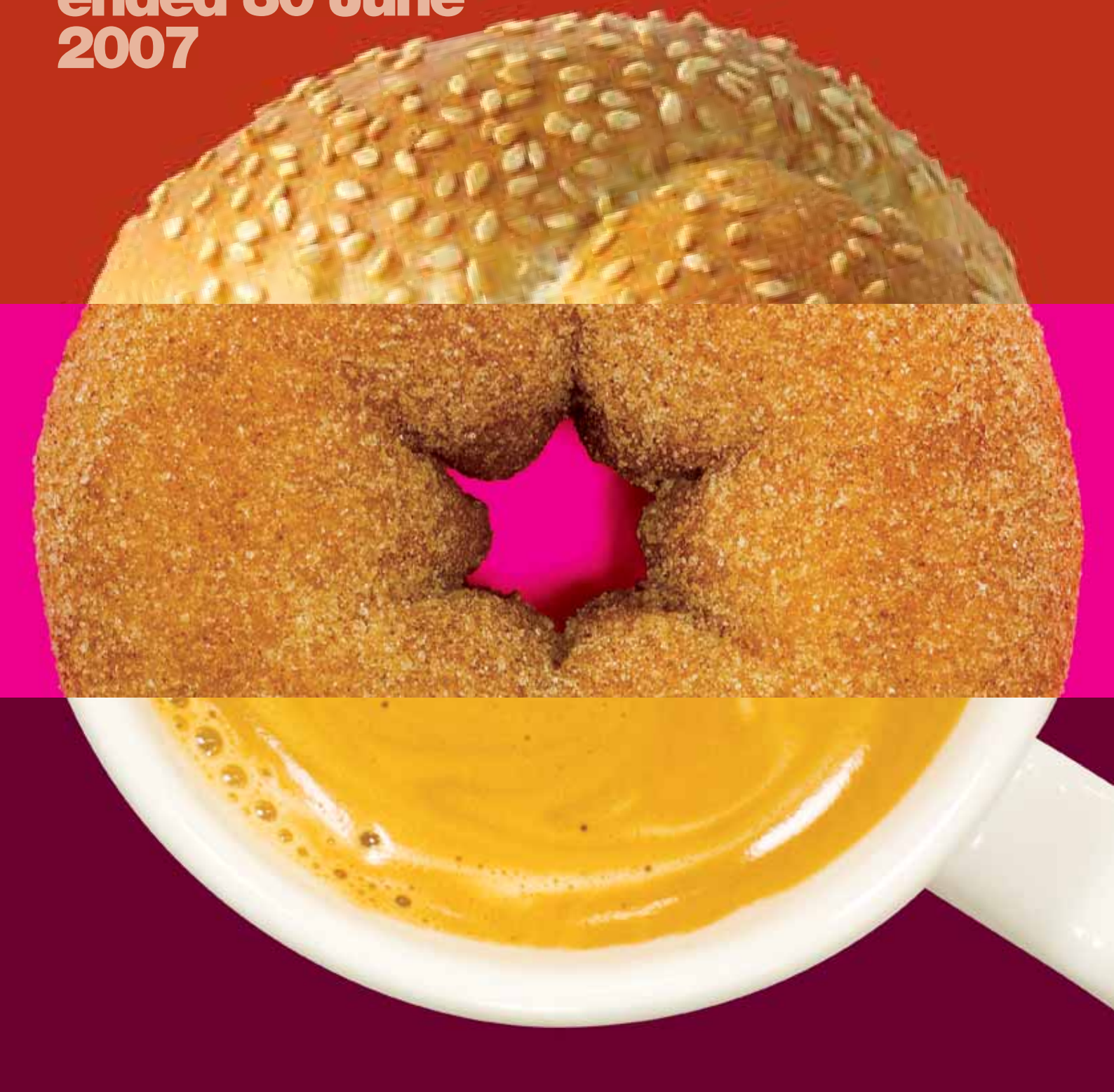
RETAILFOODGROUP
RFG
STRENGTH IN BRANDS

Retail Food Group Limited ACN 106 840 082

06/07 Annual Report

for the financial year ended 30 June 2007



06/07 Annual Report

Chairman's letter

Dear Shareholder,

On behalf of the Board of Directors, it is my pleasure to present you with Retail Food Group's Annual Report for the financial year ended 30 June 2007.

I suggested in last year's Annual Report that the 2006 financial year was a watershed year for RFG. Not only had the Company successfully listed on the Australian Stock Exchange following an oversubscribed Initial Public Offer, but it had exceeded its prospectus forecasts for the 2006 financial year.

Whilst the foregoing highlights were indicative of a highly successful and groundbreaking year, subsequent events have proved my comments to have been premature. Indeed, 2007 has seen Retail Food Group truly establish itself as one of Australia's pre-eminent retail food brand managers and franchisors.

During the year, the Company attended the acquisition of Brumby's Bakeries Holdings Limited following an off market bid that was unanimously supported by the former Board of Directors of that company.

This acquisition brought a further 324 franchised stores into the RFG fold. It has also added another recognised and successful brand to the Company's existing stable of high profile franchise systems and delivered on the strategic growth initiatives espoused in the Company's May 2006 Prospectus.

The addition of Brumby's brings with it a plethora of opportunities not only for RFG, but each of the stakeholders in all three of the Company's franchise systems.

2007 has also seen the successful commissioning and commencement of operations of the Company's Central Manufacturing Facility (CMF)—a dedicated facility established to manufacture and supply donut and bakery products to its franchisees.

The Coffee Roasting Facility (CRF), established by way of a joint venture with a leading coffee blender and roaster, has also been commissioned. Following successful product trials, the CRF has now commenced roll out of RFG's proprietary coffee blend to its franchisees.

These facilities have provided an additional platform for further development of the Company's existing businesses and build upon the Company's robust financial results.

In that respect, I am excited to note that the Company has achieved a FY2007 net profit after tax of $7.5 million—$1.6 million (or 26.7%) up on the previous corresponding period. This result included record new store growth of 37 outlets which surpassed the Company's May 2006 Prospectus forecast by 10 outlets.

Ultimately, RFG's achievements bear testimony to the valued efforts of management, franchisees and staff and I thank them for the impressive results they have achieved.

I would also like to thank you, as a valued shareholder of RFG, for your commitment to the Company.

Lastly, it is my pleasure to note that on 7 September 2007 the Company announced that it had entered into a conditional Scrip & Cash Terms Agreement with the owners of the 346 store Michel's Patisserie franchise system. The Company's due diligence investigations have been satisfied and the Board remains confident that this transaction will be completed later in the year.

The potential acquisition of Michel's Patisserie, which would bring total store numbers under RFG's stewardship to in excess of 1020 outlets, when coupled with the underlying strengths and robust results of the Company, bodes well for FY2008 and ensures RFG is well placed to deliver further rewards to its shareholders in the year ahead.

John Cowley, AM
CHAIRMAN

06/07 Annual Report

Managing Director's Report

In an outstanding year for the Company, Retail Food Group (RFG) has consolidated its status as one of Australasia's leading multi retail food brand managers and franchisors, growing organically to 360 outlets across the Donut King and bb's café systems—an increase of 28 stores on the prior year. Indeed, the 2007 financial year has been defined by continued growth including revenue increase of 15.1% on FY2006, and NPAT increase of 26.7% to $7.52 million.

The 2008 financial year will witness a progression of this growth trend for the Company with completion of the off market takeover of Brumby's Bakeries Holdings Limited—contributing an additional 324 Brumby's franchised outlets—and in September 2007 the execution of an agreement to acquire the Michel's Patisserie franchise system. The acquisition of Brumby's and impending addition of the 348 outlet Michel's system is already positively impacting RFG's relationships with landlords and trade partners whilst generating strong interest amongst franchisees in terms of multi-site and cross-system ownership.

The Company's Central Manufacturing and Coffee Roasting Facilities were also commissioned during the 2nd half of the 2007 financial year and high quality product delivery to RFG's franchisees is well advanced. The central manufacture and distribution of food and beverages products, which are subject to the Company's proprietary blends and recipes, will ensure uniformity, quality, and consistency throughout all Australian outlets.

EXCEEDING FORECASTS

For the 2007 financial year, Retail Food Group achieved NPAT (net profit after tax) of $7.52 million.

This strong result, representing a 26.7% increase on FY2006 and exceeding the Company's May 2006 Prospectus forecast of $7.4 million, was driven by:

- record new outlet commissionings of 37 stores; and
- total network sales of $158.2 million, an increase of 10.6% on the prior year.

Earnings per share (EPS) for FY2007 was 10.5 cents, a 22.1% increase on FY2006 and, consistent with Prospectus forecasts, the Directors have declared a final dividend for the year ended 30 June 2007 of 3.125 cents per share.

	2007 Actual	2007 Forecast	Increase	2006 Actual	Increase
Total Network Sales	$158.2m	$156.7m	1.0%	$143.1m	10.6%
Revenue(ii)	$23.6m	$19.6m	20.2%	$20.5m	15.1%
EBITDA	$12.4m	$11.9m	4.2%	$9.8m	26.5%
EBIT	$12.2m	$11.7m	4.3%	$9.8m	24.5%
NPAT	$7.5m	$7.4m	1.6%	$5.9m(i)	26.7%
Earnings Per Share (EPS)	10.5 cents	10.3 cents	1.9%	8.6 cents	22.1%
Number of Franchised Outlets	360	353	2.0%	332	8.4%
New Outlet Commissionings	37	25	48.0%	27	37.0%

(i) NPAT from continuing operations in FY2006 was $6.4 million.

(ii) Excludes 'wash through' marketing fund revenues of $6.2 million (FY2006:$6.4 million).

Managing Director's Report

The Company's financial performance continues to be supported by new and innovative marketing programs across the Donut King and the bb's café systems. Encouragingly, increases in average transaction values and excellent growth in average weekly sales in the bb's café system were able to partly offset flat average weekly sales growth in the Donut King system.

OUTLET EXPANSION

During the 2007 financial year, 37 new Donut King and bb's café outlets were commissioned—exceeding the Company's Prospectus forecast and 2006 financial year new outlet opening result by 12 and 10 outlets respectively.

The Company's long standing policy to manage outlet growth in a consistent, sustainable and conservative manner resulted in a level of outlet growth not previously achieved. As at 30 June 2007, RFG had 360 franchised outlets, including 289 Donut King outlets, a net increase of 24 outlets on the previous year, and 71 bb's café outlets, a net increase of four outlets on the previous year.

In the current year, the Company is well progressed in its new outlet commissioning program, with the commissioning of 13 outlets to the 10 October 2007 (being five Donut King, five Brumby's, and three bb's café outlets). The Company's forecast for FY2008, including Brumby's, is for growth in excess of 50 outlets.

At customer interface level, the extensive refurbishment program for bb's café was widely embraced by franchisees in FY2007. The bb's café brand's outlet level make-over will continue to support the system's conservative and sustainable growth strategy.

A crucial part of the Company's outlet expansion strategy is multi-unit, and increasingly, multi-system ownership. Whereas the former was well supported during the 2007 financial year with approximately 50% of new outlets being awarded to existing franchisees, we anticipate that multi-system ownership will also increase given the addition of the Brumby's system and the impending acquisition of the Michel's system.

Additionally, RFG has continued its drive for excellence in areas such as franchisee cost reduction and capital efficient capacity increases. The Company continuously invests resources on menu enhancement, improved technical support, delivery reliability and lead times, and managing volatility. New products are another focus in our drive for excellence, with significant energies directed towards research and development, product enhancements and extensions, supply arrangements and strategic alliances.

GROWTH STRATEGIES

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

RFG's growth strategy also continues to focus on broadening its revenue base and streamlining supply arrangements for its franchisees.

At the conclusion of FY2007 RFG had completed the commissioning of its Central Manufacturing Facility (CMF) and Coffee Roasting Facility (CRF). Building upon on a successful pilot program, the CMF is currently delivering consistent high quality product to South East Queensland franchisees and is now in the process of launching the programmed rollout to franchisees in North Queensland, and thereafter, Northern New South Wales.

A further initiative which will be driven during the 2008 financial year is the establishment of a 'frozen blank' pilot program. This program will enable expansion of CMF product distribution to interstate and remote franchise operations. Franchisees have welcomed this development which, when fully operational, will enable every Donut King franchisee to acquire CMF product.

After extensive testing of taste profiles and coffee blends, the CRF has also commenced national distribution of roasted coffee beans to RFG's franchisees.

The CRF, which is conducted under a joint venture arrangement, will ultimately blend and roast coffee for the Donut King, bb's café and Brumby's systems together with existing customers of the Company's joint venture partner and prospective third-party bulk roasting clients.

BRUMBY'S BAKERIES

In September 2007 Retail Food Group completed the off market takeover of Brumby's Bakery Holdings Limited, the franchisor and intellectual property rights owner of the Brumby's franchise system, adding 321 outlets and an iconic Australian brand to the Group.

The acquisition of Brumby's constitutes the realisation of one of the pivotal strategic growth initiatives detailed in the Company's May 2006 Prospectus and represents an excellent complementary acquisition that has significant scale, is well developed and is of sufficient maturity to provide immediate and ongoing positive earnings to RFG.

The integration of Brumby's personnel, systems and procedures is well advanced and first quarter results very positive. It is also encouraging to note the unqualified support and endorsement provided to RFG by Brumby's franchisees during the annual Brumby's Conference held in Sydney during late August 2007.

In terms of the 2008 financial year, Brumby's system growth is underpinned by forecast new store growth of 21 Brumby's outlets and increased average weekly sales.

MICHEL'S PATISSERIE

In September 2007, Retail Food Group advised the market of its intention to acquire all the issued shares in The Michel's Patisserie Group Australia Pty Ltd, the franchisor and intellectual property rights owner of the Michel's Patisserie franchise system.

Michel's is also an iconic Australian franchised brand and specialises in the retail sale of cake, coffee and patisserie related products.

The proposed addition of over 340 Michel's franchised outlets will make RFG, with in excess of 1035 outlets (as at the 10 October 2007), one of the largest retail food franchisors in Australia and the largest by a considerable margin with respect to 'home grown' retail food franchise concepts.

As was the case with RFG's takeover of Brumby's, the Michel's acquisition will provide RFG with an additional experienced, robust and skilled management team which considerably embellishes the Company's existing human resource compliment—both in terms of franchisee support divisions and management expertise.

OUTLOOK

The 2007 financial year has been outstanding in many respects including but not limited to new store growth, diversification of revenue base, development of franchisee support systems and Company profitability. Each of these achievements assist not only in improved outcomes for franchisees, staff and business partners, but importantly, increased shareholder value.

In FY2008, the Company's directors, management and staff are committed to the delivery of enhanced outcomes for all stakeholders and remain strongly focused on driving results in all key performance areas in order to realise continued growth, increased earnings per share and greater shareholder value.

Supported by a strong FY2007 result as well as positive first quarter FY2008 growth, Retail Food Group remains confident of achieving its pre Michel's acquisition FY2008 EBIT forecast of approximately $19 million (an increase of 55% on FY2007). When the Michel's acquisition—which the Company remains confident of completing in the first half of the 2008 financial year—is taken into account, the Company is confident of achieving a FY2008 EBIT increase (on the assumption of a full year contribution to earnings) to approximately $32 million.

Furthermore, the Company's existing new outlet opening program is advanced and well placed to realise RFG's forecast FY2008 new outlet growth of 52 outlets. In terms of new store commissionings for the 2008 financial year, the Company has already identified sites, secured leases and recruited franchisees for a large proportion of its full year forecast.

Management continues to invest considerable resources in enhancing its fundamental and underlying business drivers, particularly that of developing and sustaining franchisee 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 all three (and possibly four) systems together with new store growth and the introduction of new and enhanced products.

As detailed above, expansion of the CRF and CMF distribution networks also represents an exciting new growth opportunity for the Company. In that respect, franchisees are already reporting that the CMF has removed the majority of the day-to-day pre-trade operations required at outlet level—encouraging multi-franchise and multi-system ownership.

Through its high-profile brands, strong systems and exceptional franchisee support, Retail Food Group is confident of delivering robust, consistent and sustainable revenue and earnings for the 2008 financial year and beyond.

Anthony James (Tony) Alford
MANAGING DIRECTOR AND CHIEF EXECUTIVE 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 the listing of the Company on ASX to 30 June 2007.

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 Director's 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 (re-elected 29 November 2006 following retirement by rotation)
Colin Archer	Independent Non-Executive Director	12 April 2006 (re-elected 29 November 2006 following retirement by rotation)

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 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 FY2007 is detailed in the Directors' 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 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. Four (4) Committee meetings were held during FY2007 and attended by all Committee members.

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 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.

The Nomination Committee has adopted the following policies for which it will have regard to when making recommendations relative to the appointment of new Directors and senior management:

- the commercial experience of the candidate (preferably within the environment in which the Company conducts its business);
- previous experience in the management and oversight of listed companies;
- empathy for the Company's corporate structure;
- the candidates integrity and freedom from conflict of interest;
- the time available to meet the commitments of the proposed position.

The Committee may also from time to time identify additional skill sets deemed preferable or necessary in order to amongst other things compliment the skill sets and expertise of those existing members of the Board.

Two Committee meetings were held during FY2007 and attended by all Committee members.

Remuneration Committee

The Board has 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 the CEO, CFO and other members 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 has adopted the following policies for which it will have regard to when determining the remuneration of executives and senior management members:

- annual review of executive and senior management member packages by reference to Company performance, executive performance, comparable information from industry sectors and other listed companies;
- the need to attract, retain and motivate 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; and,
- 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.

The Committee's policy for meetings of the Remuneration Committee provides for the Committee to meet twice yearly. During FY2007 two Committee meetings were held and attended by all Committee members.

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

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.

All 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 and are expensed in accordance with required accounting standards.

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 and 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 where the significance of the announcement warrants following internal Director review.

The Board communicates with its shareholders as and when appropriate using both electronic and more traditional means of communication. Where a Company announcement is required to be lodged with ASX this can be viewed by accessing the ASX website at www.asx.com.au. The Company also posts to its own website at www.rfg.com.au announcements lodged with ASX and other information relative to the Company. This information can be accessed via the Investor Relations tab to the Company's website.

Where required all other information is dispatched via the appropriate means including in the case of notices post.

The Company's 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 relative to the annual audit of the Company's business.

The Board has adopted a Corporate Governance Charter, Code for Securities Transactions and Ethics to guide Directors in the performance of their duties. Copies of these documents can be accessed and are available on the Company's web site at www.rfg.com.au.

Directors' Report

The directors of Retail Food Group Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2007. 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:

Name	Particulars
Anthony James Alford	Chief Executive Officer and Managing Director, Bachelor of Business (Accountancy), CPA, aged 47 years. Mr Alford joined the Board on 28/10/2003. 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.
Nigel Norman Nixon	Corporate Counsel and Executive Director, Solicitor of the Supreme Court of Queensland, aged 39 joined the Board on 29/11/2003. 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. Mr Nixon following retirement by rotation was re-elected to the Board at the Company's annual general meeting held on 29 November 2006.
John Thomas Cowley	Independent Chairman, aged 65 joined the Board on 13/10/2005. 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 54 joined the Board on 12/04/2006. 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. Mr Archer following retirement by rotation was re-elected to the Board at the Company's annual general meeting held on 29 November 2006.

The above named directors held office during and since the end of the financial year.

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

The Company Secretary is Anthony Mark Connors. Mr Connors was appointed as Company Secretary on 26/04/2006 having prior to and since that time acted as the Company's Legal Counsel. Mr Connors is a Solicitor of the Supreme Court of Queensland.

Principal activities

The principal activities of the Group during FY2007 were:

- the intellectual property ownership of the Donut King and bb's café franchise systems; and
- development and management of the Donut King and bb's cafe full format retail franchise systems throughout Australia and New Zealand.

Review of Operations

Introduction

Consistent with its stated objectives as detailed in the Company's prospectus dated 9th May 2006, the Company maintained, enhanced and developed both the Donut King and bb's café franchise systems during FY2007.

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

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

Financial

The Group's EBIT for FY2007 was $12.2 million, an increase of $2.4 million or 24.5% on FY2006 EBIT ($9.8 million).

The FY2007 EBIT result was $0.5 million or 4.3% greater than the prospectus FY2007 forecast EBIT of $11.7 million.

The Group's performance in exceeding prospectus forecast was as a result of higher than anticipated franchise and other revenues driven by record new franchised outlet commissionings of both the Donut King and bb's café (37 stores).

FY2007 NPAT in an amount of $7.5 million was $1.6 million (or 27.1%) above FY2006 NPAT ($5.9 million).

FY2007 basic EPS was 10.5 cents and represented a 22.1% increase (or 1.9 cents per share) on FY2006 (8.6 cents).

Revenue Streams

Total revenue from operations totalled $29.7 million in FY2007 and exceeded FY2006 revenue by $2.9 million or 10.8%.

Franchise revenue for FY2007 was $18.3 million, compared with the prospectus forecast of $18.2 million. The result was $2.3 million greater than the FY2006 franchise revenue amount of $16.0 million, representing 14.4% growth.

Franchise revenue growth in FY2007 was driven primarily by new outlet openings and increases in average weekly outlet sales. Franchise network sales on a per outlet basis exceeded FY2006 per outlet revenue by 10.6%.

FY2007 other revenues in an amount of $5.3 million was $3.9 million above prospectus forecast ($1.4 million) and 12.8% (or $1.6 million) greater than the comparable FY2006 amount of $3.7 million.

The additional other revenue over prospectus arises as a consequence of:

- the Group assuming the interim management of certain non-franchised outlets for varying (albeit short) periods of time throughout FY2007; and
- sale of donut products manufactured by the pilot Central Manufacturing Facility to Donut King franchisees.

This increase in other revenue over prospectus forecast and FY2006 had little impact on the Group's FY2007 EBIT performance.

Outlet Commissionings

New outlet commissionings for FY2007 were 37 which exceeded prospectus forecast by 12 outlets and the FY2006 result by 10 outlets.

New Outlet Growth

(1) Donut King

Outlet numbers in the Donut King system increased during FY2007 by 24 (or 9.1%) comprising 30 new outlet commissionings (FY2006: 21) and 6 outlet closures (FY2006: 6).

As at 30 June 2007 there were 289 Donut King outlets operating in the system with Donut King outlet commissionings growth being experienced primarily in New South Wales, Queensland and Victoria. In all other Australian States outlet numbers remained static.

Donut King new outlet openings of 30 exceeded FY2007 prospectus forecast by nine and Donut King outlet closures also exceeded FY2007 prospectus forecast by four, thereby resulting in net outlet growth exceeding prospectus forecast by five outlets.

(2) bb's café

The number of bb's café outlets increased by four during FY2007.

During the year seven bb's café outlets were opened (FY2006: 6) and three bb's café outlets closed (FY2006: 8).

bb's café new outlet commissionings of seven exceeded the prospectus forecast by three outlets.

Of the new outlet growth in FY2007, one bb's café outlet was closed in New Zealand (FY2006: three outlets commissioned in New Zealand).

As at 30 June 2007 there were 71 bb's café outlets (FY2006: 67), 25 of which are located in New Zealand (FY2006: 26 located in New Zealand).

The bb's café outlet rationalisation and repositioning program was finalised during the financial year in Australia and in New Zealand (except with respect to the introduction of the new bb's café menu which is yet to be fully completed).

Outlet Average Weekly Sales

The Company's prospectus forecast continued growth in outlet average weekly sales for FY2007 on FY2006.

Donut King combined 'Full' and 'Express' concept outlet average weekly sales growth was nil on FY2006 (3.3% FY2006 on FY2005).

Donut King outlet average weekly sales growth reflected an overall softening in discretionary retail spending, particularly in Queensland.

Donut King outlet customer transactions grew by 2.1% on FY2006 (from 29.7 to 30.3 million) together with a 5.8% increase in the average dollar transaction spend (4.5% FY2006 on FY2005).

The bb's café FY2006 outlet average weekly sales growth for Australian outlets was 5.7% on FY2006 (6.7% FY2006 on FY2005). The bb's café FY2007 outlet average weekly sales growth for New Zealand outlets was 7.5% on FY2006 (6.5% FY2006 on FY2005).

The bb's café outlet average weekly sales growth was predominantly driven by an increase in the average dollar transaction spend of 7.9% on FY2006 as well as an increase in the number of customer transactions of approximately 17.1% (3.98 million in FY2007 compared to 3.4 million in FY2006).

The Group attributes the continuing increase in the average dollar transaction value in the bb's café system to franchisee capitalisation of the re-positioning of the brand; including, positive franchisee and customer response to store refurbishment program, and the refinement and addition of new menu items.

The Group also continued with its strategic outlet refurbishment program—completing 33 existing outlet refurbishments during FY2007. The program is designed to keep modern and 'fresh' outlet presentation and image and to ensure conformity and recognition.

Network Sales

FY2007 network sales, in respect of outlets under the control of the Group, being reported retail and wholesale sales at franchisee outlets for the Donut King and bb's café system of all Australian and from April New Zealand outlets was in an amount of $158.2 million, an increase of $15.1 million (or 10.6%) on the FY2006 result of $143.1 million.

The FY2007 network sales exceeded the FY2007 prospectus forecast by $1.5 million. The actual percentage increase in FY2007 network sales of 10.6% exceeded the FY2006 percentage growth in network sales (of 10.4%) over FY2005 (FY2006 of $143.1 million as against FY2005 of $129.6 million).

The increase in network sales was driven by:

- new outlet openings (net 28 new outlet growth);
- increases in average weekly sales in the bb's café system;
- increases in average transaction values in both the Donut King and bb's café systems;
- increasing customer counts across the respective systems.

The FY2007 Network Sales result also includes three months of network sales ($2.94 million) from the New Zealand bb's café franchise system.

Changes in state of affairs

There was no significant change in the state of affairs of the Group during the financial year.

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 Group, the results of those operations, or the state of affairs of the Group in future financial years, other than the following:

1. Brumby's Bakeries Holdings Limited (Brumby's)

On 4 May 2007, the Company announced an off market bid for all the issued share capital of Brumby's and on 17 May 2007, issued its bidders statement.

At 30 June 2007, the Company had achieved in ownership of Brumby's shares and acceptances of its offer under the bidders statement 44.82% of all the issued shares in Brumby's.

Retail Food Group achieved in ownership of Brumby's shares and acceptances of its offer in excess of 50% of all the issued shares in Brumby's on 2 July 2007. At close of the offer to Brumby's Shareholders on 18 July 2007 the Company held a relevant interest in 12,870,863 Brumby's shares (or 99.87% of the shares in Brumby's).

On 23 July 2007 the Company announced and made application to compulsorily acquire the balance of 16,983 Brumby's shares (or 0.13% of the shares in Brumby's) in respect to which acceptances were not received.

On 7 August 2007 Brumby's shareholders and Brumby's option holders who accepted the offer for their shares and/or options were remitted the agreed consideration ($35.182 million in respect to Brumby's shareholders and $2.024 million in respect to Brumby's option holders).

The compulsory acquisition in respect of acceptances not received pursuant to the offer was completed on 3 September 2007 at which time Brumby's became a wholly owned subsidiary of the Company.

The total acquisition cost has been approximately $45.8 million, of which $43.04 million has been funded from debt.

On 29 August 2007 and following the release of its preliminary final report and the closure of its offer under the Company's bid for Brumby's, the Company provided FY2008 guidance on detailing a forecast increase in EBIT of 55% to $19 million and an increase in NPAT to $9.8 million (an increase of 30%).

2. The Michel's Group Australia Pty Ltd (TMGA)

On 7 August 2007, the Company announced that it had entered into a Scrip and Cash Terms Agreement ('SCTA') with the shareholders of TMGA, the franchisor of the Michel's Patisserie franchise system (Michel's) to acquire all the issued shares in TMGA.

The Michel's franchise system is a well known Australian food retailer which specialises in the sale of cake, coffee and patisserie related products.

As at 7 August 2007, Michel's had a total of 340 franchised outlets in Australia, and a further 6 franchised outlets in New Zealand.

On completion of the transaction expected mid December 2007, the total number of franchised outlets under the stewardship of the Company will exceed 1,020 outlets, making the Company one of the largest retail food franchisors in Australia and the largest by a considerable margin with respect to 'home grown' retail food franchises.

The consideration payable to TMGA shareholders is $50 million cash and a scrip component being subject to an incentivated earn-out program based on TMGA FY2008 adjusted EBIT performance. TMGA shareholders will be entitled to be issued with the Company's scrip on a pro rata basis where TMGA's adjusted FY2008 EBIT is between $13.25 million and $18 million.

TMGA also has debt of approximately $56 million which will either remain with TMGA on completion of the SCTA or be refinanced by the Company.

Assuming full entitlement to the earn-out, the maximum value of the consideration payable is $88 million with any scrip entitlement being issued on the earlier of the finalisation of the FY2008 audited accounts or 30 October 2008.

The acquisition is subject to a number of conditions including shareholder approval, the ASX not objecting to the terms of performance shares which will be issued in connection with the scrip component of the consideration and satisfactory completion of due diligence enquiries.

The agreement is also conditional on the Company obtaining financing on satisfactory terms.

John Livy, the managing director of TMGA will remain with Michel's. Mr Livy has extensive experience in multi outlet retail environments including TAB (10 years) and Regional Director of Franchising—Pepsi Co Restaurants Group (11 years).

Occupying the position of Managing Director of TMGA since early 2004, Mr Livy has developed and refined the franchisee service delivery systems for Michel's as well as recruiting an extremely robust and skilled management team—all of which have agreed to go forward under the Company's stewardship. In addition, Mr Livy has committed to a long term involvement with the Company's senior management team, both with respect to Michel's and the Group's other systems.

The Company anticipates that Bruce Hancox will join the Board of RFG. Bruce Hancox has been a strategic advisor to the TMGA Board since October 2006 and has been instrumental in corporatising TMGA and developing its non-operational service systems. Mr Hancox has over 35 years experience in corporate positions, manufacturing and retailing including 19 years with Brierley Investments (occupying the positions of director and chairman).

The Company is confident that the TMGA acquisition will be earnings per share (EPS) accretive in FY2008, the quantum of such increase will depend upon the funding structure adopted and the scrip issue as a consequence of the earn-out.

3. Final Dividend

On 28 August 2007, the Board of Directors declared a final dividend for the financial year ended 30 June 2007, as set out in the Dividends section of this report.

4. Issue of Executive Share Options

On 9 May 2006, the Company approved the establishment of the Retail Food Group Limited Executive Share and Option Plan ('ESOP') to assist in the recruitment, reward and retention of its Directors and executives. Subject to any adjustment in the event of a bonus issue, rights issue or reconstruction of capital, each option is convertible into one ordinary share.

In accordance with the ESOP, 605,532 share options were granted to directors, executives or employees on 1 August 2007, with an exercise price of $1.15 and an expiry date of 1 August 2010.

5. New Debt Financing Arrangement

On 7 August 2007, Retail Food Group entered a new debt financing arrangement with Australia and New Zealand Banking Group ('ANZ') to complete the acquisition of 100% of the share capital of Brumby's Bakeries Holdings Limited ('Brumby's'). The $60.7 million arrangement—a combination of a five year partly amortising senior term loan and 12 month mezzanine facilities—is in addition to the CMF Bridge and Asset Finance facilities.

The terms of the funding arrangement contain several conditions, including:

(i) quarterly repayments of the senior term loan facility and monthly interest repayments at the BBSY Bank Bill Swap Rate—Average Bid ('BBSY') rate plus the financier's margin;

(ii) repayment of mezzanine facility within twelve months;

(iii) establishment of a dividend reserve sufficient to meet the cash portion of Retail Food Group Limited's final dividend for the year ended 30 June 2007;

(iv) completion of a sale & leaseback unconditional contract for the Central Manufacturing Facility, with commercial lease arrangements satisfactory to the financier; and,

(v) interlocking cross guarantees, indemnities and charges over assets of Retail Food Group Limited including mortgage over Brumby's Bakeries Holdings Limited shares.

Future developments

1. New Outlet Growth

With the addition of the Brumby's franchise system, the total outlets for Company (excluding Michel's Patisserie outlets) as at 30 June 2008 is forecast to be 716, a net increase of 356 outlets (or 99%) on the 360 outlets in existence as at 30 June 2007.

The Company remains confident of achieving its FY2008 outlet growth forecast for the Donut King, bb's café and Brumby's systems of in excess of 50 stores.

Outlet growth is anticipated to occur across all states in FY2008 with the pre-dominance of Donut King new outlet commissionings occurring in Victoria.

Consistent with the Company's FY2007 performance, the Donut King new outlet growth is anticipated to be organic. The Company has forecast 26 new outlet commissionings and 6 closures for FY2008.

The new outlet commissionings for bb's café for FY2008 is forecast to be 5 offset by 4 forecast closures. The total number of bb's café outlets forecast to be trading as at 30 June 2008 is therefore forecast to increase to 72.

Total Brumby's outlets as at the 30 June 2008 is forecast to be 335, a net increase of 14 outlets (or 4.4%) on the 321 outlets in existence as at the 30 June 2007. Brumby's growth is expected to come from 21 openings and 7 outlet closures during FY2008.

2. Outlet Average Weekly Sales

The Company has forecast growth in outlet average weekly sales in FY2008.

With respect to the Donut King 'Full Concept' and 'Express' outlets, average weekly sales growth per outlet is forecast to increase by 4.0% over FY2008 (FY2007: nil).

bb's café average weekly sales growth is forecast to increase by 5.0% over FY2008 (FY2007: 5.7%), while Brumby's average weekly sales growth is forecast to be in excess of 7.0% in FY2008 (FY2007: 8.0%).

3. Acquisitions

As detailed in the prospectus, and notwithstanding the Brumby's acquisition and the announced Michel's acquisition the Company proposes to continue 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.

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.

4. Coffee Roasting Facility (CRF)

The Company has proceeded with its CRF initiative in a joint venture with Koffee-Tek Pty Ltd, a leading and well credentialed Australian domiciled coffee blender and roaster. The CRF (which involves the establishment of a Coffee Roasting Facility (CRF), at RFG's CMF premises in Yatala on Queensland's Gold Coast) initiative is a joint venture with Koffee-Tek Pty Ltd.

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

The CRF is now operational and following the completion of successful product trials, the CRF is currently rolling out the Group's proprietary coffee blend to Donut King franchisees and thereafter will immediately commission the provision of coffee supply to the Group's other systems—which now also includes Brumby's.

The CRF will also blend and roast coffee for existing customers of Koffee-Tek Pty Ltd.

5. Central Manufacturing Facility (CMF)

During FY2007 the Company's Central Manufacturing Facility (CMF)—a dedicated facility established to manufacture and supply donut and bakery products on a wholesale basis to its franchisees—was commissioned.

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

As a consequence of the commissioning of the CMF the Company:

1. has terminated its CMF pilot program with the third party manufacturer which at the time was manufacturing donut product for some 39 Donut King stores;
2. has commenced supplying fresh dressed donut products to in excess of some 50 outlets inclusive of the 39 outlets formerly participating in the pilot program;
3. commenced a pilot program for the supply of frozen donut product to certain Donut King outlets; and
4. is presently supplying frozen blank donut products to one outlet under the pilot program.

The donut product is being supplied by the CMF on a daily basis to Donut King outlets situated in South East Queensland. The Company is continuing to increase CMF participation and is currently expanding the product supply rollout to include Donut King outlets situated outside of the South East Queensland region.

6. CMF and CRF—Impact on EBIT

The Company has forecast the CMF to have a positive financial impact over the financial year. This impact has been taken into consideration in providing the Company's FY2008 guidance. The Company remains unable to determine the quantifiable effect of the CRF initiative which is (as yet) unknown and no allowance has been included in the Company's FY2008 forecast revenues with respect to the CRF.

7. Disposition of Premises

During the financial year the Company completed the purchase of premises (land and buildings) at Yatala in the Gold Coast Brisbane Corridor to enable it to establish a commercial Central Manufacturing Facility (CMF) and Coffee Roasting Facility (CRF).

The purchase price of $2.6 million and a refurbishment now completed costing $1.6 million was fully funded by debt.

The Company is negotiating the finalization of a Contract of Sale of the premises and a lease back arrangement.

The Company anticipates that the sale and the lease back of the property will realise the Company approximately $4.2 million and occur during 1HFY2007.

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 requires, the Company is committed to compliance with all prescribed environmental laws and regulations.

Dividends

On 28 August 2007, the Board of Directors declared a final dividend for the financial year ended 30 June 2007.

Since the commencement of FY2007 the following dividends have been paid or proposed by the Company:

(i) In respect of profits of prior years and H1FY2007, an interim dividend of 3.125 cents per share (based on 71,691,259 shares on issue) franked to 100% at 30% corporate income tax rate was paid on 12 April 2007. The interim dividend represented fifty percent (50%) of the proposed full year dividend forecast for FY2007 in the Company's prospectus. The interim dividend was approved by the Directors following the conclusion of the H1FY2007 and it was resolved that the interim dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

(ii) In respect of profits of the financial year ended 30 June 2007, a final dividend of 3.125 cents per share (based on 72,666,584 shares on issue) franked to 100% at 30% corporate income tax rate to be paid on 12 October 2007. The final dividend was approved by the Directors following the conclusion of FY2007 and therefore was not provided for in the Company's final report. It was resolved that the final dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

Share options

Share options granted to directors and executives

During and since the end of the financial year an aggregate 1,696,200 share options were granted to the following directors and executives of the company and the Group as part of their remuneration:

Directors and executives	Number of options granted as at date of Directors' Report	Issuing entity	Number of ordinary shares under option as at date of Directors' Report
Tony Alford	250,000	Retail Food Group Limited	250,000
Gary Alford	230,000	Retail Food Group Limited	230,000
Gary Best	220,000	Retail Food Group Limited	220,000
Nigel Nixon	201,000	Retail Food Group Limited	201,000
Gavin Nixon	181,000	Retail Food Group Limited	181,000
John Cowley	161,000	Retail Food Group Limited	161,000
Robert Sutherland	174,000	Retail Food Group Limited	174,000
Colin Archer	121,100	Retail Food Group Limited	121,100
Mark Connors	158,000	Retail Food Group Limited	158,000

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Retail Food Group Limited	1,903,331	Ordinary	$1.00	1 August 2009
Retail Food Group Limited	605,532	Ordinary	$1.15	1 August 2010

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 has 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 (in it) 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 2007 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 2007 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, four Audit and Risk Members Committee meetings, two Remuneration Committee meetings and two Nomination Committee meetings.

	Board of Directors		Nomination and Remuneration Committee		Audit Committee	
Directors	Held	Attended	Held	Attended	Held	Attended
Tony Alford	14	14	–	–	4	4
Nigel Nixon	14	12	2	2	–	–
John Cowley	14	14	2	2	4	4
Colin Archer	14	14	2	2	4	4

Directors' Shareholdings

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 Report.

Directors	Fully Paid Ordinary Shares No.	Executive Share Options No.
Tony Alford	22,383,156	250,000
Nigel Nixon	5,293,229	201,000
John Cowley	51,175	161,100
Colin Archer	195,705	121,100

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 senior management 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 retaining the most appropriate and suitable executives and Directors to operate and manage the economic entity, as well as create goal congruence between Directors, senior management 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 Black-Scholes option pricing 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 aims to review 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 salary and fee structures of the Directors and Senior Management were set shortly before the initial public offer of the Company in May 2006 having regard to the comparable salary and fee rates in the industry sector in which the Company operates.

Other than with respect to the appointment of Damien Peters as CFO on 29 May 2007 the Remuneration Committee did not review executive remuneration packages during the course of the financial year. As such no recommendation was made by the Committee to alter the remuneration structure of any Director or member of senior management.

The Remuneration Committee intends to review bi-annually and to measure Director and senior management performance by reference to the Company's performance, executive performance and comparable information from industry sectors.

The performance of Directors and executives will be measured against agreed criteria and will be based predominantly on the forecast growth of the economic entity's profits and shareholders' value. It is proposed that 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 high caliber executives and reward them for performance that results in both short and 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 during FY2007 have been disclosed under the heading 'Share Options'.

Director and executive details

The following persons acted as Directors of the Company during or since the end of the financial year:

- Tony Alford
- Nigel Nixon
- Colin Archer
- John Cowley.

The five highest remunerated senior management members of the Company during FY2007 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:

- Short-term benefits—fixed salary/fees and in some instances fixed annual increases of 5%, and other benefits including mobile telephone subsidy;
- Post-employment benefits—superannuation;
- Provision for long service leave and annual leave; and
- Equity—share options granted under the Executive Share Option Plan.

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 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.

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.

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.

Mark Connors
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.

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.

2007	Short-term employment benefits			Post-employment benefits			Equity	Total	
	Salary and fees	Bonus	Other	Super-annuation	Prescribed benefits	Other	Options		Consist-ing of options
	$	$	$	$	$	$	$	$	%
Tony Alford (i) Managing Director and Chief Executive Officer	196,200	–	170,000	–	–	–	18,817	385,017	4.9%
Nigel Nixon Executive Director and Corporate Counsel	185,000	–	1,410	–	–	–	14,426	200,836	7.2%
John Cowley Non-Executive Director (Chairman)	60,000	–	–	5,400	–	–	12,545	77,945	16.1%
Colin Archer Non-Executive Director	50,000	–	–	4,500	–	–	8,960	63,460	14.1%

(i) The 'Other benefits' received by Tony Alford relate to the Retail Food Group sponsorship of RFG system-branded race vehicles.

The following table discloses the remuneration received by the five highest remunerated executives of the Group during FY2007:

2007	Short-term employment benefits			Post-employment benefits			Equity	Total	
	Salary and fees	Bonus	Other	Super-annuation	Prescribed benefits	Other	Options		Consist-ing of options
	$	$	$	$	$	$	$	$	%
Gary Best Chief Operating Officer	158,027	–	–	11,846	–	–	16,129	186,002	8.7%
Robert Sutherland Regional Leasing and Property Manager	166,200	–	4,200	14,958	–	–	12,007	197,365	6.1%
Gavin Nixon National Property Manager	154,200	–	4,200	13,878	–	–	12,634	184,912	6.8%
Mark Connors Company Secretary and Legal Counsel	120,00	–	–	10,187	–	–	10,573	140,760	7.5%
Gary Alford National Operations Manager Franchise Systems	117,614	–	2,760	10,585	–	–	17,025	147,984	11.5%

Value of options issued to directors and executives

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the identified Directors and executives:

	Value of options granted at the grant date (i)	Value of options exercised at the exercise date	Value of options lapsed at the date of lapse	Total
	$	$	$	$
Tony Alford	18,817	–	–	18,817
Nigel Nixon	14,426	–	–	14,426
John Cowley	12,545	–	–	12,545
Colin Archer	8,960	–	–	8,960
Gary Best	16,129	–	–	16,129
Robert Sutherland	12,007	–	–	12,007
Gavin Nixon	12,634	–	–	12,634
Mark Connors	10,573	–	–	10,573
Gary Alford	17,025	–	–	17,025

(i) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

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

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 36 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 36 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

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

Auditor's independence declaration

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

Rounding off of amounts

The Company is a company of the kind referred to in ASIC 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
Southport, 27th September 2007

Deloitte.

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

27 September 2007

Dear Board Members

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 2007, 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

M. Sheerin

Matthew Sheerin
Partner
Chartered Accountants

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

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Independent Auditor's Report to the Members of Retail Food Group Limited

We have audited the accompanying financial report of Retail Food Group Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 24 to 73.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard *AASB 101 Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

(a) the financial report of Retail Food Group Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 3.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Sheerin

M. G. Sheerin
Partner
Chartered Accountants
Brisbane, 27 September 2007

Directors' Declaration

The Directors' declare that:

(i) 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;

(ii) 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 company and the Group; and

(iii) 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, 27th September 2007

Income statement for the financial year ended 30 June 2007

		Consolidated		Company	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Continuing operations					
Revenue	6	5,250	3,825	–	–
Cost of sales		(4,356)	(3,048)	–	–
Gross profit		894	777	–	–
Other income		24,469	22,138	7,198	12,681
Selling expenses		(1,697)	(1,587)	–	–
Marketing expenses		(4,573)	(4,061)	–	–
Occupancy expenses		(998)	(858)	–	–
Administration expenses		(2,888)	(2,613)	–	–
Operating expenses		(1,954)	(1,785)	–	–
Finance costs		(1,442)	(1,344)	(1,428)	(1,682)
Other expenses		(1,057)	(1,511)	–	(1)
Debt forgiveness		–	–	–	(883)
Profit before tax	8	10,754	9,156	5,770	10,115
Income tax expense	9	3,234	2,712	457	226
Profit for the year from continuing operations		7,520	6,444	5,313	9,889
Discontinued operations					
Loss from discontinued operations	8,30	–	(508)	–	–
Profit for the year		7,520	5,936	5,313	9,889
Attributable to:					
Equity holders of the parent		7,520	5,936	5,313	9,889
Earnings per share					
From continuing and discontinued operations:					
Basic (cents per share)	23	10.5	8.6		
Diluted (cents per share)	23	10.4	8.6		
From continuing operations:					
Basic (cents per share)	23	10.5	9.3		
Diluted (cents per share)	23	10.4	9.3		

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

Balance sheet as at 30 June 2007

		Consolidated		Company	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current assets					
Cash and cash equivalents		1,548	1,631	159	129
Trade and other receivables	10	5,791	4,194	19	–
Other financial assets	12	39	1,085	7,746	4,834
Inventories	11	329	411	–	–
Other	15	185	59	–	–
Total current assets		7,892	7,380	7,924	4,963
Non-current assets					
Trade and other receivables	12	–	–	2,696	2,355
Other financial assets	12	20,072	–	61,405	41,934
Property, plant and equipment	13	7,416	423	–	–
Deferred tax assets	9	167	362	453	609
Other intangible assets	14	42,029	42,052	–	–
Total non-current assets		69,684	42,837	64,554	44,898
Total assets		77,576	50,217	72,478	49,861
Current liabilities					
Trade and other payables	16	1,557	1,525	176	358
Borrowings	17	2,237	1,900	1,900	1,900
Current tax liabilities	9	575	629	575	629
Provisions	18	407	260	–	–
Other	19	11,556	233	10,888	–
Total current liabilities		16,332	4,547	13,539	2,887
Non-current liabilities					
Borrowings	17	24,372	15,675	23,088	15,675
Provisions	18	118	–	–	–
Total non-current liabilities		24,490	15,675	23,088	15,675
Total liabilities		40,822	20,222	36,627	18,562
Net assets		36,754	29,995	35,851	31,299
Equity					
Issued capital	20	32,301	31,014	32,301	31,014
Reserves	21	192	–	192	–
Retained earnings / (accumulated losses)	22	4,261	(1,019)	3,358	285
Total equity		36,754	29,995	35,851	31,299

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

Statement of changes in equity for the financial year ended 30 June 2007

	Consolidated			
	Fully paid ordinary shares $'000	Equity settled employee benefits reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2005	30,238	–	4,441	34,679
Profit for the period	–	–	5,936	5,936
Total recognised income and expense	–	–	5,936	5,936
Issue of ordinary shares	2,335	–	–	2,335
Share issue costs	(2,227)	–	–	(2,227)
Related income tax	668	–	–	668
Payment of dividends	–	–	(11,396)	(11,396)
Balance at 30 June 2006	31,014	–	(1,019)	29,995
Balance at 1 July 2006	31,014	–	(1,019)	29,995
Profit for the period	–	–	7,520	7,520
Total recognised income and expense	–	–	7,520	7,520
Issue of ordinary shares	1,297	–	–	1,297
Recognition of share-based payments	–	192	–	192
Share issue costs	(15)	–	–	(15)
Related income tax	5	–	–	5
Payment of dividends	–	–	(2,240)	(2,240)
Balance at 30 June 2007	32,301	192	4,261	36,754
Company				
Balance at 1 July 2005	30,238	–	1,792	32,030
Profit for the period	–	–	9,889	9,889
Total recognised income and expense	–	–	9,889	9,889
Issue of ordinary shares	2,335	–	–	2,335
Share issue costs	(2,227)	–	–	(2,227)
Related income tax	668	–	–	668
Payment of dividends	–	–	(11,396)	(11,396)
Balance at 30 June 2006	31,014	–	285	31,299
Balance at 1 July 2006	31,014	–	285	31,299
Profit for the period	–	–	5,313	5,313
Total recognised income and expense	–	–	5,313	5,313
Issue of ordinary shares	1,297	–	–	1,297
Recognition of share-based payments	–	192	–	192
Share issue costs	(15)	–	–	(15)
Related income tax	5	–	–	5
Payment of dividends	–	–	(2,240)	(2,240)
Balance at 30 June 2007	32,301	192	3,358	35,851

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

Cash flow statement
for the financial year ended 30 June 2007

		Consolidated		Company	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash flows from operating activities					
Receipts from customers		30,635	27,726	360	–
Payments to suppliers and employees		(19,769)	(18,441)	(3)	(1)
Interest and other costs of finance paid		(1,442)	(1,214)	(1,428)	(1,614)
Income tax paid		(3,054)	(2,744)	(3,046)	(1,382)
Net cash provided by operating activities	31(f)	6,370	5,327	(4,117)	(2,997)
Cash flows from investing activities					
Payment for investment securities		(8,583)	(3)	(8,583)	–
Proceeds on sale of investment securities		–	30	–	–
Interest received		198	93	30	3
Amounts advanced to related parties		(477)	(1,070)	6,465	7,341
Proceeds from repayment of related party loans		1,252	841	–	
Payment for property, plant and equipment	31(b)	(5,114)	(135)	–	–
Proceeds from sale of property, plant and equipment	31(c)	36	29	–	–
Net cash used in investing activities		(12,688)	(215)	(2.088)	7,344
Cash flows from financing activities					
Proceeds from issues of equity securities		–	2,335	–	2,335
Payment for share issue costs		(235)	(2,007)	(235)	(2,007)
Proceeds from borrowings		9,413	9,287	9,413	9,287
Payment for debt issue costs		(100)	–	(100)	–
Repayment of borrowings		(1,900)	(2,752)	(1,900)	(2,438)
Dividends paid		(943)	(11,396)	(943)	(11,396)
Net cash provided by / (used in) financing activities		6,235	(4,533)	6,235	(4,219)
Net (decrease) / increase in cash and cash equivalents		(83)	579	30	128
Cash and cash equivalents at the beginning of the financial year		1,631	1,052	129	1
Cash and cash equivalents at the end of the financial year	31(a)	1,548	1,631	159	129

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

Notes to the financial statements for the financial year ended 30 June 2007

Contents

1. General information

Retail Food Group Limited (the company) is a listed public company, incorporated in Australia and operating in Australia and New Zealand.

Retail Food Group Limited's registered office and its principal place of business are as follows:

Registered office	Principal place of business
26 Railway Street	26 Railway Street
Southport QLD 4215	Southport QLD 4215

2. Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in no significant changes to the Group's accounting policies.

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group's and the company's financial report:

AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting Standards resulting from the issue	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 101 'Presentation of Financial Statements' (revised Standard)	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 2007–7 'Amendments to Australian Accounting Standards'	Effective for annual reporting periods beginning on or after 1 July 2007
AASB 8 'Operating Segments' and consequential amendments to other accounting Standards resulting from the issue.	Effective for annual reporting periods beginning on or after 1 January 2009
AASB Interpretation 10 'Interim Financial Reporting and Impairment'	Effective for annual reporting periods beginning on or after 1 November 2006
AASB Interpretation 11 'AASB 2—Group and Treasury Share Transactions'	Effective for annual reporting periods beginning on or after 1 March 2007
AASB 2007–1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	Effective for annual reporting periods beginning on or after 1 March 2007
AASB Interpretation 12 'Service Concession Arrangements'	Effective for annual reporting periods beginning on or after 1 January 2008
AASB 2007–2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	Effective for annual reporting periods beginning on or after 1 January 2008
AASB 2007–4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'	Effective for annual reporting periods beginning on or after 1 July 2007
AASB Interpretation 13 'Customer Loyalty Programmes'	Effective for annual reporting periods beginning on or after 1 July 2008
AASB Interpretation 14 'AASB 119—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	Effective for annual reporting periods beginning on or after 1 January 2008
AASB 123 'Borrowing Costs'—revised standard	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	Effective for annual reporting periods beginning on or after 1 January 2009

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company or the Group. These Standards and Interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the Company's annual reporting period beginning on 1 July 2007.

3. Significant 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 Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Group 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 Group.'

The financial statements were authorised for issue by the directors on 27 September 2007.

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. All amounts are presented in Australian dollars, unless otherwise noted.

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 financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(c) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

(d) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Derivative financial instruments

The Group has entered into an interest rate swap to manage its exposure to interest rate risk. The Group has not entered into any other derivative financial instruments.

Derivatives are initially recognised at fair value at 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.

(f) Employee benefits

A liability is recognised 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.

Liabilities recognised 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.

Liabilities recognised 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 Group in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(g) Financial assets

Investments are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

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 that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost less impairment.

Investments in Listed Companies

Investments in listed companies are measured at fair value.

(h) 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.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 3.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 32.

Other financial liabilities

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

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

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

(i) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Retail Food Group Limited, and the presentation currency for the consolidated financial statements.

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

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

exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings (refer note 3(b)); and

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, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

(j) Impairment of other tangible and intangible assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

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.

(k) 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 balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

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. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group 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 Group 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/Group 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 by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and 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 9 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.

(l) 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 when they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Brand Names and Intellectual Property

Intangible assets include 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.

(m) 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 necessary to make the sale.

(n) Joint venture arrangements

Jointly controlled entities

Interests in jointly controlled entities in which the Group is a venturer (and so has joint control) are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

(o) Leased assets

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

Group as lessee

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

Group 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 Group's general policy on borrowing costs. Refer to note 3(b).

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.

(p) Property, plant and equipment

Land is measured at cost.

Plant and equipment, leasehold improvements, equipment under finance lease, and buildings 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, including freehold buildings but excluding land. 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 are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

(q) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at 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 reimbursement will be received and the amount of the receivable can be measured reliably.

(r) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Revenue from the sale of goods is recognised when the Group 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 with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a Black-Scholes 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 Group's estimate of shares that will eventually vest.

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

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.

(t) Goods and services tax

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

(ii) 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

(iii) 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.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, 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.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Capitalisation of CMF-related interest and borrowing costs

It is the Group's policy to capitalise interest and borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. The quantum of costs relating to the commissioning of the purpose-built Central Manufacturing Facility ('CMF') at Yatala amounted to $237,000. Capitalisation of interest and borrowing costs ceased in July 2007 upon commencement of commercial production.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment of intangibles

During the year, management reconsidered the recoverability of its internally-generated intangible asset arising from the Group's two cash-generating units (CGUs), namely:

- Donut King
- bb's café.

The models by which the Group's management monitor impairment and determine the recoverable amount of a CGU include:

- comparison of total store numbers year to date compared with same time in the prior year;
- comparison of network sales year to date compared with same time in the prior year;
- comparison of average weekly sales year to date compared with same time in the prior year;
- the total of franchise revenue year to date compared with same time in the prior year;
- the total of all revenue year to date compared with same time in the prior year;
- the total of the Group's EBIT compared to the same time in the prior year; and,
- the forecast for the next financial year.

Detailed analysis of the above indicators has been carried out and, based on a comparison of FY2007 results to FY2006 results, management is confident that the carrying amount of the intangible asset is not overstated.

5. Segment Information

The Group operates solely in the industry of administration, management, operation and franchise of full retail franchise systems.

6. Revenue

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

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Continuing operations				
Revenue from the sale of goods	5,250	3,825	–	–
Revenue from the rendering of services	22,954	21,159	–	–
Rental revenue:				
Operating lease rental revenue:	84	80	–	–
Interest revenue:				
Bank deposits	197	81	150	3
Other loans and receivables	1	12	240	–
	198	93	390	3
Management fee—subsidiaries	–	–	2,355	2,434
Dividends:				
Subsidiaries	–	–	4,250	10,244
Other (aggregate of immaterial items)	1,233	806	203	–
	29,719	25,963	7,198	12,678
Discontinued operations				
Revenue from the sale of goods	–	863	–	–
Other Income	–	2	–	–
	–	865	–	–
	29,719	26,828	7,198	12,681

7. Finance costs

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Interest on bank overdrafts and loans	1,627	1,241	1,627	1,241
Interest on obligations under finance leases	52	–	–	–
Less: amounts included in the cost of qualifying assets	(237)	–	(199)	–
Total interest expense	1,442	1,241	1,428	1,241
Other finance costs	–	103	–	103
	1,442	1,344	1,428	1,344
Attributable to:				
Continuing operations	1,442	1,344	1,428	1,344
Discontinued operations	–	–	–	–
	1,442	1,344	1,428	1,344

The weighted average capitalisation rate on funds borrowed generally is 8.20%p.a. (2006:8.18%p.a.).

8. Profit for the year

(a) Gains and losses

Profit for the year has been arrived at after crediting/(charging) the following gains and losses:

	Consolidated						Company					
	Continuing		Discontinued		Total		Continuing		Discontinued		Total	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Gain/(loss) on disposal of property, plant and equipment	2	(2)	–	7	2	5	–	–	–	–	–	–
(b) Other Expenses												
Profit (for the year includes the following expenses:												
Cost of sales	(4,356)	(3,048)	–	(597)	(4,356)	(3,645)	–	–	–	–	–	–
Impairment of trade receivables	(109)	(276)	–	–	(109)	(276)	–	–	–	–	–	–
Debt forgiveness—wholly owned entities	–	–	–	–	–	–	–	(883)	–	–	–	(883)
Depreciation of non-current assets	(167)	(111)	–	(3)	(167)	(114)	–	–	–	–	–	–
Amortisation of non-current assets	(21)	(2)	–	–	(21)	(2)	–	–	–	–	–	–
	(188)	(113)	–	(3)	(188)	(116)	–	–	–	–	–	–
Operating lease rental expenses:												
– Minimum lease payments	(934)	(1,040)	–	–	(934)	(1,040)	–	–	–	–	–	–
Employee benefits expense:												
– Post employment benefits (defined contribution plans)	(343)	(309)	–	(20)	(343)	(329)	–	–	–	–	–	–
– Share-based payments (equity-settled share-based payments)	(192)	–	–	–	(192)	–	–	–	–	–	–	–
– Other employee benefits	(5,098)	(4,861)	–	(300)	(5,098)	(5,161)	–	–	–	–	–	–
	(5,633)	(5,170)	–	(320)	(5,633)	(5,490)	–	–	–	–	–	–

9. Income taxes

Income tax recognised in profit or loss

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Tax expense/(income) comprises:				
Current tax expense/(income)	3,033	2454	296	99
Adjustments recognised in the current year in relation to the current tax of prior years	–	(18)	–	–
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	201	59	161	127
Total tax expense/(income)	3,234	2,495	457	226
Attributable to:				
Continuing operations	3,234	2,712	457	226
Discontinued operations (note 30)	–	(217)	–	–
	3,234	2,495	457	226
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	10,754	9,156	5,770	10,115
Profit from discontinued operations	–	725	–	–
Profit from operations	10,754	8,431	5,770	10,115
Income tax expense calculated at 30%	3,226	2,529	1,731	3,034
Effect of expenses that are not deductible in determining taxable profit	71	82	1	272
Effect of non assessable gain on consolidation of New Zealand operations	(28)	–	–	–
Other	(35)	(116)	–	(7)
Effect of rebatable dividends	–	–	(1,275)	(3,073)
	3,234	2,495	457	226
Overprovision of income tax in previous year	–	(18)	–	–
	3,234	2,477	457	226

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.

9. Income taxes (continued)

Income tax recognised directly in equity

The following current and deferred amounts were charged/(credited) directly to equity during the period:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current tax				
Share-issue expenses	(135)	(134)	(135)	(134)
Deferred tax				
Benefit of tax losses (New Zealand operations)	33	–	–	–
Tax refund receivable (New Zealand operations)	67	–	–	–
Temporary differences	646	738	453	609
	746	738	453	609
	611	604	318	475
Deferred tax liabilities comprise:				
Temporary differences	513	376	1	–
Current tax liabilities				
Income tax payable attributable to:				
Parent entity	(2,121)	(1,726)	(2,121)	(1,726)
Entities in the tax-consolidated group	2,696	2,355	2,696	2,355
	575	629	575	629

9. Income taxes (continued)

Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

	Consolidated			
2007	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Temporary differences				
Property, plant and equipment—CMF Facility	–	(137)	–	(137)
Intangible assets	(376)	–	–	(376)
Employee benefits	78	79	–	157
Provisions	17	19	–	36
Doubtful debts	34	(34)	–	–
Prepaid borrowing costs	75	(26)	–	50
Listing costs	534	(135)	5	404
	362	(234)	5	134
Unused tax losses and credits:				
Benefit of tax losses acquired (NZ operations)	–	33	–	33
	–	33	–	33
	362	(201)	5	167
Presented in the balance sheet as follows:				
Deferred tax asset attributable to:				
Continuing operations				167
Discontinued operations				–
				167
2006				
Temporary differences				
Intangible assets	(376)	–	–	(376)
Employee benefits	48	30	–	78
Provisions	13	4	–	17
Doubtful debts	–	34	–	34
Prepaid borrowing costs	68	7	–	75
Listing costs	–	(134)	668	534
	(247)	(59)	668	362
Presented in the balance sheet as follows:				
Deferred tax asset				362

9. Income taxes (continued)

	Company			
2007	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Temporary differences				
Brumby's Bakeries Holdings Pty Ltd share acquisition costs	–	(1)	–	(1)
Prepaid borrowing costs	75	(25)	–	50
Listing costs	534	(135)	5	404
	609	(161)	5	453
Presented in the balance sheet as follows:				
Deferred tax asset				453
2006				
Temporary differences				
Prepaid borrowing costs	68	7	–	75
Listing costs	–	(134)	668	534
	68	(127)	668	609
Presented in the balance sheet as follows:				
Deferred tax asset				609

Unrecognised deferred tax assets

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
The following deferred tax assets have not been brought to account as assets:				
Tax losses—capital	248	247	248	247

Tax consolidation

Relevance of tax consolidation to the Group

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.

10. Trade and other receivables

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Trade receivables *(i)*	4,796	3,945	–	–
Allowance for doubtful debts	–	(114)	–	–
	4,796	3,831	–	–
Goods and services tax recoverable	–	–	19	–
Accrued income	970	328	–	–
Other (non interest bearing)	25	35	–	–
	995	363	19	–
	5,791	4,194	19	–

(i) The average credit period on sales of goods is 7 days. No interest is charged. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods, determined by reference to past default experience. During the current financial year, the allowance for doubtful debts decreased by $114 thousand (2006: increased by $114 thousand) in the Group. This movement was recognised in profit for the year.

11. Inventories

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Raw materials	73	18	–	–
Equipment held for resale	16	58	–	–
Stores held for resale	240	335	–	–
	329	411	–	–

12. Other financial assets

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments carried at cost:				
Non-current				
Investments in listed entities *(i)*	19,471	–	19,471	–
Investments in subsidiaries	–	–	41,934	41,934
	19,471	–	61,405	41,934
Loans carried at amortised cost:				
Current				
Loans to subsidiaries *(ii)*	–	–	7,746	3,767
Loans to other related parties *(iii)*	21	1,067	–	1,067
Loans to other entities	18	18	–	–
Non-current				
Loans to other entities	601	–	2,696	2,355
	640	1,085	10,422	7,189
Disclosed in the financial statements as:				
Current other financial assets	39	1,085	7,746	4,834
Non-current other financial assets	20,072	–	64,101	44,289
	20,111	1,085	71,847	49,123

(i) Investments in listed entities relates to the Group's ownership of Brumby's Bakeries Holdings Limited shares and acceptances of its offer under a bidders statement as part of the acquisition of the Brumby's group. Subsequent to year end, the acquisition was completed.

(ii) Receivables from entities within the wholly-owned group include amounts arising under the Group's tax funding arrangement. The intercompany loan receivable is repayable on demand and interest is charged on the outstanding balance at market rates.

(iii) The Group has provided a joint venture entity (Caffe Coffee Pty Ltd) with a short-term loan at rates comparable to the average commercial rate of interest. Further information about these loans is contained in note 35.

13. Property, plant and equipment

	Consolidated					
	Property improvements at cost $'000	Land and buildings at cost $'000	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Motor vehicles at cost $'000	Total $'000
Gross carrying amount						
Balance at 1 July 2005	–	–	169	671	71	911
Additions	–	4	8	69	54	135
Disposals	–	–	–	(47)	(5)	(52)
Transfers	–	–	–	(2)	–	(2)
Balance at 1 July 2006	–	4	177	691	120	992
Additions	7	2,574	1,693	2,968	45	7,166
Disposals	–	–	–	–	(63)	(63)
Transfers	–	–	(23)	(22)	–	76
Balance at 30 June 2007	7	2,578	1,847	3,637	102	8,171
Accumulated depreciation / amortization and impairment						
Balance at 1 July 2005	–	–	(33)	(404)	(43)	(480)
Disposals	–	–	–	23	2	25
Depreciation expense	–	–	(11)	(86)	(17)	(114)
Balance at 1 July 2006	–	–	(44)	(467)	(58)	(569)
Disposals	–	–	–	–	26	26
Transfers	–	–	17	27	–	137
Depreciation expense	–	–	(10)	(232)	(14)	(349)
Balance at 30 June 2007	–	–	(37)	(672)	(46)	(755)
Net book value						
As at 30 June 2006	–	4	133	224	62	423
As at 30 June 2007	7	2,578	1,810	2,965	56	7,416

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

Buildings	40 years
Leasehold improvements	5–40 years
Plant and equipment	3–13.33 years
Equipment under finance lease	13.33 years

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Property improvements	–	–	–	–
Leasehold improvements	10	11	–	–
Plant and equipment	232	86	–	–
Motor vehicles	14	17	–	–
	256	114	–	–

14. Other intangible assets

	Consolidated			
	Brand names $'000	Intellectual property rights $'000	Other costs $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2005	38,333	3,694	29	42,056
Additions	–	3	–	3
Other—write off	–	–	(5)	(5)
Balance at 1 July 2006	38,333	3,697	24	42,054
Additions	1	–	–	1
Other—write off	–	(2)	(3)	(5)
Balance at 30 June 2007	38,334	3,695	21	42,050
Accumulated amortisation and impairment				
Balance at 1 July 2005	–	–	(5)	(5)
Amortisation expense	–	–	(2)	(2)
Other	–	–	5	5
Balance at 1 July 2006	–	–	(2)	(2)
Amortisation expense	–	–	(19)	(19)
Balance at 30 June 2007	–	–	(21)	(21)
Net book value				
As at 30 June 2006	38,333	3,697	22	42,052
As at 30 June 2007	38,334	3,695	–	42,029
	Company			
Gross carrying amount				
Balance at 1 July 2005	–	–	1	1
Balance at 1 July 2006	–	–	1	1
Balance at 30 June 2007	–	–	1	1
Accumulated amortisation and impairment				
Balance at 1 July 2005	–	–	–	–
Balance at 1 July 2006	–	–	(1)	(1)
Balance at 30 June 2007	–	–	(1)	(1)
Net book value				
As at 30 June 2006	–	–	–	–
As at 30 June 2007	–	–	–	–

14. Other intangible assets (continued)

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—$38,645 thousand;
- bb's café system—$8,482 thousand;

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. Other assets

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Prepayments	109	59	–	–
Prepaid tax installments	67	–	–	–
Other—due diligence costs	9	–	–	–
	184	59	–	–

16. Trade and other payables

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Trade payables *(i) (ii)*	1,514	1,392	176	358
Goods and services tax (GST) payable	43	133	–	–
	1,557	1,525	176	358

(i) Includes Accrued Wages and Salaries

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

17. Borrowings

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Secured—at amortised cost				
Current				
Bank loans *(i)*, *(ii)*	1,900	1,900	1,900	1,900
Finance lease liabilities *(iii)* (note 27)	337	–	–	–
Non-current				
Bank loans *(ii)*	23,088	15,675	23,088	15,675
Finance lease liabilities *(iii)* (note 27)	1,284	–	–	–
	26,609	17,575	24,988	17,575
Disclosed in the financial statements as:				
Current borrowings	2,237	1,900	1,900	1,900
Non-current borrowings	24,372	15,675	23,088	15,675
	26,609	17,575	24,988	17,575

(i) Relates to the current portion of long-term borrowings.
(ii) Secured by a mortgage over the Group's freehold land and buildings. The borrowings are variable interest rate debt with repayment periods not exceeding 5 years. The current weighted average effective interest rate on the bank loans is 8.20%p.a. (2006: 8.18%p.a.).
(iii) Secured by the assets leased.

18. Provisions

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Employee benefits	407	206	–	–
Non-current				
Employee benefits	118	–	–	–
	525	206	–	–

19. Other liabilities

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Retention bonds and deposits	668	233	–	–
Amount payable for offer acceptances—listed company investment	10,888	–	10,888	–
	11,556	233	10,888	–

20. Issued capital

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
72,672,224 fully paid ordinary shares (2006: 71,691,259) *(i) (ii)*	32,301	31,014	32,301	31,014

(i) 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.

(ii) The increase in ordinary shares on issue was a result of the Group's Dividend Reinvestment Plan ('DRP') resolved on 12 April 2007.

	2007		2006	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	71,691	31,014	1,499	30,237
Conversion of 'A' class shares into ordinary shares	–	–	150	1
Share split (1,649,351 into 63,309,016 shares)	–	–	67,660	–
New shares issued	981	1,297	2,382	2,335
Share issue costs	–	(15)	–	(2,227)
Tax effect of share issue costs	–	5	–	668
Balance at end of financial year	72,672	32,301	71,691	31,014
'A' class shares				
Balance at beginning of financial year	–	–	150	1
Conversion into ordinary shares	–	–	(150)	(1)
Balance at end of financial year	–	–	–	–

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

21. Reserves

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Equity-settled employee benefits reserve				
Balance at beginning of financial year	–	–	–	–
Share-based payment	192	–	192	–
Balance at end of financial year	192	–	192	–

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the executive share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 33 to the financial statements.

22. Retained earnings

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Balance at the beginning of the financial year	(1,019)	4,441	285	1,792
Net profit attributable to members of the parent entity	7,520	5,936	5,313	9,889
Dividends provided for or paid	(2,240)	(11,396)	(2,240)	(11,396)
Balance at the end of the financial year	4,261	(1,019)	3,358	285

23. Earnings per share

	Consolidated	
	2007 Cents per share	2006 Cents per share
Basic earnings per share		
From continuing operations	10.5	9.3
From discontinued operations	–	(0.7)
Total basic earnings per share	10.5	8.6
Diluted earnings per share		
From continuing operations	10.4	9.3
From discontinued operations	–	(0.7)
Total diluted earnings per share	10.4	8.6

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:

	2007 $'000	2006 $'000
Net profit	7,520	5,936
Earnings used in the calculation of basic EPS	7,520	5,936
Adjustments to exclude profit for the period from discontinued operations	–	508
Earnings used in the calculation of basic EPS from continuing operations	7,520	6,444

	2007 No.'000	2006 No.'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	71,902	69,374

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share is as follows:

	2007 $'000	2006 $'000
Net profit	7,520	5,936
Earnings used in the calculation of diluted EPS	7,520	5,936
Adjustments to exclude profit for the period from discontinued operations	–	508
Earnings used in the calculation of diluted EPS from continuing operations	7,520	6,444

	2007 No.'000	2006 No.'000
Weighted average number of ordinary shares used in the calculation of basic EPS	71,902	69,374
Shares deemed to be issued for no consideration in respect of:		
Employee options	258	–
Weighted average number of ordinary shares used in the calculation of diluted EPS	72,160	69,374

24. Dividends

	2007		2006	
	Cents per share	Total $'000	Cents per share	Total $'000
Recognised amounts				
Fully paid ordinary shares				
Interim dividend:				
Fully franked at a 30% tax rate *(i)*	3.125	2,240	689.59	11,396
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend:				
Fully franked at a 30% tax rate *(ii)*	3.125	2,271	–	–

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

(i) In respect of profits of prior years and the financial year ended 30 June 2007, an interim dividend of 3.125 cents per share (based on 71,691,259 shares on issue) franked to 100% at 30% corporate income tax rate was paid on 12 April 2007. The interim dividend represented fifty percent (50%) of the full year dividend forecast for FY2007 in the Company's Prospectus. The interim dividend was approved by the Directors following the conclusion of the H1FY 2007 and it was resolved that the interim dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

(ii) In respect of profits of the financial year ended 30 June 2007, a final dividend of 3.125 cents per share (based on 72,666,584 shares on issue) franked to 100% at 30% corporate income tax rate will be paid on 12 October 2007. The final dividend was approved by the Directors following the conclusion of FY 2007 and therefore was not provided for in the Preliminary Final Report. It was resolved that the final dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

	Company	
	2007 $'000	2006 $'000
Adjusted franking account balance	3,411	2,079

25. Commitments for expenditure

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(a) Capital expenditure commitments				
Plant and equipment				
Not longer than 1 year	9	850	–	–
Longer than 1 year and not longer than 5 years	–	–	–	–
Longer than 5 years	–	–	–	–
	9	850	–	–

(b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 27 to the financial statements.

26. Contingent liabilities and contingent assets

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Contingent liabilities				
Financial guarantees on franchisee loans (i)	814	–		
Rental guarantees to ANZ Bank (ii)	287	290	–	–
	1,101	290	–	–

(i) Financial Guarantees:—RFGA Management Pty Ltd, a subsidiary of Retail Food Group Limited, has guaranteed the repayment of borrowings in aggregate in the sum of $814,000 by the Australia and New Zealand Banking Group (the ANZ Bank) to three separate Donut King Franchisees. The guarantees have been given as security in respect of loans made by the ANZ Bank to enable the franchisees of Donut King Seaford, Donut King Ocean Grove and Donut King Carousel (outlets K101 and K102) to commission their respective outlets. The guarantees are subject to the ANZ Banks usual terms and conditions. No liabilities have been recognised in relation to these guarantees.

(ii) Rental Guarantees—Other: The Group is guarantor to a number of leases occupied and licensed to franchisees. No liabilities have been recognised as part of these rental guarantees.

(iii) The Group 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 the Juice Fusion franchise system. It was alleged that Retail Food Group Limited (and or its current or 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 was determined that any claim would be vigorously defended. The Continuing Shareholders (as referred to in the Company's Prospectus dated 31 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 were subsequently settled in accordance with Deeds of Settlement formerly executed by the parties. The remaining Juice Fusion franchisee has instituted a Queensland Supreme Court action alleging among other things breach of franchise agreement and misrepresentation. These proceedings have been, and will be, vigorously defended.

Donut King The Hills

Proceedings were instituted in the NSW Industrial Relations Court by a former Franchisee against six respondents, including subsidiaries of Retail Food Group Limited and the former Master Franchisee of the Donut King System in NSW. The proceedings sought relief for an alleged unfair contract that included a franchise agreement and outlet licence agreement for a Donut King outlet. A deed of understanding was entered into by the six respondents which effectively made Retail Food Group liable for only 50% of the costs of the defending the action. In July 2007 the parties reached a confidential settlement arrangement whereby the plaintiff was paid a settlement amount. The bulk of that amount was paid by the former Master Franchisee of the Donut King System in NSW. The parties have entered into a formal Deed of Settlement whereby the plaintiff has released each of the Defendants from all claims it may have had, or may have, in the future in connection with the matter. In accordance with the terms of this Deed, the plaintiff has also filed a Notice of Discontinuance with the Court. Consequently, the proceedings are now at an end.

27. Leases

Finance leases

Leasing arrangements

Finance lease liabilities

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
No later than 1 year	398	–	–	–	337	–	–	–
Later than 1 year and not later than 5 years	1,517	–	–	–	1,284	–	–	–
Later than five years	–	–	–	–	–	–	–	
Minimum future lease payments*	1,915	–	–	–	1,621	–	–	–
Less future finance charges	(294)	–	–	–	–	–	–	–
Present value of minimum lease payments	1,621	–	–	–	1,621	–	–	–
Included in the financial statements as: (note 17)								
Current borrowings								337
Non-current borrowings								1,284
								1,621

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

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.

Non-cancellable operating lease commitments

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Not longer than 1 year	100	205	–	–
Longer than 1 year and not longer than 5 years	520	908	–	–
Longer than 5 years	–	87	–	–
	620	1,200	–	–

28. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2007 %	Ownership interest 2006 %
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
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
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's Café System Pty Ltd *(ii)*	Australia	100	100
RFG Investments Pty Ltd *(ii)*	Australia	100	–
Biloela Coffee Pty Ltd *(ii)*	Australia	100	–
Chatslease Pty Ltd *(ii)*	Australia	100	–
Donut Mac Pty Ltd *(ii)*	Australia	100	–
RFG (NZ) Holding Limited	New Zealand	100	–
bb's New Zealand Limited	New Zealand	100	–
RFG (NZ) Limited	New Zealand	100	–
bb's Coffee and Bake (NZ) Leasing Limited	New Zealand	100	–
Bonanza Blend Pty Ltd *(iii)*	Australia	–	100
bb's Espresso Pty Ltd (formerly RFGA Master Franchise Pty Ltd) *(iii)*	Australia	–	100
Associates			
Caffe Coffee Pty Limited	Australia	50	–

(i) Retail Food Group Limited is the head entity within the tax consolidated group.
(ii) These companies are members of the tax consolidated group.
(iii) These companies deregistered during the financial year.
(iv) None of the wholly owned subsidiaries in the Group have entered into a deed of cross guarantee with Retail Food Group Limited.

29. Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition $'000
RFG (NZ) Holding Limited (i)	Franchise system management	23 March 2007	100	–
bb's New Zealand Limited	Franchise system management	23 March 2007	100	–
RFG (NZ) Limited	Franchise system management	23 March 2007	100	–
bb's Coffee and Bake (NZ) Leasing Limited	Franchise system management	23 March 2007	100	–

(i) On 23 March 2007, Regional Franchising Systems Pty Ltd (a wholly owned subsidiary of Retail Food Group Limited) acquired the entire shareholding of RFG Holdings (NZ) Limited. The results of RFG Holdings (NZ) Limited and its controlled entities for the 3 months ending 30 June 2007 have been brought to account in the Group's financial statements in accordance with Australian equivalents to International Financial Reporting Standards.

Net assets acquired	RFG Holdings (NZ) Limited			
	Book value $'000	Fair value adjustment $'000	Fair value on acquisition $'000	Total fair value on acquisition $'000
Current assets				
Cash at bank	166	–	166	166
Accrued income	21	–	21	21
GST recoverable	15	–	15	15
Prepaid income tax installments	67	–	67	67
Total current assets	269	–	269	269
Non current assets				
Intellectual property rights	1	–	1	1
Plant and equipment (net)	20	–	20	20
Furniture and fittings (net)	9	–	9	9
Total non current assets	30	–	30	30
Current liabilities				
Franchisee deposits and bonds	(69)	–	(69)	(69)
Trade creditors	(148)	–	(148)	(148)
Total current liabilities	(217)	–	(217)	(217)
Total net assets acquired	82	–	82	82
Discount on acquisition calculated as follows:				
Consideration paid				–
Net assets acquired				82
Discount on acquisition				83

30. Discontinued operations

Disposal of the Juice Fusion Franchise System

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 Group.

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

The Group 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	
	2007 $'000	2006 $'000
Loss from discontinued operations:		
Revenue (note 7)	–	863
Other income (note 9)	–	2
	–	865
Overheads	–	(1,590)
Loss before tax	–	(725)
Attributable income tax benefit	–	217
Loss from discontinued operations for the year	–	(508)
Cash flows from discontinued operations:		
Net cash flows from operating activities	–	(396)
Net cash flows from investing activities	–	–
Net cash flows from financing activities	–	263
Net cash flows	–	(133)

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

31. Notes to the cash flow statement

(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:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash and cash equivalents	1,548	1,631	159	129

(b) Businesses acquired

During the financial year, the Group acquired one business. The net cash inflow on acquisition was $166 thousand. Refer to note 29 for further details of this acquisition.

(c) Businesses discontinued

During the prior financial year, the Group discontinued the Juice Fusion business. Refer to note 30 for further details of this acquisition.

(d) Non-cash financing and investing activities

During the current financial year, the Group disposed of property, plant and equipment with an aggregate fair value of $36 thousand. This disposal is reflected in the cash flow statement.
During the financial year, the Group acquired $1,621 thousand of equipment under finance leases. This acquisition will be reflected in the cash flow statement over the term of the finance lease via lease repayments.
During the financial year, Retail Food Group Limited received $4,250,000 in dividends from its subsidiary entities by way of inter-entity receivables / payables. This income is not reflected in the cash flow statement.

(e) Financing facilities

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Secured bank overdraft facility, reviewed annually and payable at call:				
Amount used	–	–	–	–
Amount unused	300	300	–	–
	300	300	–	–
Lease finance overdraft facility:				
Amount used	1,621	–	–	–
Amount unused	1,334	2,000	–	–
	2,955	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	24,988	17,575	24,988	17,575
Amount unused	612	–	–	–
	25,600	17,575	24,988	17,575

31. Notes to the cash flow statement (continued)

(f) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit for the year	7,520	5,936	5,313	9,889
(Gain)/loss on sale or disposal of non-current assets	(2)	(2)	–	–
Depreciation and amortisation	187	116	–	–
Equity-settled share-based payment	192	–	–	–
Interest income received	(198)	(93)	(30)	(3)
Dividends received	–	–	(4,250)	(10,244)
Capitalised interest expense and borrowing costs	237	–	199	–
Debt forgiven	–	–	–	883
Increase/(decrease) in current tax liability	(54)	(309)	(54)	(309)
Increase/(decrease) in deferred tax balances	(195)	59	(156)	126
(Increase)/decrease in amounts due under the tax-funding arrangement	–	–	–	–
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current tax receivable	–	–	–	(974)
Trade and other receivables	(1,597)	(1,260)	(341)	(2,434)
Inventories	82	699	–	–
Other assets	(189)	(189)	(22,896)	–
Increase/(decrease) in liabilities:				
Trade and other payables	32	272	(201)	–
Provisions	265	98	–	69
Other liabilities	90	–	18,301	–
Net cash from operating activities	6,370	5,327	(4,117)	(2,997)

32. Financial instruments

(a) Financial risk management objectives

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

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Group'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 3 to the financial statements.

32. Financial instruments (continued)

(c) Interest rate risk management

Interest Rate Contracts

The Group uses interest rate contracts in managing interest rate exposure.

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

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
Outstanding floating for fixed contracts	2007 %	2006 %	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Consolidated						
Less than 1 year	–	6.03	–	9,000	–	–
	–	6.03	–	9,000	–	–

The average interest rate is based on the outstanding balances at the start of the financial year. The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. The Group will settle the difference between the fixed and floating interest rate on a net basis.

The fair value of the interest rate contracts is nil (expired 1 June 2007). (2006: $5,214). The Group has not accounted for this in the financial statements on the basis of materiality.

Maturity profile of financial instruments

The maturity profile of financial assets and financial liabilities held by the company and the Group are detailed below:

The following table details the Group's exposure to interest rate risk as at 30 June 2007:

2007	Weighted average effective interest rate %	Variable interest rate $'000	Maturity Dates: Less than 1 year $'000	1–2 years $'000	2–3 years $'000	3–4 years $'000	4–5 years $'000	5+ years $'000	Non interest bearing $'000	Total $'000
Financial assets										
Continuing operations										
Cash and cash equivalents	3.0	1,548	–	–	–	–	–	–	–	1,548
Receivables	–	–	–	–	–	–	–	–	5,791	5,791
Related party receivables	–	–	–	–	–	–	–	–	640	640
		1,548	–	–	–	–	–	–	6,431	7,979
Financial liabilities										
Continuing operations										
Trade payables	–	–	–	–	–	–	–	–	1,557	1,557
Other payables	–	–	–	–	–	–	–	–	11,556	11,556
Income tax payable	–	–	–	–	–	–	–	–	575	575
Finance lease liabilities	8.00	1,621	–	–	–	–	–	–	–	1,621
Bank loans	8.20	24,988	–	–	–	–	–	–	–	24,988
Employee benefits	–	–	–	–	–	–	–	–	525	525
		26,609	–	–	–	–	–	–	14,213	40,822

32. Financial instruments (continued)

The following table details the Group'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	1–2 years $'000	2–3 years $'000	3–4 years $'000	4–5 years $'000	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

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group 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 Group 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 Group measures credit risk on a fair value basis.

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

(e) 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;
- 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; and,
- 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.

(f) Liquidity risk management

The Group 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.

33. Share-based payments

Executive share option plan

The Group has an ownership-based compensation scheme for directors, executives and senior employees of the Group. In accordance with the provisions of RFG's Executive Share Option Plan ('ESOP'), directors, executives and senior employees may be granted options to purchase parcels of ordinary shares on terms resolved upon by the Board. Certain employees and directors have also been granted options pursuant to the terms of formal Option Deeds which are outside of the scope of, but substantially in accordance with, the terms of the ESOP.

Each share option granted converts into one ordinary share on exercise. No amounts are paid or payable by the option-holder on grant of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Subject to the terms of the ESOP or Option Deeds (as the case may be), options once granted will expire on the 3rd anniversary of the date of vesting.

The following options have been granted by the Company in accordance with the ESOP or pursuant to formal Option Deeds as noted above:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Executive Share Option Plan:					
Tier 1A	639,999	01.08.06	31.07.10	1.00	0.1480
Tier 1B	639,999	01.08.06	31.07.11	1.00	0.1704
Tier 1C	640,002	01.08.06	31.07.12	1.00	0.1849
Senior Management Share Option Plan:					
Tier 1A	146,664	01.08.06	31.07.10	1.00	0.1480

- Tier 1A Options vested on 1 August 2007
- Tier 1B Options vest on 1 August 2008
- Tier 1C Options vest on 1 August 2009.

The weighted average fair value of the share options granted during the financial year is $192 thousand (2006: nil). Options were priced using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past year. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was two and a half times the exercise price.

	Option Series		
Inputs into the model	Tier 1A	Tier 1B	Tier 1C
Grant date share price	$0.84	$0.84	$0.84
Exercise price	$1.00	$1.00	$1.00
Expected volatility	45.00%	45.00%	45.00%
Option life	2.5 years	3.5 years	4.5 years
Dividend yield	6.50%	6.50%	6.50%
Risk-free interest rate	5.17%	5.17%	5.17%

33. Share-based payments (continued)

The following reconciles the outstanding share options granted under the executive share option plan at the beginning and end of the financial year:

	2007	
	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	–	–
Granted during the financial year	2,066,644	$1.00
Forfeited during the financial year	–	–
Exercised during the financial year (i)	–	–
Expired during the financial year	–	–
Balance at end of the financial year (ii)	2,066,644	$1.00
Exercisable at end of the financial year	2,066,644	$1.00

(i) Exercised during the financial year.

No share options granted under the executive share option plan were exercised during the financial year.

(ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had an exercise price of $1.00 (2006: nil), and a weighted average remaining contractual life of 3.44 years (2006: nil years).

34. Key management personnel compensation

Details of key management personnel

The directors and other members of key management personnel of the Group during the year were:

- Tony Alford, Chief Executive Officer and Managing Director
- Nigel Nixon, Corporate Counsel and Executive Director
- Gary Best, Chief Operations Officer
- John Cowley, Independent Chairman
- Colin Archer, Independent Director
- Mark Connors, Company Secretary and Legal Counsel
- Karen Walker, Financial Controller (appointed 27 May 2006), formerly Chief Financial Officer (resigned 27 May 2006)
- Damien Peters, Chief Financial Officer (appointed 27 May 2006).

Key management personnel compensation policy

The remuneration policy of the Company has been designed to align Director and senior management 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 retaining the most appropriate and suitable executives and Directors to operate and manage the economic entity, as well as create goal congruence between Directors, senior management 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 Black-Scholes pricing 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 aims to review their remuneration bi-annually, based on market practice, duties and accountability. Independent external advice may be sought when required.

34. Key management personnel compensation (continued)

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 salary and fee structures of the Directors and Senior Management were set shortly before the initial public offer of the Company in May 2006 having regard to the comparable salary and fee rates in the industry sector in which the Company operates.

Other than with respect to the appointment of Damien Peters as CFO on 29 May 2007 the Remuneration Committee did not review executive remuneration packages during the course of the financial year. As such no recommendation was made by the Committee to alter the remuneration structure of any Director or member of senior management.

The Remuneration Committee intends to review bi-annually and to measure Director and senior management performance by reference to the Company's performance, executive performance and comparable information from industry sectors.

The performance of Directors and executives will be measured against agreed criteria and will be based predominantly on the forecast growth of the economic entity's profits and shareholders' value. It is proposed that 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 high caliber executives and reward them for performance that results in both short and 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.

Key management personnel compensation

The aggregate compensation made to key management personnel of the company and the Group is set out below:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Short-term employee benefits	1,108	924	1,108	924
Post-employment benefits	40	32	40	32
Other long-term benefits	–	–	–	–
Termination benefits	–	–	–	–
Share-based payment	91	–	91	–
	1,239	956	1,239	956

34. Key management personnel compensation (continued)

The compensation of each member of the key management personnel of the Group for the current year is set out below:

2007	Short-term employee benefits			Post-employment benefits		Other long-term employee benefits	Termi-nation benefits	Share-based payment			Total
								Equity-settled			
	Salary and fees	Bonus	Other	Supera-nnuation	Other			Shares and units	Options and rights	Cash-settled	
	$	$	$	$	$	$	$	$	$	$	$
Tony Alford	196,200	–	170,000	–	–	–	–	–	18,817	–	385,017
Nigel Nixon	185,000	–	1,410	–	–	–	–	–	14,426	–	200,836
Gary Best	158,027	–	–	11,846	–	–	–	–	16,129	–	186,002
John Cowley	60,000	–	–	5,400	–	–	–	–	12,545	–	77,945
Colin Archer	50,000	–	–	4,500	–	–	–	–	8,960	–	63,460
Mark Connors	120,000	–	–	10,187	–	–	–	–	10,573	–	140,760
Karen Walker (i)	93,577	–	–	8,422	–	–	–	–	9,195	–	111,194
Damien Peters (ii)	73,600	–	–	–	–	–	–	–	–	–	73,600
Total	936,404	–	171,410	40,355	–	–	–	–	90,645	–	1,238,814

(i) Karen Walker resigned as the Company's Chief Financial Officer on 29 May 2007.
(ii) Damien Peters was appointed the Company's Chief Financial Officer on 29 May 2007.
(iii) Further details of the options granted are in notes 33 and 35 to the financial statements.

The compensation of each member of the key management personnel of the Group for the prior year is set out below:

2007	Short-term employee benefits			Post-employment benefits		Other long-term employee benefits	Termi-nation benefits	Share-based payment			Total
								Equity-settled			
	Salary and fees	Bonus	Other	Supera-nnuation	Other			Shares and units	Options and rights	Cash-settled	
	$	$	$	$	$	$	$	$	$	$	$
Tony Alford	180,000	–	139,836	–	–	–	–	–	–	–	319,836
Nigel Nixon	150,000	–	1,200	–	–	–	–	–	–	–	151,200
Gary Best	146,702	–	–	8,781	–	–	–	–	–	–	155,483
John Cowley	62,307	–	–	5,607	–	–	–	–	–	–	67,914
Colin Archer	12,115	–	–	1,090	–	–	–	–	–	–	13,205
Mark Connors	127,267	–	–	11,454	–	–	–	–	–	–	138,721
Karen Walker	105,184	–	–	4,673	–	–	–	–	–	–	109,857
Total	783,575	–	141,036	31,605	–	–	–	–	–	–	956,216

34. Key management personnel compensation (continued)

Contracts for services of key management personnel

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.

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.

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.

Damien Peters—No employment contract has been entered into with the Company.

35. Related party transactions

(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.

Equity Interests in associates and joint ventures

Details of the percentage of ordinary shares held in associates and joint ventures are disclosed in note 28 to the financial statements.

(b) Transactions with key management personnel

(i) Key management personnel compensation policy

Details of key management personnel compensation policy are disclosed in note 34 to the financial statements.

(ii) Loan to key management personnel

The following loan balances are in respect of loans made to key management personnel of the Group 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
2007	–	–	–	–	–	–
2006	1,070	42	–	–	–	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 two years.

35. Related party transactions (continued)

(iii) Key management personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited

2007	Balance at1/7/06 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 30/06/07 No.	Balance held nominally No.
Tony Alford *(i)*	28,251,590	–	–	(5,898,434)	22,353,156	944,699
Nigel Nixon	5,231,644	–	–	61,585	5,293,229	2,615,822
John Cowley	50,000	–	–	1,175	51,175	–
Colin Archer	175,000	–	–	20,705	195,705	–
Gary Best	1,317,800	–	–	30,965	1,348,765	–
Mark Connors	10,000	–	–	–	10,000	–
	35,036,034	–	–	(5,784,004)	29,252,030	3,560,521

2006	Balance at 1/7/05 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 30/06/06 No.	Balance held nominally 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	–
Colin Archer	–	–	–	175,000	175,000	–
Gary Best	–	–	–	1,317,800	1,317,800	–
Karen Walker *(ii)*	–	–	–	1,225,050	1,225,050	–
Mark Connors	–	–	–	10,000	10,000	–
	1,378,117	–	–	34,882,967	36,261,084	10,650,010

(i) On 8 September 2006, Appendix 3Y noted that Tony Alford had resigned as a director of Rastus Investments Pty Ltd ATF The Rastus Discretionary Trust and therefore no longer held a notifiable interest in the 7,207,152 shares held by that entity.

(ii) Karen Walker resigned as Chief Financial Officer on 29 May 2007.

35. Related party transactions (continued)

Share Options

2007	Balance at 1/7/06 No.	Granted as remun-eration No.	Exercised No.	Net other change No.	Balance at 30/06/07 No.	Balance vested at 30/06/07 No.	Vested but not exercis-able No.	Vested and exercis-able No.	Options vested during year No.
Tony Alford	–	210,000	–	–	210,000	–	–	–	–
Nigel Nixon	–	161,000	–	–	161,000	–	–	–	–
John Cowley	–	140,000	–	–	140,000	–	–	–	–
Colin Archer	–	100,000	–	–	100,000	–	–	–	–
Gary Best	–	180,000	–	–	180,000	–	–	–	–
Mark Connors	–	118,000	–	–	118,000	–	–	–	–
	–	909,000	–	–	909,000	–	–	–	–

All share options issued to key management personnel were made in accordance with the provisions of the executive share option plan.

(iv) Other transactions with key management personnel (and their related parties) of Retail Food Group Limited

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

2007	Balance at 1/7/06 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 30/06/07 No.	Balance held nominally No.
Nil	–	–	–	–	–	–

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

35. Related party transactions (continued)

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:

	Consolidated	
	2007 $'000	2006 $'000
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Interest revenue	–	13
Revenue	–	531
Rental revenue	89	80
Other	33	105
Franchise revenue	370	186
	492	915
Consolidated profit includes the following expenses arising from transactions with key management personnel of the Group or their related parties:		
Accountancy fees	145	144
Rental expense	98	51
Other administration services	37	89
	280	284
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	45	70
Non current	–	–
	45	70
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	–	–
	–	2

35. Related party transactions (continued)

(v) 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 6 to the financial statements.

Details of interest expense with entities in the wholly-owned group are disclosed in note 7 to the financial statements.

Amounts receivable from entities in the wholly-owned group are disclosed in note 12 to the financial statements.

(c) Transactions with other related parties

Other related parties include:

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

No amounts were provided for doubtful debts relating to debts due from related parties at reporting date.

Amounts receivable from these related parties are disclosed in notes 12 to the financial statements. All loans advanced 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 received interest from RFG Finance Pty Ltd in an amount of $240,145 (2006: paid RFG Finance Pty Ltd $339,535).

RFG Finance Pty Ltd also received interest from other subsidiary entities in an amount of $566,762 (2006:$557,152) in relation to other related party loans.

(d) 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 $2,696,768 (2006: $2,354,866) 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 $2,355,000 (2006: $2,434,000) 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 $4,250,000 (2006: $14,800,000) from its subsidiary RFGA Holdings (Aust) Pty Ltd.

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 $178,250 + GST to Alfords Accountants and Business Advisers (includes Alfords Operations Pty Ltd and AIP Services Pty Ltd) for the provision of professional services and personnel.

During the financial year, subsidiaries of Retail Food Group Limited received a total amount of $32,961 + GST from 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 original Central Manufacturing Facility at Old Pacific Highway 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 $88,320 + GST was paid or payable 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. A total of $9,353 was paid during the year for use of premises.

35. Related party transactions (continued)

Bureau Services Pty Ltd is a company associated with Tony Alford. It was reimbursed $4,166 (GST Exc) for business related expenditure during the year.

RFG Investments Pty Ltd sub-leases rental space to Alfords Accountants and Business Advisers. Rental Revenue in an amount of $83,990 (GST Exc) is included in other revenue.

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 $412,995 (2006: $389,518). It also paid training fee revenue to bb's café System Pty Ltd in an amount of $15,883.46 + GST. RFG (NZ) Limited became a subsidiary of Retail Food Group Limited on the 23 March 2007.

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 $17,500 reducing the loan from $17,500 to $0.

Rubikon (Qld) Pty Ltd is a related party of Tony Alford. Retail Food Group contracted Rubikon (Qld) Pty Ltd to commission the commercial CMF facility at Yatala. Booming Pty Ltd paid $1,661,601 + GST for refurbishment of the facility and capital works at the site.

Spanish Mission Pty Ltd is a related party of Robert Sutherland. Spanish Mission Pty Ltd owned one franchised outlet during the year. Included in franchise revenue in Donut King System Pty Ltd was an amount of $65,153 (GST Exc) in relation to this store.

Donut Pty Ltd is a related party of Nigel Nixon. Donut Pty Ltd owned one franchised outlet during the year. Included in franchise revenue in Donut King System Pty Ltd was an amount of $57,735 (GST Exc) in relation to this store.

DK Southbank Pty Ltd is a related party of Tony Alford. DK Southbank Pty Ltd owned one franchised outlet during the year. Included in franchise revenue in Donut King System Pty Ltd was an amount of $89,736 (GST Exc) in relation to this store.

bb's Southbank Pty Ltd is a related party of Tony Alford. bb's Southbank Pty Ltd owned one franchised outlet during the year. Included in franchise revenue in bb's Café System Pty Ltd was an amount of $95,827 (GST Exc) in relation to this store.

Donut Enterprises is a related party of Nigel Nixon. Donut Enterprises Pty Ltd owned one franchised outlet during the year. Included in franchise revenue in Donut King System Pty Ltd was an amount of $61,628 (GST Exc) in relation to this store.

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—the sponsorship of Donut King branded race vehicles in an amount of $170,000 is described as an 'other benefit' in his salary package. In return, Retail Food Group's franchise systems receive signage on race cars and associated media exposure.

(e) Parent entities

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

36. Remuneration of auditors

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Auditor of the parent entity				
Audit or review of the financial report	148,500	70,000	–	–
Other non-audit services :		–	–	
– Due diligence and IPO transaction costs	79,605	378,475	–	–
– Tax consolidation advice	–	25,215	–	–
	228,105	473,690	–	–

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

37. Subsequent events

Brumby's Bakeries Holdings Limited (Brumby's)

On 4 May 2007, the Company announced an off market bid for all the issued share capital of Brumby's and on 17 May 2007, issued its bidders statement.

At 30 June 2007, the Company had achieved in ownership of Brumby's shares and acceptances of its offer under the bidders statement 44.82% of all the issued shares in Brumby's.

Retail Food Group achieved in ownership of Brumby's shares and acceptances of its offer in excess of 50% of all the issued shares in Brumby's on 2 July 2007. At close of the offer to Brumby's Shareholders on 18 July 2007 the Company held a relevant interest in 12,870,863 Brumby's shares (or 99.87% of the shares in Brumby's).

On 23 July 2007 the Company announced and made application to compulsorily acquire the balance of 16,983 Brumby's shares (or 0.13% of the shares in Brumby's) in respect to which acceptances were not received.

On 7 August 2007 Brumby's shareholders and Brumby's option holders who accepted the offer for their shares and/or options were remitted the agreed consideration ($35.182 million in respect to Brumby's shareholders and $2.024 million in respect to Brumby's option holders).

The compulsory acquisition in respect of acceptances not received pursuant to the offer was completed on 3 September 2007 at which time Brumby's became a wholly owned subsidiary of the Company.

The total acquisition cost has been approximately $45.8 million, of which $43.04 million has been funded from debt.

The Michel's Group Australia Pty Ltd (TMGA)

On 7 August 2007, the Company announced that it had entered into a Scrip and Cash Terms Agreement ('SCTA') with the shareholders of TMGA, the franchisor of the Michel's Patisserie franchise system (Michel's) to acquire all the issued shares in TMGA.

The Michel's franchise system is a well known Australian food retailer which specializes in the sale of cake, coffee and patisserie related products.

As at 7 August 2007, Michel's had a total of 340 franchised outlets in Australia, and a further 6 franchised outlets in New Zealand.

On completion of the transaction expected mid December 2007, the total number of franchised outlets under the stewardship of the Company will exceed 1,020 outlets, making the Company one of the largest retail food franchisors in Australia and the largest by a considerable margin with respect to 'home grown' retail food franchises.

The consideration payable to TMGA shareholders is $50 million cash and a scrip component being subject to an incentivated earn-out program based on TMGA FY2008 adjusted EBIT performance.

Assuming full entitlement to the earn-out, the maximum value of the consideration payable is $88 million with any scrip entitlement being issued on the earlier of the finalisation of the FY2008 audited accounts or 30 October 2008.

TMGA also has debt of approximately $56 million which will either remain with TMGA on completion of the SCTA or be refinanced by the Company.

The acquisition is subject to a number of conditions including shareholder approval, the ASX not objecting to the terms of performance shares which will be issued in connection with the scrip component of the consideration and satisfactory completion of due diligence enquiries.

The agreement is also conditional on the Company obtaining financing on satisfactory terms.

John Livy, the managing director of TMGA will remain with Michel's. Mr Livy has extensive experience in multi outlet retail environments including TAB (10 years) and Regional Director of Franchising—Pepsi Co Restaurants Group (11 years). Occupying the position of Managing Director of TMGA since early 2004, Mr Livy has developed and refined the franchisee service delivery systems for Michel's as well as recruiting an extremely robust and skilled management team—all of which have agreed to go forward under the Company's stewardship. In addition Mr. Livy has committed to a long term involvement with the Company's senior management team, both with respect to Michel's and the Group's other systems.

The Company anticipates that Bruce Hancox will join the Board of RFG. Bruce Hancox has been a strategic advisor to the TMGA Board since October 2006 and has been instrumental in corporatising TMGA and developing its non-operational service systems. Mr Hancox has over 35 years experience in corporate positions, manufacturing and retailing including 19 years with Brierley Investments (occupying the positions of director and chairman).

37. Subsequent events (continued)

Final Dividend

On 28 August 2007, the Board of Directors declared a final dividend for the financial year ended 30 June 2007, as set out in the Dividends section of this report.

Issue of Executive Share Options

On 9 May 2006 the Company approved the establishment of the Retail Food Group Limited Executive Share and Option Plan ('ESOP') to assist in the recruitment, reward and retention of its Directors and executives. Subject to any adjustment in the event of a bonus issue, rights issue or reconstruction of capital, each option is convertible into one ordinary share.

In accordance with the ESOP, 605,532 share options were granted to directors, executives or employees on 1 August 2007, with an exercise price of $1.15 and an expiry date of 1 August 2010.

New Debt Financing Arrangement

On 7 August 2007, Retail Food Group entered a new debt financing arrangement with Australia and New Zealand Banking Group ('ANZ') to complete the acquisition of 100% of the share capital of Brumby's Bakeries Holdings Limited ('Brumby's'). The $60.7m arrangement—a combination of a five year partly amortising senior term loan and 12 month mezzanine facilities—is in addition to the CMF Bridge and Asset Finance facilities.

The terms of the funding arrangement contain several conditions, including:

(vi) quarterly repayments of the senior term loan facility and monthly interest repayments at the BBSY Bank Bill Swap Rate—Average Bid ('BBSY') rate plus the financier's margin;

(vii) repayment of mezzanine facility within twelve months;

(viii) establishment of a dividend reserve sufficient to meet the cash portion of Retail Food Group Limited's final dividend for the year ending 30 June 2007;

(ix) completion of a sale and leaseback unconditional contract for the Central Manufacturing Facility, with commercial lease arrangements satisfactory to the financier; and,

(x) interlocking cross guarantees, indemnities and charges over assets of Retail Food Group Limited including mortgage over Brumby's Bakeries Holdings Limited shares.

Additional stock exchange information as at 31st August 2007

Number of holders of equity securities

Ordinary share capital

- 72,672,224 fully paid ordinary shares are held by 648 individual shareholders.
  All issued ordinary shares carry one vote per share.

Options

- 1,916,664 options granted 1 August 2006 are held by 22 individual optionholders.
- 605,532 options granted 1 August 2007 are held by 23 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	74	45,563	0.06	–	–
1,001–5,000	261	796,188	1.10	–	–
5,001–10,000	110	854,825	1.18	–	–
10,001–100,000	158	4,646,263	6.39	10	276,663
100,001 and over	45	66,329,385	91.27	13	2,245,533
	648	72,672,224	100.00	23	2,522,196
Holding less than a marketable parcel	–	–	–		

Substantial shareholders

	Fully paid		Partly paid	
Ordinary shareholders	Percentage	Number	Percentage	Number
Tony Alford [1]	22,353,156	30.76	–	–
Rastus Investments Pty Ltd	7,376,494	10.15	–	–
Alfords Holdings (QLD) Pty Ltd [2]	20,087,748	27.64	–	–
C.G.F.H Holdings Pty Ltd [3]	20,292,448	27.92	–	–
National Nominees Limited	6,301,980	8.67		
Brecot Pty Ltd	5,293,229	7.28	–	–
Invia Custodian Pty Limited	4,669,078	6.42		
Anttra Pty Ltd	3,980,698	5.48	–	–

1 Shareholding includes interests or control in the shareholdings and interests held by, 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 Alfords Holdings (QLD) 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.

Twenty largest holders of quoted equity securities

	Fully paid		Partly paid	
	Percentage	Percentage of Issued Capital	Number	Percentage
1. Alfords Holdings (Qld) Pty Ltd	9,520,410	13.10	–	–
2. CGFH Holdings Pty Ltd	9,239,044	12.71	–	–
3. Rastus Investments Pty Ltd	7,376,494	10.15	–	–
4. National Nominees Limited	6,301,980	8.67	–	–
5. Brecot Pty Ltd	5,293,229	7.28	–	–
6. Invia Custodian Pty Limited	4,669,078	6.42	–	–
7. Anttra Pty Ltd	3,980,698	5.48	–	–
8. HSBC Custody Nominees (Australia) Limited	3,032,478	4.17	–	–
9. UBS Wealth Management Australia Nominees Pty Ltd	2,166,305	2.98	–	–
10. RBC Dexia Investor Services Australia Nominees Pty Ltd	1,778,819	2.45	–	–
11. Migaloo Pty Ltd	1,488,949	2.05	–	–
12. JP Morgan Nominees Australia Limited	1,411,185	1.94	–	–
13. Risby Investments Pty Ltd	1,307,824	1.80	–	–
14. BHM Enterprises Pty Ltd	1,225,050	1.69	–	–
15. WSSHoldings (Aust) Pty Ltd	1,061,555	1.46	–	–
16. Citicorp Nominees Pty Ltd	754,670	1.04	–	–
17. Nefco Nominees Pty Ltd	700,000	0.96	–	–
18. Bexlie Holdings (Qld) Pty Ltd	593,974	0.82	–	–
19. Leemhuis Investments Pty Ltd	450,000	0.62	–	–
20. Skillup International Limited	409,399	0.56	–	–
Total	62,761,141	86.36	–	–

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STRENGTH IN BRANDS

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