the Board may agree from time to time). In such instances trading is only permitted where such persons are not privy to price sensitive information or where such trading is not for short term or speculative gain.

The sale of securities is also permitted with the written authority of the Board where for example it can be shown that the securities are being sold:

- to realise cash in time of need;
- for asset portfolio management purposes;
- to enable the disposer to realign business investments;
- as a consequence of the disposer determining to change his or her investment weighting; or
- where the securities are transferred from one member of a family or trust to another when to delay the transaction to the next permitted trading period would be detrimental to the family's affairs,

and provided that such trading is not considered to be:

- Contrary to law;
- For speculative gain;
- To take advantage of insider knowledge;
- Seen by the public, press other shareholders or ASX as unfair.

No person to whom the Code applies can sell more then $200,000 worth of securities without having first sought counsel from the Company's Chairman as to the form and timing of the sale of such securities.

The Board will ensure that restrictions on dealings in securities are strictly enforced.

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. Its current members are:

- Colin Archer (Committee Chairman)
- John Cowley
- Tony Alford.

The qualifications of each of the members of the Audit and Risk Management Committee are detailed in the Directors Report.

The Board of the Company comprises four Directors only two of which are independent Directors. The Board cannot presently appoint a third independent director as a member of the Committee. As such the members composition of the Audit Committee does not comply with the ASX Corporate Governance Council best practice recommendation as the Committee does not exclusively comprise of non-executive Directors.

The Audit and Risk Management Committee has a formal Charter and internal control framework.

Meetings of the Committee are proposed to be convened at least four times each year. The Committee invites the external auditors to attend each of its meetings. No Committee meeting was held during FY2006.

The Committee performs a variety of functions relevant to risk management and internal and external reporting and reports to the Board following each meeting. Among other matters for which the Committee is responsible are the following:

- Board and Committee structure to facilitate a proper review function by the Board;
- internal control framework including management information systems;
- corporate risk assessment and compliance with internal controls;
- internal audit function and management processes supporting external reporting;
- review of financial statements and other financial information distributed externally;
- review of the effectiveness of the audit function;
- review of the performance and independence of the external auditors;
- review of the external audit function to ensure prompt remedial action by management, where appropriate, in relation to any deficiency in or breakdown of controls;
- assessing the adequacy of external reporting for the needs of shareholders;
- monitoring compliance with the Company's code of ethics.

Nominations Committee

The Board has established a Nominations Committee to assist the Board and make recommendations to it in relation to the appointment of new Directors (both executive and non-executive) and senior management. Its current members are:

- John Cowley (Committee Chairman)
- Colin Archer
- Nigel Nixon.

Functions performed by the Committee include the following:

- development of suitable criteria (as regards skills, qualifications and experience) for Board candidates;
- identification and consideration of possible candidates, and recommendation to the Board accordingly;
- establishment of procedures, and recommendations to the Chairman, for the proper oversight of the Board and management;
- ensuring the performance of each Director, and of senior management, is reviewed and assessed each year in accordance with procedures adopted by the Board.

Remuneration Committee

The Board has established a Remuneration Committee to assist the Board and report to it on remuneration and issues relevant to remuneration policies and practices including those for senior management and non-executive Directors. Its current members are:

- John Cowley (Committee Chairman)
- Colin Archer
- Nigel Nixon.

Among the functions performed by the Committee are the following:

- review and evaluation of market practices and trends on remuneration matters;
- recommendations to the Board in relation to the Company's remuneration policies and practices;
- oversight of the performance of senior management and non-executive Directors;
- recommendations to the Board in relation to the remuneration of senior management and non-executive Directors.

The Remuneration Committee intends to adopt the following policies relative to remuneration of senior executives and officers:

- Annual review of executive packages by reference to Company performance, executive performance, comparable information from industry sectors and other listed companies;
- Executive performance measurement against criteria agreed half yearly which is based on the forecast growth of the Company's profits and shareholder value. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.
- All bonuses, options and incentives must be linked to predetermined performance criteria;
- Any changes must be referential to measurable performance criteria.

The Board expects that the remuneration structure implemented will result in the Company being able to attract and retain high calibre and appropriately skilled executives to manage the Company. It will also provide executives with the necessary incentives which compliment a commitment to the development and maintenance of long-term shareholder value. The policy complies with the four key principles of *IFSA Guidance Note 02–16*.

No performance evaluation has been conducted during FY2006. A performance evaluation of the Board and all Board members will be conducted during FY2007.

Meetings of the Remuneration Committee are to be held at least twice yearly, the first of which meetings will occur in 1HFY2007.

The Company has entered into executive service contracts with the executive Directors, CFO and COO. The Company has also agreed engagement terms with the non-executive Directors.

The executive service contracts and engagement terms identify each executive's remuneration and other terms and conditions relative to the engagement of that person.

All executives receive a base salary and superannuation.

Executives are also entitled to participate in Company share option arrangements.

The quantum of remuneration for all Directors and the five highest paid executives, including all monetary and non-monetary components, are detailed in page 19 of the Directors report. All remuneration paid to executives is valued at the cost to the Company and expensed. Options granted to Directors are valued using the Black-Scholes methodology.

The Board can exercise its discretion in relation to approving incentives, bonuses and share options and can recommend changes to the Committee's recommendations.

There are no schemes for retirement benefits other than statutory superannuation for non-executive Directors.

The Board strives to ensure that the market is fully informed on a timely basis of all material, price sensitive information regarding the Company. The Company's current practice on disclosure requires that all Company announcements are made in a manner that is factual, timely, clear and objective and so as not to omit any information material to decisions of shareholders and potential investors of the Company. All Company announcements are released by the Company Secretary on behalf of the Company and following internal review.

The Board intends to communicate with shareholders both regularly and clearly, both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings as well as to provide constructive feedback via the Company's website.

The Company's auditor will always attend the annual general meeting and be available to answer Shareholder questions.

The Board has adopted a Corporate Governance Charter, Code for Securities Transactions and Ethics to guide Directors in the performance of their duties. Further information relating to the Company's corporate governance practices and policies will be made publicly available on the Company's web site at www.rfg.com.au.

Directors' report

The Directors of Retail Food Group Limited (the Company) submit herewith the annual financial report of the Company for the financial year ended 30 June 2006.

In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

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

Directors

Name	Particulars
Anthony James Alford	Chief Executive Officer and Managing Director, Bachelor of Business (Accountancy), CPA, aged 46 years. Mr Alford joined the Board on 28 October 2003. Has been an accountant in public practice for in excess of 18 years. Mr Alford commenced his involvement with the Retail Food Group in 1994 in an advisory role, thereafter becoming the Company Financial Controller. In December 1999 he was appointed Managing Director of the Company. Mr Alford is a member of the Audit and Risk Management Committee.
Gary John Best	Chief Operating Officer, Bachelor of Business (Accountancy), aged 45 joined the Board on 29 November 2003 and retired on 12 April 2006.
Nigel Norman Nixon	Corporate Counsel and Executive Director, Solicitor of the Supreme Court of Queensland, aged 38 joined the Board on 29 November 2003. Mr Nixon is a former joint master franchisee of the Donut King South East Queensland and Northern New South Wales franchise territory, having acquired the master franchise in August 1995. He also has experience in the operation of other franchise systems. Mr Nixon joined Retail Food Group in August 2002 and is a member of the Nomination and Remuneration Committees.
John Thomas Cowley	Independent Chairman, aged 64 joined the Board on 13 November 2005. Mr Cowley is a member of the Audit and Risk Management, Nomination and Remuneration Committees. Mr Cowley is a former director of News Limited and the current Chairman of Oaks Hotels and Resorts Limited. Mr Cowley has significant corporate and media experience having been involved in the media industry for more than 40 years.
Colin Cameron Archer	Independent Director, Bachelor of Economics, CA, aged 53 joined the Board on 12 April 2006. Has been an accountant in public practice for in excess of 25 years. Mr Archer is a Chartered Accountant, registered auditor and tax agent. He specialises in management and letting rights, property trusts, mergers and acquisitions and corporate governance. Mr Archer is a member of the Audit and Risk Management, Nomination and Remuneration Committees.

The above named Directors held office during and since the end of the financial year except for:

- Gary John Best—resigned 12 April 2006.

Directorships of other listed companies

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

Name	Company	Period of Directorship
John Thomas Cowley	Oaks Hotels and Resorts Limited	Appointed 2/11/2005
Colin Cameron Archer	Oaks Hotels and Resorts Limited	Appointed 24/04/2005

Company Secretary

Anthony Mark Connors

- Legal Counsel and Company Secretary, was appointed as secretary on 26 April 2006. Mr Mark Connors is a Solicitor of the Supreme Court of Queensland.

Principal activities

The principal activities of the Consolidated Entity during FY2006 was the development and management of the full format retail franchise systems known as Donut King and bb's café throughout Australia and New Zealand.

Review of Operations

Introduction

Consistent with its stated objectives as detailed in the Company's prospectus dated 9 May 2006, the Company maintained, enhanced and developed both the Donut King and bb's café franchise systems during FY2006.

The Company achieved both its stated prospectus forecast growth and corporate financial performance targets.

No significant changes in the nature of the Company's core business activities occurred during the year.

With respect to its non-core business the Company disposed of its interest in the juice and smoothie bar franchise system known as 'Juice Fusion' on 1 September 2005. This finalised the Company's involvement within the juice and smoothie bar segment of the retail food takeaway category.

In addition, the disbanding and closure of the 'Company Store Division' established in FY2004 was completed on 31 December 2005. The finalisation of the 'wind down' phase of this termination program was a realisation of the Company's previous resolution to close and or franchise all Company owned outlets.

As at 1 July 2005, there were 12 Company outlets all of which were disposed of as at 31 December 2005.

Financial

The Consolidated Entity's EBIT from continuing operations for FY2006 was $10.5 million, an increase of $1.6 million or 18.0% on the FY2005 pro-forma adjusted EBIT as disclosed in the prospectus of ($8.9 million).

The FY2006 EBIT from continuing operations result was $0.4 million or 4.0% greater than the prospectus pro-forma FY2006 forecast EBIT of $10.1 million.

The Consolidated Entity's performance in exceeding prospectus forecast was as a result of higher than anticipated franchise and other revenues together with lower than forecast corporate expenses.

The Consolidated Entity's actual EBIT for FY2006 was $9.8 million, an increase of $3.6 million (or 58.1%) on FY2005 EBIT ($6.2 million).

The substantial increase in EBIT for FY2006 on FY2005 is attributable to the rationalisation and closure of the Company Store Division, disposition of the Juice Fusion system, increased revenues and economies from continuing operations as well as further operational and expense efficiencies.

FY2006 NPAT in an amount of $5.9 million was $2.5 million (or 73.5%) above FY2005 NPAT ($3.4 million).

NPAT from continuing operations for FY2006 was in an amount of $6.4 million, an increase of $1.5 million (or 30.6%) on FY2005 ($4.9 million).

FY2006 EPS from continuing operations was 9.3 cents and represented a 32.9% increase (or 2.3 cents per share) on FY2005 (7.0 cents).

Your Directors are of the opinion, based on its FY2006 and FY2007 year to date financial results, that the Company will achieve its FY2007 EBIT forecast, in an amount of $11.7 million, as detailed in the Company's prospectus.

Revenue Streams

Revenue from continuing operations totalled $26.0 million in FY2006 and exceeded FY2005 revenue from continuing operations by $1.4 million or 5.8%.

FY2006 total revenue from ordinary activities was $26.8 million and reflected a 3.9% ($1.1 million) decrease on FY2005 ($27.9 million) as a result of a reduction in revenues from discontinued operations.

The franchise revenue from continuing operations of the Consolidated Entity for FY2006 was $16.0 million. This compared with the prospectus forecast of $15.9 million. The result was $1.3 million greater than the FY2005 pro-forma adjusted amount, representing 8.8% growth.

Franchise revenue growth in FY2006 was driven by new outlet openings and increases in average weekly outlet sales. Franchise revenue on a per outlet basis exceeded FY2005 per outlet revenue by 4.15%.

FY2006 other revenues in an amount of $3.7 million was $0.6 million or 19.3% above prospectus forecast ($3.1 million) and 2.8% (or $0.1 million) greater than the comparable FY2005 pro forma adjusted amount of $3.6 million.

The additional other revenue in an amount of $0.6 million arises as a consequence of the Consolidated Entity assuming the interim management of certain non-franchised outlets for varying (albeit short) periods of time throughout 2HFY2006. This increase in revenue over prospectus forecast has little impact on the Consolidated Entity's FY2006 EBIT performance.

Positive changes occurred in the composition of other revenue during the financial year. In particular, in FY2006 37% of other revenue derived from pilot central manufacturing facility sales to franchisees whereas this item accounted for only 8.7% in FY2005. Conversely, the now discontinued "Company Store Division" sales represented 87% of other revenue in FY2005 reducing to 60% in FY2006.

As detailed previously, the Company Store Division was closed on the 31 December 2005.

Outlet Commissionings

New outlet commissionings for FY2006 were 27 which exceeded both prospectus forecast and the FY2005 result by one outlet.

New Outlet Growth

(1) Donut King

Outlet numbers in the Donut King system increased during FY2006 by 15 (or 6.0%) comprising 21 new outlet commissionings (FY2005: 18) and six outlet closures (FY2005: 3).

As at 30 June 2006 there were 265 Donut King outlets operating in the system with Donut King outlet commissionings growth being experienced in all Australian States except Northern Territory and Western Australia where outlet numbers remained static.

Donut King new outlet openings of 21 exceeded prospectus forecast by one and Donut King outlet closures also exceeded prospectus forecast by one, thereby resulting in net outlet growth meeting prospectus forecast of 15 and achieving the same net outlet growth as in FY2005.

(2) bb's café

The number of bb's café outlets reduced by two during FY2006 as a consequence of the Consolidated Entity's continuing commitment to the further rationalisation and repositioning of the system resulting in the closure of unsuitable outlets.

During the year six bb's café outlets were opened (FY2005: 8) and eight bb's café outlets closed (FY2005: 7).

bb's café new outlet commissionings of six was in accordance with the prospectus forecast as was outlet closures.

Of the new outlet growth in FY2006, 3 bb's café outlets were commissioned in New Zealand (FY2005: two outlets commissioned in New Zealand).

As at 30 June 2006 there were 67 bb's café outlets (FY2005: 69), 26 of which are located in New Zealand (FY2005: 25 located in New Zealand).

The bb's café outlet rationalisation and repositioning program was substantially completed during FY2006.

Outlet Average Weekly Sales

The Company's prospectus forecast continued growth in outlet average weekly sales for FY2006 on FY2005.

Donut King 'Full Concept' outlet average weekly sales growth was 2.2% on FY2005 (1.6% FY2005 on FY2004).

Donut King 'Express outlet' average weekly sales growth was 7.5% on FY2005 (0.5% FY2005 on FY2004).

Donut King outlet average weekly sales growth was driven by a substantially revised, integrated marketing program which involved aggressive and consistent direct response advertising together with promotional strategies targeting product trials and sampling.

The revised Donut King marketing strategies were commissioned in October 2005 and their impact was immediate.

These marketing strategies resulted in Donut King outlet customer transactions growing by 3.6% on FY2005 (from 27.7 to 28.7 million) together with a 4.5% increase in the average dollar transaction spend (5.5% FY2005 on FY2004).

The bb's café FY2006 outlet average weekly sales growth was 6.7% on FY2005 (-0.5% FY2005 on FY2004).

The bb's café Outlet average weekly sales growth was predominantly driven by an increase in the average dollar transaction spend of 3.2% on FY2005 as well as an increase in the number of customers per outlet of approximately 1,600. This is diametrically opposed to the result achieved in FY2005 where annual average outlet customers decreased by 1,600 (FY2005 on FY2004).

The Consolidated Entity attributes the increase in the average dollar transaction value in the bb's café system to the re-positioning of the brand; achieved by the systems earlier re-branding (from BB's Coffee & Bake to bb's café) including the refinement and addition of new products, complimentary menu offer and an attractive new outlet image. These initiatives have also enabled bb's café to attract a broader target market with a greater customer recognition of bb's café outlets ranging of gourmet breads.

The Consolidated Entity also continued with its program of Donut King and bb's café outlet refurbishments—completing 38 existing outlet refurbishments during FY2006. The program is designed to keep modern and "fresh" outlet presentation and image and to ensure conformity and recognition.

Network Sales

FY2006 network sales, being reported retail and wholesale sales at franchisee outlets for the Donut King and (Australian) bb's café system was in an amount of $143.1 million, an increase of $13.5 million (or 10.4%) on the FY2005 result of $129.6 million.

The FY2006 network sales were consistent with the FY2006 prospectus forecast. The actual percentage increase in FY2006 network sales of 10.4% exceeded the FY2005 percentage growth in network sales (of 8.9%) over FY2004 (FY2005 of $129.6 million as against FY2004 of $119.0 million).

The increase in network sales was driven by new outlet openings and an increase in average weekly sales and average transaction values which resulted from a restructuring of the marketing programs for each system.

In addition, for the 12 month period ending 30th June 2006, New Zealand bb's café network sales were NZD$12.9 million, an increase of NZD$1.1 million (or 9.3%) over the previous 12 month period (NZD$11.8 million).

Changes in state of affairs

During the 2006 financial year there was no significant change in the state of affairs of the Consolidated Entity other than that referred to in this Directors Report, the financial statements or notes thereto.

In addition, and for completeness;

- On 23 January 2006 all 'A' Class Shares in the Company were converted to Ordinary Shares.
- On 24 January 2006 the Company converted from a private to public Company.
- On 24 January 2006 the Company changed its name from RFG Investments (Vic) Pty Ltd to Retail Food Group Limited.
- On 5 May 2006 all Ordinary Shares in the Company were split from 1,649,351 to 69,309,016 shares.
- On 9 May 2006 the Company issued a prospectus for the underwritten offer of 34,117,757 existing shares and 2,382,243 new shares.
- On the 16 June 2006, the offer, the subject of the prospectus, was closed fully subscribed.
- On 20 June 2006 the Company issued 2,382,243 Ordinary shares at a price of $1.00 per share.
- On 20 June 2006 the Company was admitted to the Official List of the ASX.
- On 22 June 2006 the Company's securities were granted Official Quotation and trading of its securities commenced.
- As at the 30 June 2006 and the date of this Directors report there are 71,691,259 issued Ordinary shares in the parent entity.

Subsequent events

There has not been any matter or circumstance, other than that referred to in this Directors Report, the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or in the reasonable opinion of the Directors, may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years other than;

As at 24 August 2006, the Company settled all disputes arising from the disposition of the Juice Fusion system in respect of nine of 10 disputees.

The details of the disputation of nine of the disputees was noted in the prospectus and the settlement was effected without cost to the Company.

The last of the disputees has instituted legal proceedings with respect to its claims. The claim will be vigorously defended.

On 6 July 2006 the plaintiffs in the Donut King The Hills proceedings re-quantified their claim against the Company and others to approximately $792,214 (plus interest and costs).

The claim continues to be vigorously defended and the Company is currently in the process of discovery.

In any event, and as detailed in the prospectus, the Company is entitled to be indemnified as to 50% of any liability which may arise from the successful prosecution of the claim by the plaintiffs.

Future developments

(1) 2007 Prospectus forecast

Your Directors remain confident that the FY2007 forecast EBIT of $11.7 million and NPAT of $7.4 million will be achieved and no event or other matter has arisen or come to the knowledge or attention of your Directors which would indicate that either the EBIT or NPAT forecasts will not be achieved.

(2) Acquisition of Premises

On the 28th July 2006 the Company entered into a conditional contract to purchase premises (land and buildings) at Yatala in the Gold Coast Brisbane Corridor to enable it to establish its first commercial Central Manufacturing Facility (CMF) and Coffee Roasting Facility (CRF).

The purchase price is $2.3 million and will be fully funded by debt.

The Company anticipates the contract to become unconditional and that the settlement will be completed within four months.

The preliminary estimate of refurbishment and fitout costs of the premises are approximately $1.5 million which will also be funded by debt.

The Company has arranged financing for the premises and its associated fitout from its banker.

The property has an existing gross floor area of approximately 1,960 square meters and is of sufficient size to enable the Company to meet its medium term vertical integration objectives in the areas of the central manufacture and distribution of retail food and beverage products to franchisees of both its Donut King and bb's café systems.

In January 2006, the Company entered into a lease of premises in Yatala. In circumstances where the property acquisition detailed above is concluded and this property is determined to be superfluous to requirements, the Company will negotiate a surrender of this lease.

(3) Coffee Roasting Facility (CRF)

The Company anticipates commissioning the CRF in FY2007.

The CRF initiative is being undertaken by the Company in a joint venture with Koffee-Tek Pty Ltd, a leading and well credentialed Australian domiciled coffee blender and roaster.

The Company and Koffee-Tek Pty Ltd have executed a Heads of Agreement. All salient financial and operational matters have been resolved between the parties and a formal joint venture agreement is currently being prepared.

All capital costs of the CRF including plant and equipment, establishment and commissioning (but excluding premises fitout costs which will be equally funded by the joint venture participants) are being attended by Koffee-Tek Pty Ltd.

The Company anticipates the fitout costs of the CRF to be in the vicinity of $0.2 million of which the Company is responsible for 50%.

The Company's share of any costs incurred in the fitout of the premises will be capitalised.

The CRF will blend and roast coffee for the Donut King and bb's café systems, existing customers of Koffee-Tek Pty Ltd and prospective third party bulk roasting clients which the joint venture will target.

The Company intends to use the knowledge and expertise of Koffee-Tek Pty Ltd to refine and enhance the flavour and taste profiles of its existing coffee blends. This process has already commenced.

The Company's coffee roasting arrangements with its existing third party supplier will continue until the CRF is fully operational.

(4) Central Manufacturing Facility (CMF)

The specialised manufacturing equipment for the CMF has been scoped and specified and is currently being manufactured.

The equipment is programmed to arrive in Australia in January 2007.

The Company anticipates the plant, equipment and associated commissioning costs of the CMF to be in the vicinity of $2.3 and $2.5 million.

The plant and equipment cost for the CMF will be funded from debt provided by the Company's bankers.

Commissioning and manufacturing operations are programmed to commence in March 2007.

The commissioning of the first commercial CMF will realize the Company's FY2007 primary growth initiative while also delivering to all franchisees in South East Queensland a consistent and quality product without the requirement for each franchisee to manufacture in-store.

The Company currently continues its CMF pilot program which presently manufactures certain product for 34 Donut King outlets in South East Queensland.

(5) CMF and CRF—Impact on EBIT

A quantifiable effect of these initiatives is (as yet) unknown and no allowance has been included in the Company's FY2007 forecast revenues.

(6) New Outlet Growth—FY2007

Total outlets for both systems as at 30 June 2007 is forecast to be 353, a net increase of 21 outlets (or 6.3%) on the 332 stores in existence as at 30 June 2006.

The Company remains confident of achieving its FY2007 prospectus outlet growth forecasts.

Donut King outlet growth is anticipated to occur across all states in FY2007 with the pre-dominance of new outlet commissionings occurring in New South Wales.

Consistent with the Company's FY2006 performance, the Donut King new outlet growth is anticipated to be organic. The Company has forecast in its prospectus 21 new outlet commissionings for FY2007.

Total Donut King outlets as at the 30 June 2007 is forecast to be 284, a net increase of 19 outlets (or 7.2%) on the 265 outlets in existence as at the 30 June 2006.

The new outlet commissionings for bb's café for FY2007 is forecast to be four.

Two bb's café outlet closures are also anticipated, resulting in forecast FY2007 net outlet growth of two. The total number of bb's café outlets forecast to be trading as at 30 June 2007 is 69.

(7) Outlet Average Weekly Sales

The Company has forecast continued growth in outlet average weekly sales in FY2007.

With respect to the Donut King 'Full concept', average weekly sales growth per outlet is forecast to increase by 3.9% over FY2006.

Donut King 'Express Outlet' average weekly sales growth is forecast to increase by 4.1% over FY2006.

bb's café average weekly sales growth is forecast to increase by 3.5% over FY2006.

As achieved in FY2006, the Company anticipates that it will complete a further 38 existing outlet refurbishments.

(8) Acquisitions

As detailed in the prospectus, the Company continues to investigate potential franchise system acquisitions to achieve further economies and drive earnings, this being one of the principal objectives of proceeding with the Initial Public Offer.

Whereas the Company's pursuits in this initiative are necessarily confidential, subsequent to the Official Listing of the Company your Directors have conducted meetings and undertaken preliminary due diligence on potential targets.

These acquisition targets include both competitor and complementary systems.

In this pursuit, the Company fully intends to keep the market and its shareholders informed in accordance with its reporting obligations.

Environmental regulations

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

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

Dividends

Since the commencement of FY2006 but prior to the IPO, the following dividends have been paid by the Company:

- In respect of profits of prior years and of the financial year ended 30 June 2006, an interim dividend of 66.69 cents per share (based on 149,942 shares on issue) franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid 'A' class shares on 29 July 2005.
- In respect of profits of prior years and of the financial year ended 30 June 2006, an interim dividend of 620 cents per share (based on 1,499,409 shares on issue) franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 24 November 2005.
- In respect of profits of prior years and of the financial year ended 30 June 2006, an interim dividend of 2.89 cents per share (based on 69,309,016 shares on issue) franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 26 May 2006.

Consistent with the Prospectus dated 9th May 2006, your Directors have not recommended the payment of a final dividend for the year ended 30 June 2006.

Share options

Share options granted to Directors and executives

No share options were granted to Directors, executives or employees during FY2006.

Since the end of the financial year an aggregate of 1,374,000 share options were granted to the following Directors and executives of the Company.

The grant date for all options was 1 August 2006.

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Tony Alford	**210,000**	Retail Food Group Limited	**210,000**
Gary Alford	**190,000**	Retail Food Group Limited	**190,000**
Gary Best	**180,000**	Retail Food Group Limited	**180,000**
Nigel Nixon	**161,000**	Retail Food Group Limited	**161,000**
Gavin Nixon	**141,000**	Retail Food Group Limited	**141,000**
John Cowley	**140,000**	Retail Food Group Limited	**140,000**
Robert Sutherland	**134,000**	Retail Food Group Limited	**134,000**
Colin Archer	**100,000**	Retail Food Group Limited	**100,000**
Mark Connors	**118,000**	Retail Food Group Limited	**118,000**

Details of unissued shares or interests under option (includes those to Directors and executives) are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Retail Food Group Limited	2,079,997	Ordinary	$1.00	1 August 2009

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

Indemnification of officers and auditors

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

The Company also entered into a Deed Poll indemnifying the Directors, officers and certain other parties in respect of 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 the Deed Poll indemnifies those persons listed from liabilities incurred as a consequence of the acts of those persons including the giving of personal guarantees on behalf of the Company and its former and current subsidiaries.

The Company has not otherwise, during or since the end of the 2006 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.

Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the 2006 financial year and the number of meetings attended by each Director (while they were a Director or Committee member). During the financial year, 14 Board meetings were held. No Committee meetings were held during the period prior to the Company's Listing or during the eight day period post to 30 June 2006. The first meeting of the Audit Committee was held on 25th July 2006 and was attended by all Directors of the Company.

	Board of Directors		Nomination and Remuneration Committee		Audit Committee	
Directors	Held	**Attended**	Held	**Attended**	Held	**Attended**
Tony Alford	14	**14**	–	**–**	–	**–**
Nigel Nixon	14	**14**	–	**–**	–	**–**
John Cowley	14	**14**	–	**–**	–	**–**
Gary Best	9	**9**	–	**–**	–	**–**
Colin Archer	6	**6**	–	**–**	–	**–**

Directors' interests

The following table sets out each Director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this Directors Report.

Directors	Fully Paid Ordinary Shares	Executive Share Options
Tony Alford	21,608,149	**210,000**
Nigel Nixon	5,231,764	**161,000**
John Cowley	50,000	**140,000**
Colin Archer	175,000	**100,000**

Remuneration report

Remuneration policy for Directors and executives

This report details the nature and amount of remuneration for each Director of the Company and for the five executives receiving the highest remuneration.

The remuneration policy of the Company has been designed to align Director and executive objectives with shareholder and business objectives and provides a fixed remuneration component and share options. The Board is of the belief that its remuneration policy is appropriate and effective in its objective of attracting and retaining the most appropriate and suitable executives and Directors to operate and manage the economic entity, as well as create goal congruence between Directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Directors, executives and senior management of the Company is to ensure remuneration packages properly reward Directors and senior management for their time, effort, experience and length of service.

The executive Directors and executives receive a superannuation guarantee contribution required by the government which is currently 9%, and do not receive any other retirement benefits.

Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Share options granted to Directors, executives and management are valued using the binomial model.

The Board policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive Directors and reviews their remuneration bi-annually, based on market practice, duties and accountability. Independent external advice may be sought when required.

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 $400,000. Fees for non-executive Directors are not linked to the performance of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are granted share options.

Policy and Company performance

The performance of Directors and executives has not historically been measured against the financial performance of the Company. Salaries and fees payable to Directors has been set having regard to the comparable salary and fee rates in the industry sector in which the Company operates.

The Remuneration Committee intends in the future to review all executive packages bi-annually by reference to the Company's performance, executive performance and comparable information from industry sectors.

The performance of executives will be measured against criteria agreed bi-annually with each executive and will be based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All incentives will be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives and options, and can recommend changes to the Committee's recommendations. Any changes must be referential to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

The Company has the ability to, as part of the remuneration of Directors and executives to allocate and grant options.

The Company in accordance with the terms of its Prospectus dated 9 May 2006 allocated certain options to Directors and executives. Details of the share options granted to the Directors and the five highest remunerated executives as at 1 August 2006 have been disclosed under the heading 'Share Options'.

The share options are exercisable at an exercise price of $1.00.

The Board has the discretion to grant as part of the remuneration of its Directors, executives and employees share options as follows:

- 662,197 on 1 August 2007 at an exercise price of $1.15;
- 530,006 on 1 August 2008 at an exercise price of $1.32.

The exercise price of the share options is aligned to annual share price growth over the stated periods of 15% in each year.

The exercise price trigger is thereby linked to Director, executive and employee performance and the over-all delivery of value to the Company's shareholders.

Director and executive details

The Directors of the Company during FY2006 were:

- Tony Alford
- Nigel Nixon
- Colin Archer (appointed 12 April 2006)
- John Cowley (appointed 13 October 2005)
- Gary Best (retired 12 April 2006).

The five highest remunerated senior executives of the Company during FY2006 were:

- Gavin Nixon
- Robert Sutherland
- Gary Best
- Anthony Connors
- Gary Alford.

Elements of Director and executive remuneration

Tony Alford, Nigel Nixon and Gary Best have entered into executive employment contracts with the Company. Each agreement is for a term of three years and can be terminated by the Company on six months notice and by the executive on three months notice. No Director or executive is eligible for a termination payment other than in circumstances where the parties agree to same in lieu of the required notice of termination.

The remuneration packages for Directors and executives generally contain the following key elements:

- Primary benefits—fixed salary/fees and in some instances fixed annual increases of 5%;
- Post-employment benefits—superannuation;
- Provision for Long Service Leave and Annual Leave
- Equity—share options granted under the Executive Share Option Plan as disclosed in note 5 to the financial statements; and
- Other benefits—including mobile telephone subsidy.

The employment specifics of the Directors and five highest remunerated executives are as follows:

Tony Alford
The contract of employment entered into with RFGA Management Pty Ltd requires the employee to give a minimum of three months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six months notice or payment of the equivalent salary of the required notice in lieu.

Nigel Nixon
The contract of employment entered into with RFGA Management Pty Ltd requires the employee to give a minimum of 3 months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six months notice or payment of the equivalent salary of the required notice in lieu.

Gary Best
The contract of employment entered into with RFGA Management Pty Ltd requires the employee to give a minimum of 3 months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least 6 months notice or payment of the equivalent salary of the required notice in lieu.

Mark Connors
No employment contract has been entered into with the Company.

John Cowley
No employment contract has been entered into with the Company.

Gary Alford
No employment contract has been entered into with the Company.

Gavin Nixon
No employment contract has been entered into with the Company.

Robert Sutherland
No employment contract has been entered into with the Company.

Colin Archer
The letter of appointment entered into with Retail Food Group Limited requires the Director to give notice of resignation in accordance with the Company's Constitution. Retail Food Group Limited may also terminate the Director's appointment in accordance with the Company's Constitution.

The following table discloses the remuneration received by the Directors during the periods in which they have held the office of Director of the Company.

2006	Primary			Post-employment			Equity		
	Salary and fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Other benefits	Total
	$	$	$	$	$	$	$	$	$
Tony Alford Managing Director and Chief Executive Officer	180,000	–	–	–	–	–	–	139,836	**319,836**
Nigel Nixon Executive Director and Corporate Counsel	150,000	–	–	–	–	–	–	1,200	**151,200**
John Cowley Non-Executive Director (Chairman)	62,307	–	–	5,607	–	–	–	–	**67,914**
Colin Archer Non-Executive Director	12,115	–	–	1,090	–	–	–	–	**13,205**
Gary Best (i) Chief Operating Officer and former Executive Director	114,700	–	–	6,859	–	–	–	–	**121,559**

The following table discloses the remuneration received by the five highest remunerated executives of the Company and group executives of the Consolidated Entity during FY2006.

2006	Primary			Post-employment			Equity		
	Salary and fees	Bonus	Non-	Super-annuation		Other	Options	Other benefits	Total
	$	$	$	$	$	$	$	$	$
Gary Best (i) Chief Operating Officer and former Executive Director	32,002	–	–	1,922	–	–	–	–	**33,924**
Robert Sutherland, Regional Leasing and Property Manager	162,000	–	–	–	–	–	–	4,200	**166,200**
Gavin Nixon, National Property Manager	150,000	–	–	–	–	–	–	4,200	**154,200**
Mark Connors, Company Secretary and Legal Counsel	127,267	–	–	11,454	–	–	–	–	**138,721**
Gary Alford, National Operations Manager – Franchise Systems	121,782	–	–	10,960	–	–	–	2,866	**135,608**

(i) For the period that Gary Best was a Director, his remuneration is included in the Directors' Remuneration table. For the period since his resignation as a Director, his salary is included in the Executives' Remuneration table.

Value of options issued to Directors and executives

No share options have been granted to Directors, executives and employees during FY2006. Details of options granted to the Directors and senior management since 30 June 2006 are shown in this Directors Report.

Proceedings on behalf of the Company

No person has applied for leave of a Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit services

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

Non-audit services were performed relative to the Initial Public Offering of the Company comprising:

- a review of the Companies financial statements as at 31 December 2005;
- other Initial Public Offering Transaction costs;
- general tax consolidation advice;

and this is not considered to affect auditor independence.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 21 of the financial report.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, 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.

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

RETAIL FOOD GROUP LIMITED

A J (Tony) Alford
Managing Director and CEO
Date: 27 September 2006

Deloitte.

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The Board of Directors
Retail Food Group Limited
26 Railway Street
Southport QLD 4215

27 September 2006

Dear Board Members

Independence Declaration

Retail Food Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Retail Food Group Limited.

As lead audit partner for the audit of the financial statements of Retail Food Group Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

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Independent Audit Report to the Members of Retail Food Group Limtied

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Retail Food Group Limited (the company) and the consolidated entity for the financial year ended 30 June 2006 as set out on pages 24 to 73. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of rnaterial misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Deloitte.

Audit Opinion

In our opinion, the financial year report of Retail Food Group Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants
Brisbane, 27 September 2006

Directors' Declaration

The Directors declare that:

(a) 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;

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Entity; and

(c) 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

A J (Tony) Alford
Managing Director and CEO
Southport, 27 September 2006

Income statement for the financial year ended 30 June 2006

		Consolidated		Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue	2	**3,825**	3,357	**–**	–
Cost of sales		**(3,048)**	(1,985)	**–**	–
Gross profit		**777**	1,372	**–**	–
Other income	2	**22,138**	21,199	**12,681**	2
Selling expenses		**(1,587)**	(1,745)		
Marketing expenses		**(4,061)**	(4,941)	**–**	–
Occupancy expenses		**(858)**	(909)	**–**	–
Administration expenses		**(2,613)**	(2,343)	**–**	–
Operating expenses		**(1,785)**	(1,975)	**–**	–
Finance costs		**(1,344)**	(1,027)	**(1,682)**	(1,504)
Other expenses		**(1,511)**	(1,393)	**(1)**	(3)
Debt forgiveness		**–**	–	**(883)**	–
Recoverable amount write-down		**–**	(898)	**–**	–
Profit before income tax expense	2	**9,156**	7,340	**10,115**	(1,505)
Income tax expense / (benefit)	3	**2,712**	2,436	**226**	(451)
Profit from continuing operations		**6,444**	4,904	**9,889**	(1,054)
Loss from discontinued operations	2,30	**(508)**	(1,524)	**–**	–
Profit for the year		**5,936**	3,380	**9,889**	(1,054)
Profit attributable to members of the parent entity		**5,936**	3,380	**9,889**	(1,054)
Earnings per share:					
Basic (cents per share)	23	**8.6**	4.9		
Diluted (cents per share)	23	**8.6**	4.9		
Earnings per share from continuing operations:					
Basic (cents per share)	23	**9.3**	7.0		
Diluted (cents per share)	23	**9.3**	7.0		

Notes to the financial statements are included on pages 29 to 73.

Balance sheet as at 30 June 2006

		Consolidated		Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current assets					
Cash and cash equivalents	33	**1,631**	1,052	**129**	1
Trade and other receivables	7	**3,866**	2,624	**–**	–
Other financial assets	8	**1,085**	837	**4,834**	–
Inventories	9	**411**	1,110	**–**	–
Other	10	**387**	198	**–**	–
Total current assets		**7,380**	5,821	**4,963**	1
Non-current assets					
Trade and other receivables	11	**–**	–	**2,355**	1,381
Other financial assets	12	**–**	22	**41,934**	46,491
Property, plant and equipment	13	**423**	431	**–**	–
Deferred tax assets	3	**738**	129	**609**	68
Other intangible assets	14	**42,052**	42,051	**–**	1
Total non-current assets		**43,213**	42,633	**44,898**	47,941
Total assets		**50,593**	48,454	**49,861**	47,942
Current liabilities					
Trade and other payables	16	**1,525**	1,033	**358**	72
Borrowings	17	**1,900**	1,700	**1,900**	1,700
Current tax payables	3	**629**	938	**629**	938
Provisions	18	**260**	162	**–**	–
Other	19	**233**	540	**–**	4,176
Total current liabilities		**4,547**	4,373	**2,887**	6,886
Non-current liabilities					
Borrowings	20	**15,675**	9,026	**15,675**	9,026
Deferred tax liabilities	3	**376**	376	**–**	–
Total non-current liabilities		**16,051**	9,402	**15,675**	9,026
Total liabilities		**20,598**	13,775	**18,562**	15,912
Net assets		**29,995**	34,679	**31,299**	32,030
Equity					
Issued capital	21	**31,014**	30,238	**31,014**	30,238
(Accumulated losses) / retained earnings	22	**(1,019)**	4,441	**285**	1,792
Total equity		**29,995**	34,679	**31,299**	32,030

Notes to the financial statements are included on pages 29 to 73.

Statement of changes in equity for the financial year ended 30 June 2006

	Consolidated		
	Issued Capital $'000	**Retained Earnings $'000**	**Total Equity $'000**
Balance at 1 July 2004	**35,838**	1,701	**37,539**
Profit for year	**–**	3,380	**3,380**
Total recognised income and expense for the year	**–**	3,380	**3,380**
Share buy back	**(5,600)**	–	**(5,600)**
Dividends	**–**	(640)	**(640)**
Balance at 1 July 2005	**30,238**	4,441	**34,679**
Profit for year	**–**	5,936	**5,936**
Total recognised income and expense for the year	**–**	5,936	**5,936**
Issue of ordinary shares	**2,335**	–	**2,335**
Share issue costs	**(2,227)**	–	**(2,227)**
Related income tax	**668**	–	**668**
Dividends	**–**	(11,396)	**(11,396)**
Balance at 30 June 2006	**31,014**	(1,019)	**29,995**

	Company		
	Issued Capital $'000	**Retained Earnings $'000**	**Total Equity $'000**
Balance at 1 July 2004	**35,838**	3,486	**39,324**
Profit for year	**–**	(1,054)	**(1,054)**
Total recognised income and expense for the year	**–**	(1,054)	**(1,054)**
Share buy back	**(5,600)**	–	**(5,600)**
Dividends	**–**	(640)	**(640)**
Balance at 1 July 2005	**30,238**	1,792	**32,030**
Profit for year	**–**	9,889	**9,889**
Total recognised income and expense for the year	**–**	9,889	**9,889**
Issue of ordinary shares	**2,335**	–	**2,335**
Share issue costs	**(2,227)**	–	**(2,227)**
Related income tax	**668**	–	**668**
Dividends	**–**	(11,396)	**(11,396)**
Balance at 30 June 2006	**31,014**	285	**31,299**

Cash flow statement for the financial year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Cash flows from operating activities					
Receipts from customers		**27,726**	30,007	**–**	–
Payments to suppliers and employees		**(18,441)**	(23,100)	**(1)**	(3)
Interest and other costs of finance paid		**(1,214)**	(958)	**(1,614)**	(1,444)
Income tax paid		**(2,744)**	(1,934)	**(1,382)**	(653)
Net cash provided by/(used in) operating activities	33(d)	**5,327**	4,015	**(2,997)**	(2,100)
Cash flows from investing activities					
Payment for investment		**(3)**	(7)	**–**	–
Proceeds on sale of investment securities		**30**	–	**–**	–
Interest received		**93**	73	**3**	2
Amounts advanced to related parties		**(1,070)**	–	**7,341**	5,655
Proceeds from repayment of related party loans		**841**	–	**–**	–
Payment for property, plant and equipment		**(135)**	(238)	**–**	–
Proceeds from sale of property, plant and equipment		**29**	14	**–**	–
Net cash (used in)/provided by investing activities		**(215)**	(158)	**7,344**	5,657
Cash flows from financing activities					
Proceeds from issues of equity securities		**2,335**	–	**2,335**	–
Payment for share issue costs		**(2,007)**	–	**(2,007)**	–
Payment for share buy-back:					
- members of the parent entity		**–**	(2,800)	**–**	(2,800)
Proceeds from borrowings		**9,287**	2,650	**9,287**	2,650
Repayment of borrowings		**(2,752)**	(2,769)	**(2,438)**	(2,769)
Dividends paid		**(11,396)**	(640)	**(11,396)**	(640)
Net cash (used in) financing activities		**(4,533)**	(3,559)	**(4,219)**	(3,559)
Net increase in cash and cash equivalents		**579**	298	**128**	(2)
Cash and cash equivalents at the beginning of the financial year		**1,052**	754	**1**	3
Cash and cash equivalents at the end of the financial year	33(a)	**1,631**	1,052	**129**	1

Notes to the financial statements are included on pages 29 to 73.

Notes to the financial statements for the financial year ended 30 June 2006

Note	Contents

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 *'Financial Instruments: Disclosure and Presentation'* as the Australian equivalent Accounting Standard, AASB 132 *'Financial Instruments: Disclosure and Presentation'* does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the Consolidated Entity.

The financial statements were authorised for issue by the Directors on 27 September 2006.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the Company's and Consolidated Entity's financial position, financial performance and cash flows is discussed in note 33.

The Directors have also elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 'Employee Benefits' (December 2005), even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

Accounting Standard AASB 7 *'Financial Instruments: Disclosures' (August 2005)* has been issued by the AASB but has not been adopted by the Consolidated Entity as it is not effective until annual reporting periods beginning on or after 1 January 2006. The Consolidated Entity will adopt the revised Accounting Standard from 1 July 2006. Application of the revised Accounting Standard will have no impact on the Consolidated Entity's financial position and results in the period of initial application.

Accounting Standard AASB 101 *'Presentation of Financial Statements'* (September 2005) has been issued by the AASB but has not been adopted by the Consolidated Entity as it is not effective until annual reporting periods beginning on or after 1 January 2007. The Consolidated Entity will adopt the revised Accounting Standard from 1 July 2007. Application of the revised Accounting Standard will have no impact on the Consolidated Entity's financial position and results in the period of initial application.

Accounting Standard AASB 114 *'Segment Reporting' (September 2005)* has been issued by the AASB but has not been adopted by the Consolidated Entity as it is not effective until annual reporting periods beginning on or after 1 January 2007. The Consolidated Entity will adopt the revised Accounting Standard from 1 July 2007. Application of the revised Accounting Standard will have no impact on the Consolidated Entity's financial position and results in the period of initial application.

Accounting Standard AASB 139 'Financial Instruments: Recognition and Measurement' (September 2005) has been issued by the AASB but has not been adopted by the Consolidated Entity as it is not effective until annual reporting periods beginning on or after 1 January 2006. The Consolidated Entity will adopt the revised Accounting Standard from 1 July 2006. Application of the revised Accounting Standard will have no impact on the Consolidated Entity's financial position and results in the period of initial application.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 35), the Consolidated Entity's date of transition.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(c) Derivative financial instruments

The Consolidated Entity has entered into an interest rate swap to manage its exposure to interest rate risk. The Consolidated Entity has not entered into any other derivative financial instruments. 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 each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(d) Employee benefits

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

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(e) Financial assets

Investments are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost, less impairment. Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(f) Financial instruments issued by the Company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(g) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

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

i. exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

ii. exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

iii. exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

(h) Goods and services tax

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

i. 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

ii. 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 as part of receivables or payables.

Cash flows are included in the cash flow statement 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 as operating cash flows.

(i) Impairment of assets

At each reporting date, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Consolidated Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/ Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Retail Food Group Limited is the head entity in the tax-consolidated group.

Tax expense/income, 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. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement 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. Further information about the tax funding arrangement is detailed in note 3 to the financial statements.

Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(k) Intangible assets

Intangible assets acquired in a business combination

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Brand Names and Intellectual Property

Intangible assets includes brand names and intellectual property. Brand Names and Intellectual Property are recorded at cost and are not amortised on the basis that they have an indefinite life.

The carrying values of the intangible assets are reviewed annually for impairment and carried at cost less impairment losses.

Expenditure incurred in developing, maintaining or enhancing intangible assets is expensed in the period in which it is incurred.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(m) Leased assets

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

Consolidated entity as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Consolidated Entity's general policy on borrowing costs. Refer to note 1(a).

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Payables

Trade payables and other accounts payable are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services.

(o) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Consolidated Entity are eliminated in full.

(p) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

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

- Leasehold improvements — 4 years
- Plant and equipment — 2.5–10 years
- Motor Vehicles — 4.5 years

(q) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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

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

Onerous contracts

An onerous contract is considered to exist where the Consolidated Entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(r) Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Franchise Income

Franchise Income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(s) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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 Consolidated Entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

2. Profit from operations

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Revenue				
Revenue from continuing and discontinued operations consisted of the following items:				
Revenue from the sale of goods	**4,689**	5,741	**–**	–
Other income (franchising operations)	**21,160**	20,931	**–**	–
	25,849	26,672	**–**	–
Rental revenue:				
Other	**80**	80	**–**	–
	80	80	**–**	–
Interest revenue:				
Bank deposits	**81**	39	**3**	2
Other	**12**	34	**–**	-
	93	73	**3**	2
Dividends:				
Wholly owned controlled entities	**–**	–	**10,244**	–
			10,244	–
Other	**806**	1,043	**–**	–
Management fee:				
Wholly owned controlled entities	**–**	–	**2,434**	–
	26,828	27,868	**12,681**	2
Attributable to:				
Continuing operations	**25,963**	24,542	**12,681**	2
Discontinued operations	**865**	3,326	**–**	–
	26,828	27,868	**12,681**	2

2. Profit from operations (continued)

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(b) Profit before income tax				
Profit before income tax has been arrived at after crediting/ (charging) the following gains and losses from continuing and discontinued operations:				
Gain/(loss) on disposal of property, plant and equipment	**5**	7	**–**	–
	5	7	**–**	–
Gains attributable to:			**–**	–
Continuing operations	**2**	7	**–**	–
Discontinued operations	**–**	–	**–**	–
	2	7	**–**	–
Losses attributable to:				
Continuing operations	**–**	–	**–**	–
Discontinued operations	**(7)**	–	**–**	–
	(7)	–	**–**	–
	5	7	**–**	–
Profit/(loss) before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to both continuing operations and discontinued operations:				
Cost of sales	**(3,645)**	(3,879)	**–**	–

2. Profit from operations (continued)

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Finance costs:				
Interest on loans	**(1,241)**	(1,006)	**(1,579)**	(1,416)
Total interest expense	**(1,241)**	(1,006)	**(1,579)**	(1,416)
Other finance costs	**(103)**	(21)	**(103)**	(88)
	(1,344)	(1,027)	**(1,682)**	(1,504)
Net bad and doubtful debts arising from:				
Other entities	**(276)**	(167)	**–**	–
	(276)	(167)	**–**	–
Debt forgiveness:				
Wholly owned controlled entities	**–**	–	**(883)**	–
Depreciation of non-current assets	**(114)**	(150)	**–**	–
Amortisation of non-current assets	**(2)**	(5)	**–**	–
	(116)	(155)	**–**	–
Operating lease rental expenses:				
Minimum lease payments	**(1,040)**	(1,686)	**–**	–
	(1,040)	(1,686)	**–**	–
Employee benefit expense:				
Post employment benefits:				
Defined contribution plans	**(329)**	(407)	**–**	–
	(329)	(407)	**–**	–
Other employee benefits	**(5,161)**	(6,473)	**–**	–
	(5,490)	(6,880)	**–**	–
Recoverable amount write-down:				
Land and Buildings	**–**	(898)	**–**	–

3. Income taxes

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Income tax recognised in profit or loss				
Tax expense/(income) comprises:				
Current tax expense/(income)	**2,588**	1,804	**233**	(443)
Adjustments recognised in the current year in relation to the current tax of prior years	**(18)**	28	**–**	–
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	**(75)**	(49)	**(7)**	(8)
Total tax expense/(income)	**2,495**	1,783	**226**	(451)
Attributable to:				
Continuing operations	**2,712**	2,436	**226**	(451)
Discontinued operations (note 30)	**(217)**	(653)	**–**	–
	2,495	1,783	**226**	(451)
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from continuing operations	**9,156**	7,340	**10,115**	(1,505)
Loss from discontinued operations (note 30)	**725**	2,177	**–**	–
Profit from operations	**8,431**	5,163	**10,115**	(1,505)
Income tax expense calculated at 30%	**2,529**	1,549	**3,034**	(451)
Non-deductible expenses	**82**	8	**272**	8
Other	**(23)**	(22)	**–**	–
Rebateable dividends	**–**	–		–
Recoverable amount write-down on land and buildings	**–**	269	**–**	–
	2,588	1,804	**233**	(443)
(Over)/under provision of income tax in previous year	**(18)**	28	**–**	–
	2,570	1,832	**233**	(443)

The tax rate used in the above 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.

3. Income taxes (continued)

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(b) Income tax recognised directly in equity				
The following current and deferred amounts were charged directly to equity during the period:				
Current tax:				
Share issue expenses	**(134)**	–	**(134)**	–
	(134)	–	**(134)**	–
Current tax payables:				
Income tax payable attributable to:				
Parent entity	**(1,726)**	(443)	**(1,726)**	(443)
Entities in the tax-consolidated group	**2,355**	1,381	**2,355**	1,381
	629	938	**629**	938
(c) Deferred tax balances				
Deferred tax assets comprise:				
Temporary differences	**738**	129	**609**	68
	738	129	**609**	68
Deferred tax liabilities comprise:				
Temporary differences	**376**	376	**–**	–
	376	376	**–**	–

3. Income taxes (continued)

Taxable and deductible temporary differences arise from the following:

	Consolidated			
2006	**Opening balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Closing balance $'000**
Gross deferred tax liabilities:				
Intangible assets	**(376)**	**–**	**–**	**(376)**
	(376)	**–**	**–**	**(376)**
Gross deferred tax assets:				
Employee benefits	**48**	**30**	**–**	**78**
Provisions	**13**	**4**	**–**	**17**
Doubtful debts	**–**	**34**	**–**	**34**
Prepaid borrowing costs	**68**	**7**	**–**	**75**
Listing costs	**–**	**–**	**534**	**534**
	129	**75**	**534**	**738**
	(247)	**75**	**534**	**362**
Attributable to:				
Continuing operations				**362**
Discontinued operations				**–**
				362

2005				
Gross deferred tax liabilities:				
Intangible assets	(376)	–	–	(376)
	(376)	–	–	(376)
Gross deferred tax assets:				
Employee benefits	–	48	–	48
Provisions	–	13	–	13
Prepaid borrowing costs	80	(12)	–	68
	80	49	–	129
	(296)	49	–	(247)

2006	Company			
Gross deferred tax liabilities:				
Nil	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
Gross deferred tax assets:				
Prepaid borrowing costs	**68**	**7**	**–**	**75**
Listing Costs	**–**	**–**	**534**	**534**
	68	**7**	**534**	**609**
	68	**7**	**534**	**609**

3. Income taxes (continued)

	Company			
2005	**Opening balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Closing balance $'000**
Gross deferred tax liabilities:				
Nil	–	–	–	–
	–	–	–	–
Gross deferred tax assets:				
Prepaid borrowing costs	60	8	–	68
	60	8	–	68
	60	8	–	68

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Unrecognised deferred tax balances				
The following deferred tax assets have not been brought to account as assets:				
Tax losses—capital	**247**	247	**247**	247
	247	247	**247**	247

Tax consolidation

Relevance of tax consolidation to the Consolidated Entity

During the financial year ended 30 June 2004, the Directors of the Company elected that the Company and its wholly-owned Australian resident entities would join a tax-consolidated group. The head entity within the tax-consolidated group is Retail Food Group Limited. The members of the tax-consolidated group are identified at note 28.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement 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 has 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. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

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. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

4. Key management personnel compensation

The key management personnel of Retail Food Group Limited during the year were:

- John Cowley (Independent Chairman appointed 13/10/2005)
- Tony Alford (Chief Executive Officer and Managing Director)
- Colin Archer (Independent Director appointed 12/04/2006)
- Nigel Nixon (Corporate Counsel and Executive Director)
- Gary Best (Executive Director retired 12/04/2006, Chief Operating Officer)
- Karen Walker (Chief Financial Officer)
- Mark Connors (Legal Counsel and Company Secretary appointed 26/04/2006).

(a) Key management personnel compensation policy

The compensation policy of Retail Food Group Limited has been designed to align Director and executive objectives with shareholder and business objectives by providing a fixed compensation component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The Board of Retail Food Group Limited believes the compensation policy to be appropriate and effective in its ability to attract and retain the best executives and Directors to run and manage the economic entity, as well as create goal congruence between Directors, executives and shareholders.

The Board's policy for determining the nature and amount of compensation of key management for the Consolidated Entity is as follows:

- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and options;
- The remuneration committee will review packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors.

The performance of executives is measured against criteria agreed bi-annually with each executive and will be based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

The employment conditions of those Directors and key management personnel that have entered into formal contracts of employment are set out below.

Tony Alford

The contract of employment entered into with RFGA Management Pty Ltd requires the employee to give a minimum of three months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six months notice or payment of the equivalent salary of the required notice in lieu.

Nigel Nixon

The contract of employment entered into with RFGA Management Pty Ltd requires the employee to give a minimum of three months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six months notice or payment of the equivalent salary of the required notice in lieu.

4. Key management personnel compensation (continued)

Gary Best
The contract of employment entered into with RFGA Management Pty Ltd requires the employee to give a minimum of three months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six months notice or payment of the equivalent salary of the required notice in lieu.

Karen Walker
The contract of employment entered into with RFGA Management Pty Ltd requires the employee to give a minimum of three months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six months notice or payment of the equivalent salary of the required notice in lieu.

Mark Connors
No employment contract has been entered into with the Company.

John Cowley
No employment contract has been entered into with the Company.

Colin Archer
The letter of appointment entered into with Retail Food Group Limited requires the Director to give notice of resignation in accordance with the Company's Constitution. Retail Food Group Limited may also terminate the Director's appointment in accordance with the Company's Constitution.

The aggregate compensation of the key management personnel of the Consolidated Entity and Company is set out below:

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Short-term employee benefits	**924**	877	**924**	877
Post-employment benefits	**32**	25	**32**	25
Other long-term benefits	**–**	–	**–**	–
Termination benefits	**–**	–	**–**	–
Share-based payment	**–**	–	**–**	–
	956	902	**956**	902

The compensation of each member of the key management personnel of the Consolidated Entity and the Company is set out on the following pages.

4. Key management personnel compensation (continued)

	Short-term employee benefits			
	Salary and fees	Bonus	Non-monetary	Other
2006	$	$	$	$
Tony Alford	180,000	–	–	139,836
Nigel Nixon	150,000	–	–	1,200
Gary Best	146,702	–	–	–
John Cowley	62,307	–	–	–
Colin Archer	12,115	–	–	–
Mark Connors	127,267	–	–	–
Karen Walker	105,184	–	–	–
Total	**783,575**	**–**	**–**	**141,036**

	Short–term employee benefits			
	Salary and fees	Bonus	Non–monetary	Other
2005	$	$	$	$
Tony Alford	180,000	–	–	166,324
Nigel Nixon	150,000	–	–	1,200
Gary Best	140,799	–	–	–
John Cowley	42,692	–	–	–
Mark Connors	108,730	–	–	–
Karen Walker	87,276	–	–	–
Total	709,497	–	–	167,524

Post-employment benefits				Share-based payment Equity Settled		Share-based payment		
Superannuation	Other	Other long term employee benefits	Termination benefits	Shares and units	Options and rights	Cash settled	other	Total
$	$	$	$	$	$	$	$	$
–	–	–	–	–	–	–	–	**319,836**
–	–	–	–	–	–	–	–	**151,200**
8,781	–	–	–	–	–	–	–	**155,483**
5,607	–	–	–	–	–	–	–	**67,914**
1,090	–	–	–	–	–	–	–	**13,205**
11,454	–	–	–	–	–	–	–	**138,721**
4,673	–	–	–	–	–	–	–	**109,857**
31,605	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**956,216**

Post-employment benefits				Share-based payment Equity Settled		Share-based payment		
Superannuation	Other	Other long term employee benefits	Termination benefits	Shares and units	Options and rights	Cash settled	other	Total
$	$	$	$	$	$	$	$	$
–	–	–	–	–	–	–	–	346,324
–	–	–	–	–	–	–	–	151,200
6,750	–	–	–	–	–	–	–	147,549
3,842	–	–	–	–	–	–	–	46,534
9,785	–	–	–	–	–	–	–	118,515
4,483	–	–	–	–	–	–	–	91,759
24,860	–	–	–	–	–	–	–	901,881

5. Employee share option plan

The Consolidated Entity has an ownership-based remuneration scheme for Directors, executives, key management personnel and employees of the Company. No options were issued at any time during the year.

Details of options issued post 1 July 2006 have been disclosed in the Directors Report.

6. Remuneration of auditors

	Consolidated		Company	
	2006 $	2005 $	2006 $	2005 $
Auditor of the parent entity				
Audit or review of the financial report	**70,000**	72,500	**–**	–
Other non-audit services – Due Diligence and IPO Transaction costs	**378,475**	–	**–**	–
Tax Consolidation advice	**25,215**	–		
	473,690	72,500	**–**	–

The auditor of Retail Food Group Limited is Deloitte Touche Tohmatsu.

7. Current trade and other receivables

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade receivables (i)	**3,945**	2,571	**–**	–
Allowance for doubtful debts	**(114)**	–		–
	3,831	2,571	**–**	–
Goods and services tax (GST) recoverable				
Other (non-interest bearing)	**35**	53	**–**	–
	3,866	2,624	**–**	–

(i) The average credit period on sales of goods is seven days. No interest is charged on the trade receivables.

8. Other current financial assets

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Loans to related parties (non interest bearing)	**18**	209	**–**	–
Loans to related parties (interest bearing)	**1,067**	628	**4,834**	–
	1,085	837	**4,834**	–

9. Current inventories

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Raw materials:				
At cost	**18**	57	**–**	–
Equipment for Sale:				
At cost	**58**	62	**–**	–
Stores held for resale:				
At cost	**335**	991	**–**	–
	411	1,110	**–**	–

10. Other current assets

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Prepayments	**59**	14	**–**	–
Other—accrued income	**328**	184	**–**	–
	387	198	**–**	–

11. Non-current trade and other receivables

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Related party receivables—wholly owned entities (tax related)	**–**	–	**2,355**	1,381
	–	–	**2,355**	1,381

12. Other non-current financial assets

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Shares in controlled entities	–	–	**41,934**	46,491
At amortised cost (2005: cost):				
Available-for-sale:				
Shares	–	22	–	–
	–	22	**41,934**	46,491

13. Property, plant and equipment

	Consolidated				
	Land and buildings $'000	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Motor Vehicles at cost $'000	Total $'000
Gross carrying amount					
Balance at 30 June 2004	3,680	19	702	–	4,401
Additions	–	150	17	71	238
Disposals	(2,782)	–	(48)	–	(2,830)
Impairment losses charged to profit (i)	(898)	–	–	–	(898)
Balance at 30 June 2005	–	169	671	71	911
Additions	4	8	69	54	135
Disposals	–	–	(47)	(5)	(52)
Other	–	–	(2)	–	(2)
Balance at 30 June 2006	4	177	691	120	992
Accumulated depreciation/ amortisation and impairment					
Balance at 30 June 2004	–	(15)	(356)	–	(371)
Disposals	–	–	41	–	41
Depreciation / amortisation expense	–	(18)	(89)	(43)	(150)
Balance at 30 June 2005	–	(33)	(404)	(43)	(480)
Disposals	–	–	23	2	25
Depreciation / amortisation expense	–	(11)	(86)	(17)	(114)
Balance at 30 June 2006	–	(44)	(467)	(58)	(569)
Net book value					
As at 30 June 2005	–	136	267	28	431
As at 30 June 2006	4	133	224	62	423

(i) Impairment losses are included in the line item 'Recoverable amount write down' in the income statement. The impairment losses relate to the sale of 26 Railway Street Southport QLD 4215. No impairment losses have been recognised in the current year.

13. Property, plant and equipment (continued)

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Leasehold improvements	**11**	18	**–**	–
Plant and equipment	**86**	89	**–**	–
Motor vehicles	**17**	43	**–**	–
	114	150	**–**	–

14. Other intangible assets

	Consolidated			
	Brand Names $'000	**Intellectual Property Rights $'000**	**Other Costs $'000**	**Total $'000**
Gross carrying amount				
Balance at 1 July 2004	38,333	3,694	29	42,056
Balance at 1 July 2005	38,333	3,694	29	42,056
Additions	–	3	–	3
Other—write off	–	–	(5)	(5)
Balance at 30 June 2006	38,333	3,697	24	42,054
Accumulated amortisation and impairment				
Balance at 1 July 2004	–	–	–	–
Amortisation expense (i)	–	–	(5)	(5)
Balance at 1 July 2005	–	–	(5)	(5)
Amortisation expense (i)	–	–	(2)	(2)
Other	–	–	5	5
Balance at 30 June 2006	–	–	(2)	(2)
Net book value				
As at 30 June 2005	38,333	3,694	24	42,051
As at 30 June 2006	38,333	3,697	22	42,052

14. Other intangible assets (continued)

	Company			
	Brand Names $'000	**Intellectual Property Rights $'000**	**Other Costs $'000**	**Total $'000**
Gross carrying amount				
Balance at 1 July 2004	–	–	1	1
Balance at 1 July 2005	–	–	1	1
Balance at 30 June 2006	–	–	1	1
Accumulated amortisation and impairment				
Balance at 1 July 2004	–	–	–	–
Balance at 1 July 2005	–	–	–	–
Amortisation expense (i)	–	–	(1)	(1)
Balance at 30 June 2006	–	–	(1)	(1)
Net book value				
As at 30 June 2005	–	–	1	1
As at 30 June 2006	–	–	–	–

(i) Amortisation expense is included in the line item depreciation and amortisation expense in the income statement.

Significant intangible assets

Retail Food Group Limited holds a significant number of registered trademarks for both the Donut King and bb's café franchise systems. Since inception, all of the trademarks have demonstrated significant growth and the Company forecasts this growth 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. Retail Food Group Limited management oversee the registration of the trademarks as well as the protection of these trademarks. Retail Food Group Limited intends to renew all marks as they expire and has the infrastructure and allocated resources to ensure this occurs.

None of the assets have a foreseeable limit as to when they will stop generating net cash inflows for Retail Food Group Limited in the future. Therefore, consistent with of AASB 138 'Intangible Assets', Retail Food Group Limited will treat each of its various trademarks and brand names as having an indefinite useful life. All such assets are tested for impairment annually.

Brand names and intellectual property have been allocated for impairment testing purposes to two individual cash-generating units as follows:

- Donut King system;
- bb's café system.

The carrying amount of brand names and intellectual property allocated to the Donut King cash-generating unit and the bb's café cash-generating unit is significant in comparison with the total carrying amount of brand names and intellectual property.

The carrying amount of brand names and intellectual property allocated to cash-generating units that are significant individually or in aggregate is as follows:

- Donut King system—$33,548;
- bb's café system—$8,482.

The recoverable amount of both the cash-generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 9%p.a.

Cash flow projections during the forecast period (and extrapolated cash flow projections) for both cash-generating units are based on growth in franchise revenue as a direct result from

(i) growth in average weekly sales for the Donut King and bb's café systems of between 3%–10% and 1%–4% respectively, and

(ii) new outlet commissionings.

New store growth during the forecast period reflects past experience. Management believes that the planned new store growth per year for the next five years is reasonably achievable.

15. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in notes 17 and 20 to the financial statements, all non-current assets of the Consolidated Entity, except intangible assets, have been pledged as security.

16. Current trade and other payables

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables (i) (ii)	**1,392**	812	**358**	72
Goods and services tax (GST) payable	**133**	221	**–**	–
	1,525	1,033	**358**	72
(i) Includes Accrued Wages and Salaries (i)	**–**	63	**–**	–

(ii) The average credit period on purchases is 30 days. No interest is charged on the trade payables. The Consolidated Entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. Current borrowings

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Secured				
At amortised cost				
Bank loans (i) (ii)	**1,900**	1,700	**1,900**	1,700
	1,900	1,700	**1,900**	1,700

(i) Relates to the current portion of long-term borrowings.

(ii) Secured by a mortgage over the Consolidated Entity's assets.

18. Current provisions

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Employee benefits	**260**	162	**–**	–
	260	162	**–**	–

	2006 No.	2005 No.	2006 No.	2005 No.
Number of employees at end of financial year	**74**	59	**–**	–

19. Other current liabilities

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Retention bonds and deposits	**233**	540	**–**	–
Related party payable (non-interest bearing)	**–**	–	**–**	4,176
	233	540	**–**	4,176

20. Non-current borrowings

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Secured				
At amortised cost	**15,675**	9,026	**15,675**	9,026
Bank loans (i)	**15,675**	9,026	**15,675**	9,026

(i) Secured by a mortgage over the consolidated group's assets

21. Issued capital

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
71,691,259 fully paid ordinary shares (2005: 1,499,409)	**31,014**	30,237	**31,014**	30,237
Nil fully paid 'A' Class ordinary shares (2005: 149,942)	**–**	1	**–**	1
	31,014	30,238	**31,014**	30,238

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.

	2006		2005	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	**1,499**	**30,237**	1,779	35,837
Conversion of 'A' class shares into ordinary shares	**150**	**1**		
Share split (1,649,351 into 69,309,016 shares)	**67,660**	**–**	–	–
New shares issued	**2,382**	**2,335**	–	–
Share issue costs	**–**	**(2,227)**		
Tax effect of share issue costs	**–**	**668**	–	–
Share buy-back	**–**	**–**	(280)	(5,600)
Balance at end of financial year	**71,691**	**31,014**	1,499	30,237

21. Issued capital (continued)

	2006		2005	
	No. '000	$'000	No. '000	$'000
'A' Class shares				
Balance at beginning of financial year	**150**	**1**	150	1
Conversion into ordinary shares	**(150)**	**(1)**	–	–
Balance at end of financial year	**–**	**–**	150	1

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

22. (Accumulated losses) / retained earnings

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balance at beginning of financial year	**4,441**	1,701	**1,792**	3,486
Net profit attributable to members of the parent entity	**5,936**	3,380	**9,889**	(1,054)
Dividends provided for or paid (note 24)	**(11,396)**	(640)	**(11,396)**	(640)
Balance at end of financial year	**(1,019)**	4,441	**285**	1,792

23. Earnings per share

	Consolidated	
	2006 Cent per share	2005 Cent per share
Basic earnings per share:		
From continuing operations	**9.3**	7.0
From discontinued operations	**(0.7)**	(2.1)
Total basic earnings per share	**8.6**	4.9
Diluted earnings per share:		
From continuing operations	**9.3**	7.0
From discontinued operations	**(0.7)**	(2.1)
Total diluted earnings per share	**8.6**	4.9

23. Earnings per share (continued)

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	
	2006 $'000	**2005 $'000**
Earnings (a)	**5,936**	3,380
Earnings from continuing operations (a)	**6,444**	4,904
	2006 No.' 000	**2005 No.'000**
Weighted average number of ordinary shares for the purposes of basic earnings per share	**69,374**	69,342

(a) Earnings used in the calculation of total basic earnings per share and basic earnings per share from continuing operations reconciles to net profit in the income statement as follows:

	Consolidated	
	2006 $'000	**2005 $'000**
Net profit	**5,936**	3,380
Earnings used in the calculation of basic EPS	**5,936**	3,380
Adjustments to exclude loss for the period from discontinued operations	**508**	1,524
Earnings used in the calculation of basic EPS from continuing operations	**6,444**	4,904

(b) The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share has been calculated in accordance with AASB 133 'Earnings per Share', after considering the effects of the share split and conversion of 'A' Class shares as noted in Note 21. The comparative period weighted average number of ordinary shares has also been retrospectively adjusted in accordance with AASB 133.

23. Earnings per share (continued)

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	
	2006 $'000	**2005 $'000**
Earnings (a)	**5,936**	3,380
Earnings from continuing operations (a)	**6,444**	4,904
	2006 No.'000	**2005 No.'000**
Weighted average number of ordinary shares for the purposes of diluted earnings per share (b)	**69,374**	69,342

(a) Earnings used in the calculation of total diluted earnings per share and diluted earnings per share from continuing operations reconciles to net profit in the income statement as follows:

	Consolidated	
	2006 $'000	**2005 $'000**
Net Profit	**5,936**	3,380
Earnings used in the calculation of diluted EPS	**5,936**	3,380
Adjustments to exclude loss for the period from discontinued operations	**508**	1,524
Earnings used in the calculation of diluted EPS from continuing operations	**6,444**	4,904

(b)The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Consolidated	
	2006 No.'000	**2005 No.' 000**
Weighted average number of ordinary shares used in the calculation of basic EPS	**69,374**	69,342
Shares deemed to be issued for no consideration in respect of:		
Employee options	**–**	–
Weighted average number of ordinary shares used in the calculation of diluted EPS	**69,374**	69,342

24. Dividends

	2006		2005	
	Cent per share	Total $'000	Cent per share	Total $'000
Recognised amounts				
Fully paid ordinary shares				
Interim dividend:				
Franked to 100% (i)	66.69	**100**	400.00	640
Franked to 100% (ii)	620.00	**9,296**	–	–
Franked to 100% (iii)	2.90	**2,000**	–	–
Final dividend:				
Franked to 100%	–	**–**	–	–
	689.59	**11,396**	400.00	640

The cents per share disclosed above has been calculated using the total number of shares on issue as at the end of relevant year. Full details of dividends paid throughout the year is disclosed in the Directors Report.

(i) In respect of profits of prior years and of the financial year ended 30 June 2006, an interim dividend of 66.69 cents per share (based on 149,942 shares on issue) franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid 'A' class shares on 29 July 2005.

(ii) In respect of profits of prior years and of the financial year ended 30 June 2006, an interim dividend of 620 cents per share (based on 1,499,409 shares on issue) franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 24 November 2005.

(iii) In respect of profits of prior years and of the financial year ended 30 June 2006, an interim dividend of 2.9 cents per share (based on 69,309,016 shares on issue) franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 26 May 2006.

	Company	
	2006 $'000	2005 $'000
Adjusted franking account balance	**2,079**	4,565
Impact on franking account balance of dividends not recognised	**–**	–
Income tax consequences of unrecognised dividends	**–**	–

25. Commitments for expenditure

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Capital expenditure commitments				
Plant and equipment			**–**	–
Not longer than one year	**850**	50	**–**	–
Longer than one year and not longer than five years	**–**	–	**–**	–
Longer than five years	**–**	–	**–**	–
	850	50	**–**	–

Retail Food Group Limited has committed to the acquisition of equipment for the Central Manufacturing facility at Yatala in Queensland. Payment will be made against the existing asset finance facility (refer note 33c).

(b) Lease commitments

Non-cancellable operating lease commitments are disclosed in note 27 to the financial statements.

26. Contingent liabilities and contingent assets

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Contingent liabilities				
Rental Guarantees to ANZ Bank	**290**	355	**–**	–

Rental Guarantees —Other.

The Consolidated Entity is guarantor to a number of leases with franchisees. No liabilities have been recognised as part of these rental guarantees.

The Consolidated Entity is currently in dispute with franchisees over a number of minor matters. No liability has been recognised in relation to these matters as the Directors are confident that these matters will be successfully resolved.

Juice Fusion indemnity

A number of former Juice Fusion franchisees foreshadowed a claim against Retail Food Group in relation to various matters associated with the operation and disposition of Juice Fusion. It was alleged that Retail Food Group Limited (or its former subsidiary entities) failed to discharge its obligations under certain franchise agreements. The Directors did not accept that the former Juice Fusion franchisees had a valid claim against Retail Food Group Limited or any of its current or former subsidiaries and it is intended that any claim would be vigorously defended.

The Continuing Shareholders (as referred to in the Prospectus dated 31st March 2006), their Related Corporations and associates have agreed to indemnify Retail Food Group Limited and various other parties in relation to any liability arising out of a prospective claim against Retail Food Group Limited and/or several of its current or former subsidiaries relating to the operation and divestment of the Juice Fusion franchise system. The indemnity protects the Company from all liability except legal costs which will remain the responsibility of Retail Food Group Limited. No liability has been recognised in relation to these matters.

The claims made by nine (9) of ten (10) former Juice Fusion franchisees have now been settled in accordance with Deeds of Settlement formerly executed by the parties.

Donut King The Hills

Proceedings have been instituted in the NSW Industrial Relations Commission by a former Franchisee against six respondents, including subsidiaries of Retail Food Group Limited. The proceedings seek relief for an alleged unfair contract that included a franchise agreement and outlet licence agreement for a Donut King outlet. A deed of understanding has been entered into by the six respondents which effectively makes Retail Food Group liable for only 50% of the costs of the action and any payment of damages. The applicant has quantified the damages at $792,214. No liability has been recognised in relation to these matters as the Directors remain confident that these matters will be successfully defended.

27. Leases

Disclosures for lessees

Operating leases

Leasing arrangements

Operating leases relate to office equipment and Company stores located around Australia. Most of the leases expire within five years, but some have the option to extend. The operating lease contracts contain a market review clause in the event the Company exercises its option to renew the lease contract. The Company does not have an option to purchase the leased assets at the expiry of the lease periods.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Non-cancellable operating lease payments				
Not longer than one year	**205**	736	**–**	–
Longer than one year and not longer than five years	**908**	2,463	**–**	–
Longer than five years	**87**	47	**–**	–
	1,200	3,246	**–**	–

28. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2006 %	Ownership interest 2005 %
Parent entity			
Retail Food Group Limited (i)	Australia	**100**	100
Subsidiaries			
RFG Holdings (Aust) Pty Ltd (ii)	Australia	**100**	100
RFGA Holdings Pty Ltd (ii)	Australia	**100**	100
Donut King Holdings Pty Ltd (ii)	Australia	**100**	100
Donut King Franchise Pty Ltd (ii)	Australia	**100**	100
Donut King System Pty Ltd (ii)	Australia	**100**	100
Bonanza Blend Pty Ltd (ii) (iii)	Australia	**100**	100
RFGA CMF Pty Ltd (ii)	Australia	**100**	100
Regional Franchise Systems Pty Ltd (ii)	Australia	**100**	100
RFGA Management Pty Ltd (ii)	Australia	**100**	100
RFG Finance Pty Ltd (ii)	Australia	**100**	100
RFGA Training Pty Ltd (ii)	Australia	**100**	100
RFGA Master Lease Pty Ltd (ii)	Australia	**100**	100
RFGA Assets Management Pty Ltd (ii)	Australia	**100**	100
Hot Dog Construction Zone (Aust) Pty Ltd (ii)	Australia	**100**	100
RFGA Master Franchise Pty Ltd (ii) (iii)	Australia	**100**	100
BB's Plantation Pty Ltd (ii)	Australia	**100**	100
Cappuccino Frappe Pty Ltd (ii)	Australia	**100**	100
BB's Bagel Pty Ltd (ii)	Australia	**100**	100
Barista Pty Ltd (ii)	Australia	**100**	100
Fuznik Pty Ltd (ii)	Australia	**100**	100
Frapaccino Pty Ltd (ii)	Australia	**100**	100
Frosty Cappuccino Pty Ltd (ii)	Australia	**100**	100
Donut Management Pty Ltd (ii)	Australia	**100**	100
Roasted Beans Pty Ltd (ii)	Australia	**100**	100
Aroma Grande Pty Ltd (ii)	Australia	**100**	100
Donutcino Pty Ltd (ii)	Australia	**100**	100
Equipment Finance Australia Pty Ltd (ii)	Australia	**100**	100
Booming Pty Ltd (ii)	Australia	**100**	100
BB Café System Pty Ltd (ii)	Australia	**100**	100
JJ Holdings (Universal) Pty Ltd (iv)	Australia	**–**	100
JF1 Pty Ltd (iv)	Australia	**–**	100

JFS1 Pty Ltd (iv)	Australia	–	100

		Ownership interest	
Name of entity	**Country of incorporation**	**2006 %**	**2005 %**
Subsidiaries			
JB Franchise Pty Ltd (iii)	Australia	–	100
JJ Master Lease Pty Ltd (iv)	Australia	–	100
JJL NSW Pty Ltd (iv)	Australia	–	100
JBL Qld Pty Ltd (iv)	Australia	–	100
JFL Vic Pty Ltd (iv)	Australia	–	100
JFL WA Pty Ltd (iv)	Australia	–	100

(i) Retail Food Group Limited is the head entity within the tax consolidated group.
(ii) Entities are members of the tax consolidated group.
(iii) Entities deregistered subsequent to the end of the financial year.
(iv) Entities disclosed formed part of the Juice Fusion system. This business was discontinued during the year and forms part of the discontinued operations disclosed in Note 30.
(v) None of the entities in the Consolidated Entity have entered into a deed of cross guarantee with Retail Food Group Limited.

29. Segment information

The Consolidated Entity operates solely in the industry of administration, management, operation and franchise of fast food outlets.

30. Discontinued operations

The Company disposed of the Juice Fusion franchise system on 1 September 2005 and thereafter finalised its involvement with the system and a number of Juice Fusion outlets operated by the Consolidated Entity.

The Consolidated Entity had acquired an interest in the 'juice and smoothie bar' franchise system in late 2003.

The Consolidated Entity also ceased operation of its Company Store Division during the period. The rationalisation of the Company stores operated by the Company Store Division was completed on 31 December 2005.

The results of the discontinued operations which have been included in the income statement are as follows. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period:

	Consolidated	
	2006 $'000	**2005 $'000**
Loss from discontinued operations:		
Revenue	**863**	2,384
Other income	**2**	942
	865	3,326
Expenses	**(1,590)**	(5,503)
Loss before income tax expense	**(725)**	(2,177)
Attributable income tax benefit / (expense)	**217**	653
Loss from discontinued operations	**(508)**	(1,524)
Cash flows from discontinued operations:		
Net cash flows from operating activities	**(396)**	(2,028)
Net cash flows from investing activities	**–**	(6)
Net cash flows from financing activities	**263**	2,088
Net cash flows	**(133)**	54

There are no assets and liabilities as at the balance date comprising the operations classified as held for sale.

31. Related party disclosures

(a) Equity Interests in Related Parties

Equity Interests in subsidiaries

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 28 to the financial statements.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 4 to the financial statements.

(c) Loan to key management personnel

The following loan balances are in respect of loans made to key management personnel of the Consolidated Entity and their related entities.

Loans to key management personnel	Balance at beginning $	Interest charged $	Interest not charged $	Write-off $	Balance at end $	Number in group
2006	**1,070.00**	42.00	**–**	–	**–**	1
2005	**1,070.00**	86.00	**–**	–	**1,070.00**	1

Key management personnel are charged interest at the rate of 8.00% per annum charged monthly which is comparable to the average commercial rate of interest. The loans are provided for a maximum period of 2 years.

(d) Key management personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited

2005	Balance at 1/7/04	Granted as remuneration	Received on exercise of options	Net other change	Balance at 30/06/05	Balance held nominally
	No.	No.	No.	No.	No.	No.
Tony Alford	1,249,175	–	–	–	1,249,175	552,526
Nigel Nixon	128,942	–	–	–	128,942	64,471
	1,378,117	–	–	–	1,378,117	616,997

Fully paid ordinary shares of Retail Food Group Limited

2006	Balance at 1/7/05	Granted as	Received on exercise of options	Net other change	Balance at 30/06/06	Balance held nominally
	No.	No.	No.	No.	No.	No.
Tony Alford	**1,249,175**	**–**	**–**	**27,002,415**	**28,251,590**	**8,034,188**
Nigel Nixon	**128,942**	**–**	**–**	**5,102,702**	**5,231,644**	**2,615,822**
John Cowley	**–**	**–**	**–**	**50,000**	**50,000**	**Nil**
Colin Archer	**–**	**–**	**–**	**175,000**	**175,000**	**Nil**
Gary Best	**–**	**–**	**–**	**1,317,800**	**1,317,800**	**Nil**
Karen Walker	**–**	**–**	**–**	**1,225,050**	**1,225,050**	**Nil**
Mark Connors	**–**	**–**	**–**	**10,000**	**10,000**	**Nil**
	1,378,117	**–**	–	**34,882,967**	**36,261,084**	**10,650,010**

31. Related party disclosures (continued)

Fully paid 'A' class shares of Retail Food Group Limited

2005	Balance at 1/7/04	Granted as	Received on exercise of options	Net other change	Balance at 30/06/05	Balance held nominally
	No.	No.	No.	No.	No.	No.
Tony Alford	**124,919**	–	**–**	–	**124,919**	55,254
Nigel Nixon	**12,894**	–	**–**	–	**12,894**	6,447
	137,813	–	**–**	–	**137,813**	61,701

Fully paid 'A' class shares of Retail Food Group Limited

2006	Balance at 1/7/05	Granted as remuneration	Received on exercise of options	Net other change	Balance at 30/06/06	Balance held nominally
	No.	No.	No.	No.	No.	No.
Tony Alford	**124,919**	–	**–**	(124,919)	**–**	–
Nigel Nixon	**12,894**	–	**–**	(12,894)	**–**	–
	137,813	–	**–**	(137,813)	**–**	–

31. Related party disclosures (continued)

	Consolidated	
	2006 $000	2005 $000
(e) Other transactions with key management personnel (and their related parties) of Retail Food Group Limited		
The profit from operations includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel and their related entities:		
Interest revenue	**13**	34
Revenue	**531**	–
Rental revenue	**80**	80
Other	**105**	–
Franchise revenue	**186**	181
Total recognised as revenue	**915**	295
Accountancy fees	**144**	102
Rental expense	**51**	–
Other administration services	**89**	50
Total recognised as expenses	**284**	152
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel or their related entities as at the reporting date		
Current	**70**	9
Non current	**–**	–
Total	**70**	9
Total liabilities arising from transactions other than compensation with key management personnel or their related entities as at the reporting date:		
Current	**2**	–
Non current	**–**	–
Total	**2**	–

(f) Transactions Within the Wholly-owned Group

The wholly-owned group includes:

- the ultimate parent entity in the wholly-owned group;
- wholly-owned controlled entities; and
- The ultimate parent entity in the wholly-owned group is Retail Food Group Limited.

Details of dividend and interest revenue derived by the entity from entities in the wholly-owned group are disclosed in note 2 to the financial statements.

Details of interest expense with entities in the wholly-owned group are disclosed in note 2 to the financial statements.

Amounts receivable from and payable to entities in the wholly-owned group are disclosed in notes 8, 11 and 19 to the financial statements.

31. Related party disclosures (continued)

(g) Transactions with other related parties

Other related parties include:

- the parent entity;
- entities with joint control or significant influence over the Consolidated Entity;
- subsidiaries;
- key management personnel of Retail Food Group Limited;
- former key management personnel; and
- other related parties.

Details of write-downs of receivables in respect of transactions with these related parties are disclosed in note 2 to the financial statements. No amounts were provided for doubtful debts relating to debts due from related parties at reporting date.

Amounts receivable from and payable to these related parties are disclosed in notes 8 and 19 to the financial statements. All loans advanced to and payable to related parties are unsecured and subordinate to other liabilities. Interest is charged annually on all outstanding intercompany loan balances at 8%. During the financial year, Retail Food Group Limited paid interest to RFG Finance Pty Ltd in an amount of $339,535 (2005: $450,421). RFG Finance Pty Ltd also received interest from other subsidiary entities in an amount of $557,152 (2005:$649,229) in relation to other related party loans.

Transactions involving the parent entity

All transactions disclosed below are made on arms length terms within the meaning of Section 210 of the Corporations Act.

During the financial year, Retail Food Group Limited recognised a net receivable of $2,354,866 (2005: $1,320,301) from its wholly-owned subsidiaries for their tax payable for the current period.

During the financial year, Retail Food Group Limited recognised a net receivable of $2,434,000 (2005: Nil) from its wholly-owned subsidiaries for various services including but not limited to administration and financing provided for the current period.

During the financial year, Retail Food Group Limited received dividends of $14,800,000 (2005: Nil) from its subsidiary RFGA Holdings (Aust) Pty Ltd. $4,555,970 of the total dividends received was offset against the investment in the subsidiary as this amount represented dividends paid from pre-acquisition profits.

Transactions involving other related parties

All transactions disclosed below are made on arms length terms within the meaning of Section 210 of the Corporations Act.

During the financial year, subsidiaries of Retail Food Group Limited paid a total amount of $233,247 to Alfords Accountants and Business Advisers (includes Alfords Operations Pty Ltd and AIP Services Pty Ltd) for the provision of professional services and personnel.

Retail Food Group leases the Central Manufacturing Facility premises at Yatala from Yak Investments Pty Ltd. Yak Investments Pty Ltd is a related party of Tony Alford, Gary Best and Alicia Atkinson. A total of $39,253 was paid during the year.

The Cranot superannuation fund is associated with Tony Alford. It is the owner and lessor of premises at which the Retail Food Group archives and stores its records and other business related materials.

On the 24th November 2005, Anttra Pty Ltd repaid it's loan in an amount of $445,000. Anttra Pty Ltd is a related party of Robert Sutherland. Robert Sutherland is a Director of Roasted Beans Pty Ltd, a wholly owned subsidiary of Retail Food Group Limited. During the financial year, Anttra Pty Ltd paid interest to RFG Finance Pty Ltd in an amount of $12,888 (2005: $33,756).

On the 31st December 2005, Nigel Nixon purchased the shares in JJ Holdings (Universal) Pty Ltd from RFGA Holdings Pty Ltd for purchase consideration of $1. JJ Holdings (Universal) Pty Ltd was the parent entity of the Juice Fusion group of companies.

RFG (NZ) Limited is a related party of Retail Food Group Limited. It paid franchise revenue to Regional Franchising Systems Pty Ltd in respect to the bb's café System in New Zealand during the year in an amount of $389,518 (2005: $322,471).

BB's New Zealand Limited is a related party of Retail Food Group Limited. It made loan repayments during the year in an amount of $165,702 reducing the loan from $183,201 to $17,500.

Anthony Alford and Nigel Nixon are Directors of Pracing Pty Limited. As at 30 June 2006 an amount of $1,067,458, which represented the balance of Initial Public Offering proceeds due to Retail Food Group Limited and which had been deposited in the bank account of Pracing Pty Limited, was owing from Pracing Pty Limited to the Company. The amount was paid on 14th July 2006. Interest of $1,851 was charged on the outstanding balance.

BB's Coffee and Bake Australia Pty Ltd is a related party of Retail Food Group Limited. It made loan repayments during the year in an amount of $182,625 reducing the loan from $182,625 to Nil. This entity was the previous franchisor of the bb's café system in Australia.

Spanish Mission Pty Ltd is a related party of Robert Sutherland. Spanish Mission Pty Ltd owned one franchised outlet during the year. Donut King Werribee paid franchise revenue to Donut King System Pty Ltd during the year in an amount of $65,637.

Donut Pty Ltd is a related party of Nigel Nixon. Donut Pty Ltd owned two franchised outlets during the year. Donut King Chermside was sold on the 1st November 2005. Donut King Morayfield was held for the entire year. Donut Pty Ltd paid franchise revenue to Donut King System Pty Ltd during the year in an amount of $91,435.

On the 31st December 2005, RFGA Assets Management Pty Ltd sold to Exit Stage Left Pty Ltd three Company stores for $500,155 plus stock of $30,440. Exit Stage Left Pty Ltd is a related party of Karen Walker. The stores were recorded as inventory in an amount of $500,155 at the time of sale. Exit Stage Left Pty Ltd paid franchise revenue to bb's café System Pty Ltd during the year in an amount of $29,707.

Retail Food Group Limited pays monies from the Donut King and bb's café marketing funds towards the sponsorship of motor racing activities. Tony Alford is involved in some of these activities. In return, Retail Food Group's franchise systems receive signage on race cars and associated media exposure.

(h) Parent entities

The parent entity in the Consolidated Entity is Retail Food Group Limited.

32. Subsequent events

Commercial Manufacturing Facility and Commercial Roasting Facility

Booming Pty Ltd, a wholly owned subsidiary of Retail Food Group Limited, executed a contract on 28th July 2006 for the purchase of land & buildings at 26 Computer Road, Yatala for $2,300,000. A deposit amount of $50,000 was paid on the 11th July 2006. The contract is subject to the satisfaction of a number of conditions precedent which if satisfied will see the Company complete the purchase of the premises for use as the Commercial Manufacturing Facility and Commercial Roasting Facility.

Coffee Roasting Facility (CRF)

The Company anticipates commissioning the CRF in the 2007 financial year. This initiative is being undertaken by the Company in a joint venture with Koffee-Tek Pty Ltd, a leading and well credentialed Australian domiciled coffee blender and roaster. The Company and Koffee-Tek Pty Ltd have executed a Heads of Agreement. All salient financial and operational matters have been resolved between the parties and a formal joint venture agreement is currently being prepared. All capital costs of the CRF including plant and equipment, establishment and commissioning (but excluding premises fitout costs which will be equally funded by the joint venture participants) are being attended by Koffee-Tek Pty Ltd. The Company anticipates the fitout costs of the CRF to be in the vicinity of $0.2 million. The Company's share of any costs incurred in the fitout of the premises will be capitalised. The CRF will blend and roast coffee for the Donut King and bb's café systems, existing customers of Koffee-Tek Pty Ltd and prospective third party bulk roasting clients which the joint venture will target. The Company intends to use the knowledge and expertise of Koffee-Tek Pty Ltd to refine and enhance the flavour and taste profiles of its existing coffee blends. This process has already commenced. The Company's coffee roasting arrangements with its existing third party supplier will continue until the CRF is fully operational.

Central Manufacturing Facility (CMF)

The specialised manufacturing equipment for the CMF has been scoped and specified and is currently being manufactured. The equipment is programmed to arrive in Australia in January 2007. The plant and equipment cost for the CMF will be funded from debt provided by the Company's bankers. Commissioning and manufacturing operations are programmed to commence in March 2007. The commissioning of the first commercial CMF will realize the Company's FY2007 primary growth initiative while also delivering to all franchisees in South East Queensland a consistent and quality product without the requirement for each franchisee to manufacture in-store. The Company currently continues its CMF pilot program which presently manufactures certain product to 34 Donut King outlets in South East Queensland.

33. Notes to the cash flow statement

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, 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 financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	**1,631**	933	**129**	1
Bank overdraft	**–**	(14)	**–**	–
	1,631	919	**129**	1
Cash and cash equivalents attributable to discontinued operations	**–**	133	**–**	–
	1,631	1,052	**129**	1

(b) Non cash financing and investing activities

During the financial year, Retail Food Group Limited received $10,244,030 in dividends from its subsidiary entities by way of inter-entity receivables / payables. This income is not reflected in the cash flow statement.

(c) Financing facilities				
Secured bank overdraft facility, reviewed annually and payable at call:				
• amount used	**–**	14	**–**	–
• amount unused	**300**	286	**–**	–
	300	300	**–**	–
Lease Finance Facility				
• amount used	**–**	–	**–**	–
• amount unused	**2,000**	2,000	**–**	–
	2,000	2,000	**–**	–
Secured bank loan facilities with various maturity dates through to 10 September 2010 and which may be extended by mutual agreement:				
• amount used	**17,575**	**10,726**	**17,575**	**10,726**
• amount unused	**–**	–	**–**	–
	17,575	**10,726**	**17,575**	**10,726**

33. Notes to the cash flow statement (continued)

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
(d) Reconciliation of profit for the period to net cash flows from operating activities				
Profit / (loss) from ordinary activities after related income tax	**5,936**	3.380	**9,889**	(1,054)
(Gain)/loss on sale or disposal of non-current assets	**(2)**	(7)	**–**	–
Depreciation and amortisation of non-current assets	**116**	155	**–**	–
Interest received	**(93)**	(73)	**(3)**	(2)
Dividends received	**–**	–	**(10,244)**	–
Debt forgiven	**–**	–	**883**	–
Writedown of land and buildings	**–**	898	**–**	–
Increase/(decrease) in current tax liability	**(309)**	(102)	**(309)**	(102)
Increase/(decrease) in deferred tax balances	**59**	(50)	**126**	(2)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current tax receivables	**–**	–	**(974)**	–
Current receivables	**(1,260)**	68	**(2,434)**	(940)
Current inventories	**699**	(473)	**–**	–
Other current assets	**(189)**	(160)	**–**	–
Non-current receivables	**–**	656	**–**	–
Increase/(decrease) in liabilities:				
Current payables	**272**	(328)	**–**	–
Current provisions	**98**	51	**69**	–
Net cash from operating activities	**5,327**	4,015	**(2,997)**	(2,100)

34. Financial instruments

(a) Risk management objectives

The Consolidated Entity's financial instruments consist mainly of deposits with banks, short term investments, accounts receivable and payable and loans to and from subsidiaries.

The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Consolidated Entity's policies approved by the Board of Directors.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Interest rate risk management

Interest Rate Contracts

The Consolidated Entity uses interest rate contracts in managing interest rate exposure.

Under interest rate swap contracts, the Consolidated Entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of rising interest rates.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts and forward interest rate contracts outstanding as at reporting date.

Outstanding contracts	Average interest rate		Notional principal amount	
	2006 %	2005 %	2006 $'000	2005 $'000
One to two years	**–**	–	**–**	–
Two to five years	**6.03**	6.03	**9,000**	9,000
			9,000	9,000

The average interest rate is based on the outstanding balances at the start of the financial year.
The fair value of the interest rate contracts is $5,214. (2005: $82,553). The Company has not accounted for this in the financial statements on the basis of materiality.

34. Financial instruments (continued)

(d) Maturity profile of financial instruments.

The following table details the Consolidated Entity's exposure to interest rate risk as at 30 June 2006:

2006	Weighted average effective interest rate %	Variable interest rate $'000	Maturity Dates Less than 1 year $'000	1–5 years $'000	More than 5 years $'000	Non interest bearing $'000	Total $'000
Financial assets:							
Cash and cash equivalents	3.0	1,631	–	–	–	–	**1,631**
Receivables	–	–	–	–	–	3,866	**3,866**
Related party receivables	8.0	–	1,067	–	–	18	**1,085**
		1,631	1,067	–	–	3,884	**6,582**
Financial liabilities:							
Trade payables	–	–	–	–	–	1,525	**1,525**
Other payables	–	–	–	–	–	233	**233**
Income Tax Payable	–	–	–	–	–	629	**629**
Bank loans	8.18	17,575	–	–	–	–	**17,575**
Employee Benefits	–	–	–	–	–	260	**260**
		17,575	**-**	–	**–**	2,647	**20,222**

34. Financial instruments (continued)

(d) Maturity profile of financial instruments.

The following table details the Consolidated Entity's exposure to interest rate risk as at 30 June 2005:

2005	Weighted average effective interest rate %	Variable interest rate $'000	Maturity Dates Less than 1 year $'000	Maturity Dates 1–5 years $'000	Maturity Dates More than 5 years $'000	Non interest bearing $'000	Total $'000
Cash and cash equivalents	3.0	1,052	–	–	–	–	**1,052**
Receivables	–	–	–	–	–	2,624	**2,624**
Related party receivables	8.0	–	628	–	–	209	**837**
		1,052	628	–	–	2,833	**4,513**
Financial liabilities:							
Trade payables	–	–	–	–	–	1,033	**1,033**
Other payables	–	–	–	–	–	540	**540**
Income Tax Payable	–	–	–	–	–	938	**938**
Bank loans	6.03	10,726	–	–	–	–	**10,726**
Employee Benefits	–	–	–	–	–	162	**162**
		10,726	**-**	**–**	**–**	**2,673**	**13,399**

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Consolidated Entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually. The Consolidated Entity measures credit risk on a fair value basis.

The Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

(f) Fair value of financial instruments

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

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

(g) Liquidity risk management

The Consolidated Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

35. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

Discontinued operations

Under A-IFRS, the Consolidated Entity recognises revenue and expenses, including tax expenses, attributable to discontinued operations as part of a single line item 'profit from discontinued operations' on the income statement. There was no requirement under previous GAAP to present revenue and expenses attributable to discontinued operations in this manner on the face of the income statement, and accordingly, amounts are reclassified from the various line items in which they were recognised under previous GAAP to 'profit from discontinued operations' on adoption of A-IFRS.

Income tax

Under previous AGAAP, the 'income statement approach' was utilised in calculating tax balances whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS deferred tax is determined using the 'balance sheet liability method' in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for accounting purposes and their corresponding tax bases.

A deferred tax liability of $376,000 has been recognised against opening retained earnings upon first time adoption. The liability remains unchanged at 30 June 2005.

Impacts

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under superseded accounting policies.

There are no material differences between the income statement presented under A-IFRS and the income statement presented under superseded accounting policies.

An explanation of how the transition from superseded policies to A-IFRS has affected the Company and Consolidated Entity's financial position is set out in the following table.

35. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (continued)

Effect of A-IFRS on the balance sheet as at 1 July 2004.

	Consolidated			Company		
	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current assets						
Cash and cash equivalents	**754**	–	**754**	3	–	3
Trade and other receivables	**2,724**	–	**2,724**	–	–	–
Other financial assets	**327**	–	**327**	1,268	–	1,268
Inventories	**637**	–	**637**	–	–	–
Other	**52**	–	**52**	–	–	–
Total current assets	**4,494**	–	**4,494**	1,271	–	1,271
Non-current assets						
Trade and other receivables	**1,136**	–	**1,136**	386	–	386
Investments	**15**	–	**15**	46,491	–	46,491
Property, plant and equipment	**4,030**	–	**4,030**	–	–	–
Deferred Tax Asset	**80**	–	**80**	60	–	60
Other intangible assets	**42,056**	–	**42,056**	1	–	1
Total non-current assets	**47,317**	–	**47,317**	46,938	–	46,938
Total assets	**51,811**	–	**51,811**	48,209	–	48,209
Current liabilities						
Trade and other payables	**1,138**	–	**1,138**	–	–	–
Borrowings	**1,700**	–	**1,700**	1,700	–	1,700
Current tax payables	**1,040**	–	**1,040**	1,040	–	1,040
Provisions	**111**	–	**111**	–	–	–
Other	**762**	–	**762**	–	–	–
Total current liabilities	**4,751**		**4,751**	2,740		2,740
Non-current liabilities						
Borrowings	**9,145**	–	**9,145**	6,145	–	6,145
Deferred tax liabilities	**–**	376	**376**	–	–	–
Total non-current liabilities	**9,145**	376	**9,521**	6,145	–	6,145
Total liabilities	**13,896**	376	**14,272**	8,885		8,885
Net assets	**37,915**	376	**37,539**	39,324		39,324
Equity	**–**	–	**–**			
Share capital	**35,838**	–	**35,838**	35,838	–	35,838
Retained earnings	**2,077**	(376)	**1,701**	3,486	–	3,486
Total equity	**37,915**	(376)	**37,539**	39,324	–	39,324

* Reported financial position for the financial year ended 30 June 2004.

36. Additional Company information

Retail Food Group Limited is a listed public Company, incorporated and operating in Australia.

Registered office

Level 1
26 Railway Street
Southport QLD 4215

Principal place of business

Level 2
26 Railway Street
Southport QLD 4215

Additional stock exchange information as at 31 August 2006

Number of holders of equity securities

Ordinary share capital

- 71,691,259 fully paid ordinary shares are held by 826 individual shareholders.
  All issued ordinary shares carry one vote per share.

Options

- 2,079,997 options granted 1 August 2006 are held by 25 individual optionholders.
  Options do not carry a right to vote.

Distribution of holders of equity securities

	Total Holders Fully Paid Ordinary Shares	Fully Paid Ordinary Shares	% Issued Capital	Total Holders Options	Options
1-1,000	**37**	28,464	**0.04**	–	**–**
1,001–5,000	**250**	841,401	**1.17**	–	**–**
5,001–10,000	**197**	1,753,533	**2.45**	–	**–**
10,001–100,000	**287**	8,754,057	**12.21**	15	**549,997**
100,001 and over	**55**	60,313,804	**84.13**	10	**1,530,000**
	826	71,691,259	**100.00**	25	**2,079,997**
Holding less than a marketable parcel	**–**	–	**–**		

Substantial shareholders

	Fully paid		Partly paid	
Ordinary shareholders	**Percentage**	**Number**	**Percentage**	**Number**
Tony Alford 1	**28,618,674**	39.92	**–**	–
Rastus Investments Pty Ltd 2	**28,618,674**	39.92	**–**	–
Alfords Holdings (QLD) Pty Ltd 3	**20,508,899**	30.00	**–**	–
C.G.F.H Holdings Pty Ltd 4	**20,508,899**	30.00	**–**	–
Acorn Capital Limited	**6,123,034**	8.54	**–**	–
Brecot Pty Ltd	**5,231,764**	7.30	**–**	–
Anttra Pty Ltd	**4,080,698**	5.69	**–**	–

1 Shareholding includes interests or control in the shareholdings and interests held by Rastus Investments Pty Ltd, Alfords Holdings (QLD) Pty Ltd, C.G.F.H Holdings Pty Ltd and others

2 Shareholding includes interests or control in the shareholdings and interests held by Tony Alford, Alfords Holdings (QLD) Pty Ltd, C.G.F.H Holdings Pty Ltd and others

3 Shareholding includes interests or control in the shareholdings and interests held by C.G.F.H Holdings Pty Ltd and others

4 Shareholding includes interests or control in the shareholdings and interests held by Alfords Holdings (QLD) Pty Ltd and others

Twenty largest holders of quoted equity securities

	Fully paid		Partly paid	
	Percentage	Percentage of Issued Capital	Number	
1. National Nominees Limited	**6,451,836**	17.98	–	–
2. Cogent Nominees Pty Limited	**3,000,000**	8.22	–	–
3. J P Morgan Nominees Australia Limited	**1,101,284**	3.02	–	–
4. Rastus Investments Pty Ltd	**999,999**	2.74	–	–
5. Mudstone Pty Ltd	**845,000**	2.32	–	–
6. Citicorp Nominees Pty Limited	**754,671**	2.07	–	–
7. RBC Dexia Investor Services Australia Nominees Pty Limited	**715,363**	1.96	–	–
8. ANZ Nominees Limited	**711,685**	1.95	–	–
9. Migaloo Pty Ltd	**652,106**	1.79	–	–
10. AMA Holdings (QLD) Pty Ltd	**600,000**	1.64	–	–
11. Brecot Pty Ltd (Brecot No 2)	**500,000**	1.37	–	–
12. Brecot Pty Ltd (Brecot No 1)	**500,000**	1.37	–	–
13. Bexlie Holdings (QLD) Pty Ltd	**486,228**	1.33	–	–
14. WSS Holdings (Aust) Pty Ltd	**480,001**	1.32	–	–
15. John Gerard Grounds	**460,815**	1.26	–	–
16. Leemhuis Investments Pty Ltd	**450,000**	1.23	–	–
17. TIS Pty Ltd	**400,000**	1.10	–	–
18. Skillup International Ltd	**400,000**	1.10	–	–
19. Turnbull Bros Orchard Pty Ltd	**375,000**	1.03	–	–
20. Mr Garry Walker	**350,000**	0.96	–	–
Total	**20,233,988**	55.76	–	–

Company secretary

Mark Connors
26 Railway Street
Southport QLD 4215

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Level Two
26 Railway Street
Southport QLD 4215

Principal administration office

Level Two
26 Railway Street
Southport QLD 4215

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Retail Food Group Limited ACN 106 840 082

05/06 Annual Report

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