RETAILFOODGROUP ANNUALREPORT2008

RETAILFOODGROUP

RFG

STRENGTH IN BRANDS

Retail Food Group Limited ACN 106 840 082

THERIGHTMIX

ANNUALFINANCIALREPORT

FINANCIAL YEAR ENDED — 30 JUNE 2008

EXCITE YOUR TASTE BUDS

CELEBRATE THE GOOD THINGS

SIMPLE PLEASURES

MY CAFE

CHAIRMAN'S LETTER

Dear Shareholder,

On behalf of the Board of Directors, it is a pleasure to present the Retail Food Group Annual Report for the financial year ended 30 June 2008.

Following the acquisition of the Brumby's Bakeries and Michel's Patisserie franchise systems, RFG has completed the transformation into a multi-system retail food franchise owner and manager with considerable standing within the Australian marketplace and an emerging presence internationally.

In RFG's last two Annual Reports, I suggested that the Company's results and achievements were ground breaking.

For the third consecutive year since listing, RFG has continued to deliver exceptional results with the FY08 performance significantly surpassing prior year achievements in every key performance metric.

In that respect, it is of immense satisfaction to note that for FY08, the Group has achieved a net profit after tax of $17.6 million an increase of 134% over the previous corresponding period.

Earnings per share of 19.9 cents represented an 89.5% increase on the 10.5 cents achieved in the previous financial year and together with our continuing and robust cashflow provided for a 36% increase in dividend from 6.25cps to 8.5cps.

The Company has not only achieved positive and consistent growth in its historical business drivers—of maintaining franchisee average weekly sales and developing organic outlet growth opportunity—but also delivered upon its stated IPO prospectus strategies of becoming a genuine retail food franchise system consolidator and international licensor.

RFG now boasts ownership of four iconic franchise systems, Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie. The later two referenced systems having been successfully acquired during FY08.

As a consequence of those acquisitions, together with record organic growth of 61 outlets, there are now in excess of 1,050 franchised outlets under RFG's management umbrella situated across Australia and New Zealand. At the time of their respective acquisitions, Brumby's Bakeries contributed 324 franchised outlets and Michel's Patisserie 342.

Those significant increases in outlet numbers consolidates RFG's position in the Australian market and establishes the Company as a significant industry player in New Zealand, thus enabling RFG to capitalise on scale opportunities throughout both countries.

The grant of a Master Licence to Mak Brands Limited in respect of the Donut King system in mainland China provides a base for further growth whilst evidencing the significant international development opportunities available for RFG's businesses. We continue to investigate those international licencing opportunities.

Operational advancements and the expeditious development of the donut program have also enabled the Central Manufacturing Facility (CMF) to accelerate manufacture and supply of donut product to the Donut King system. The CMF as at 30 June 2008 was supplying 200 Donut King outlets with proprietary donut product. Today 250 outlets are receiving CMF manufactured product, RFG now having achieved "practical rollout" into the Donut King system. That said, RFG anticipates further outlet uptake as FY09 progresses.

Of the initiatives commenced in FY07, RFG has also (in conjunction with its joint venture partner) rolled out to all Donut King and bb's café (Australia only) outlets coffee produced through the Coffee Roasting Facility (CRF). The CRF is now fully operational and has achieved RFG's objective of leveraging its scale of operation through this supply channel and also capturing the vertical integration opportunity that it represents.

The acquisitions of the Brumby's Bakeries and the Michel's Patisserie franchise systems "tick the remaining box" of RFG's domestic growth strategies and allow the Company to further leverage (beyond organic growth) its management and operational expertise in retail food franchising. Whilst RFG regards the Brumby's Bakeries integration as complete, there exists further synergistic and leveraging opportunities to be liberated as the Michel's Patisserie system integration continues.

The strategic acquisitions accomplished thus far, the underlying strength of the Company's historical business drivers together with expansion of the franchise systems internationally, collectively provide solid platforms for continued growth and earnings. It is the development of the Company's multiple revenue streams which will support and build upon the Company's historical robust financial performance. Ultimately and notwithstanding the deterioration in current economic conditions and outlook, RFG is confident of delivering enhanced performance and financial outcomes to all stakeholders.

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

I would also like to thank our valued shareholders of RFG, for your commitment to the Company.

John Cowley, AM
CHAIRMAN

MANAGING DIRECTOR'S REPORT

In FY08 Retail Food Group achieved record outcomes for all stakeholders, increased earnings from organic growth, delivered greater earnings contributions from traditional business drivers while attending to two significant EPS accretive acquisitions.

The FY08 performance of Retail Food Group (RFG or the Company) has not only exceeded the Company's forecast, but also analyst and market expectations generally. Notwithstanding a challenged economy, fuel price increases, decreased discretionary spending and deflated consumer confidence, the Company has reinforced its position as an enterprise with franchise systems, business units and revenue streams remarkably resilient to negative adverse domestic economic performance.

The Company continued to drive and achieve growth in franchise revenue, new outlet commissionings, and significantly increase wholesale and manufacturing revenues (the latter largely through the acquisition of the Michel's Patisserie franchise system).

FY08 has been characterised by a net profit after tax (NPAT) increase of $10.1million to $17.6 million on a 387% increase in total revenue over FY07.

EXCEEDING FORECASTS

For the 2008 financial year, Retail Food Group achieved NPAT of $17.6 million and EPS growth of 89.5%.

Continuing RFG's history of record NPAT results in each year after listing, this year's 134% increase in NPAT was driven by:

- the acquisition and contribution to earnings from the Brumby's Bakeries and the Michel's Patisserie franchise systems;
- record 61 new outlet commissionings;
- total network sales of $592 million, an increase of 274% on the previous corresponding period ('pcp');
- increase in licensing and product procurement revenues;
- liberation and realization of acquisition synergies ahead of schedule;
- completion of the CMF commissioning and product rollout to over 65% of Donut King outlets (significantly ahead of schedule); and
- successful development and execution of marketing initiatives which have sustained and enhanced franchisee average weekly sales (AWS) and average transaction values (ATV).

Earnings per share (EPS) for FY08 was 19.9 cents, an 89.5% increase on FY07 (10.5 cents). EPS on a continuing business basis (ie. excluding the gain on acquisition of Brumby's Bakeries) was 19.0 cents, an increase of 80.9% on pcp.

Due to the nature of the Company's franchise models, RFG enjoys strong, consistent and recurrent cash flows which—allied with low capital expenditure to maintain those revenue streams—results in substantial free cash flow generation.

Testimony to this robust cash flow, the Company's Directors have declared a final dividend for the year ended 30 June 2008 of 4.5 cents per share (cps), which together with the interim dividend of 4.0cps represents a 36% increase over FY07.

The Company's strong performance continues to be underpinned by franchised outlet Average Weekly Sales (AWS) and Average Transaction Value (ATV) growth in Australia. Increased AWS and ATV fortifies the Company's franchisees against other retail competition and any decrease in shopping centre customer counts.

Strategic marketing initiatives designed to maintain franchisee AWS while increasing ATV will again be the principal focus for RFG during FY09 thus protecting the profitability of our franchisees and the revenue of the Company.

MANAGING DIRECTOR'S REPORT

	FY08	FY07	Increase
Total Network Sales	$592m	$158m	274%
Total Revenue	$114.9m	$23.6m	387%
EBITDA	$35.7m	$12.4m	188%
EBIT	$34.4m	$12.2m	182%
NPAT	$17.6m	$7.5m	134%
Earnings Per Share (EPS)	19.9 cents	10.5 cents	89.5%
Number of Franchised Outlets	1052	360	192.2%
New Outlet Commissionings	61	37	64.9%

Excluding the non-recurring $0.75 million gain on the Brumby's Bakeries acquisition, RFG achieved:

	FY08	FY07	Increase
EBIT	$33.6m	$12.2m	176%
NPAT	$16.9m	$7.5m	125%
Earnings Per Share (EPS)	19.0 cents	10.5 cents	80.9%

FRANCHISED OUTLET EXPANSION

During the 2008 financial year, a record 61 new outlets were commissioned—exceeding the Company's 2007 financial year new outlet opening result by 24 outlets.

The Company achieved organic outlet growth in all four of its franchise systems—Donut King (25), Michel's Patisserie (16), Brumby's Bakeries (16), and bb's Café (5).

Net annual outlet growth was the most significant ever achieved by the Company. As at 30 June 2008, RFG had 1052 franchised outlets, comprising:

- Donut King: 307 outlets, a net increase of 18 outlets over pcp
- Michel's Patisserie: 348 outlets, a net increase of 6 outlets over pcp
- Brumby's Bakeries: 329 outlets, a net increase of 8 outlets over pcp
- bb's café: 68 outlets, a net decrease of 3 outlets (including New Zealand: 2) over pcp

New outlet growth in the Michel's Patisserie and Brumby's Bakeries franchise systems was impacted by under-developed new site and franchisee recruitment programs, a legacy issue inherited on acquisition as well as prior management non-recognition, encouragement or incentivation of multi-outlet franchise growth in those systems.

Donut King and bb's café new outlet openings were consistent and in accordance with forecast, reflecting the adequacy of the Company's site identification and franchisee recruitment programs. Indeed, if not for delays in lessor site handover, Donut King would have achieved a further 6 new outlet commissionings in FY08.

RFG anticipates that multi-system and cross-system ownership will continue to increase given the addition of the Michel's Patisserie and Brumby's Bakeries systems.

To this end, significant operational resources have been deployed to ensure that the Company continues to organically develop its franchise systems. Organic outlet growth continues to be strong and future new outlet opportunity is stable and ongoing. However, as has historically been the mandate, new outlet selection and commissionings will be undertaken in a focused and vigilant manner thus complying with the Company's overriding principal to manage growth in a consistent, sustainable and conservative manner.

The Company has programmed a conservative new outlet growth forecast of 55 commissionings for FY09, partly in recognition of potential delays in lessor site handover and otherwise to reflect the site opportunity inventory build-up currently being undertaken with respect to the Brumby's Bakeries and Michel's Patisserie systems. That said, RFG is currently tracking comfortably with 1H09 forecast new outlet openings and is otherwise progressing well to achieve the full year organic growth program.

GROWTH STRATEGIES

During the past year, Retail Food Group continued to refine its systems performance, further commercialise its intellectual property and exploit scale opportunities to drive performance and enhance stakeholder outcomes.

Maintenance of franchisee operational servicing systems, together with franchisee financial health and wellbeing is a core tenant of RFG's medium to long term growth strategy. The RFG Board and management recognise that sustained and enhanced positive franchisee outcomes are critical drivers to extracting value not only for franchisees but also for the Company.

The application of significant personnel resources directed at franchisee interface and service levels will therefore be an ongoing feature of the Company's operational strategy and whereas there does exist significant opportunity to realize synergies via the integration process, such reductions will not be at the expense of service delivery.

Additionally, in FY08 leveraging of brand and system identity in new markets crystallised as a genuine growth driver of the Company. The first tangible benefit of this pursuit was the Company's granting of the Donut King Master Licence for China with the first two outlets programmed to be commissioned in November 2008.

The Company continues to pursue international licencing opportunities, however as with domestic organic growth same will be approached in a measured and conservative manner; and with the overriding mandate of only entering licencing arrangements with the highest caliber licencee whose commercial objectives and aspirations are totally aligned with that of the Company.

During the financial year RFG commissioned its "frozen blank" donut pilot program at its Yatala Central Manufacturing Facility (CMF) for supply to Donut King franchisees. Following the outstanding success of the pilot the Company embarked on the immediate roll out of the donut product to franchisees. As at the end of the financial year there were 200 Donut King franchisees receiving CMF manufactured product.

Subsequent to the 30th June 2008, a further 50 franchisees commenced participation in the program. Effectively, RFG has achieved practical roll-out approximately two years ahead of the original schedule and without the requirement to commission further CMF operations in other states.

Ultimately, it is not only RFG policy that all Donut King franchisees receive and enjoy the benefits of CMF supplied donut products, but that this initiative, where commercially expedient and financially defensible, be extended to other products across each of the franchise systems.

In particular, system enhancements such as the CMF initiative are envisaged in the Brumby's Bakeries and Michel's Patisserie systems where the Company intends to develop and introduce through its trade partner relationships, time and cost efficient product enhancements.

In this respect, and as result of the significant increase in scale and franchise outlets, RFG has embarked upon a strategic general supply chain alignment review and partner analysis with a view to enhancing supply partner relationships such that maximum beneficial outcomes are being enjoyed by the Company and its franchisees.

BRUMBY'S BAKERIES

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

Notwithstanding that the Brumby's Bakeries system has only been under RFG stewardship for 12 months, it has already proven to be an excellent strategic acquisition and operational fit within the Company's service delivery divisions. Brumby's Bakeries, like the Donut King and bb's café franchise systems, utilizes a "royalty based" revenue model and consequently its integration into the RFG structure was seamless and timely—indeed practical integration was achieved significantly ahead of expectation.

The Brumby's Bakeries system delivered not only strong earnings, financial benefits and commercial rewards to the Company, but importantly, considerably enhanced the skill-sets and expertise of RFG's management and operational staff compliment. Many of the "Brumby's" staff have successfully migrated from a Brumby's Bakeries focus to divisional management roles across all the franchise systems under the Company's stewardship.

During the financial year Brumby's Bakeries performed admirably delivering significant franchise revenue of $13.1 million and contribution of EBIT of earnings $9.1 million.

MICHEL'S PATISSERIE

In December 2007, Retail Food Group completed the acquisition of all the issued shares in The Michel's Patisserie Group Australia Pty Ltd, the franchisor and intellectual property rights owner of the 324 outlet Michel's Patisserie franchise system.

Michel's Patisserie is a significantly populated franchise system with the "brand" being highly visible and well represented in all mainland Australian states. Unlike RFG's other franchise systems, Michel's Patisserie operates under a "wholesale distribution" franchise model, where a significant portion of revenue is derived by the wholesale mark up of product sold to Michel's Patisserie franchisees.

MANAGING DIRECTOR'S REPORT

It is RFG's intention to eventually attend upon the conversion of the Michel's franchise system from a "wholesale distribution" model to a "royalty based" model. Indeed, pilot of the "royalty based" franchise model is proposed to commence in 1H09.

The pilot (if successful) and conversion of the franchise system to a royalty based model will constitute the most significant advancement to the system since its inception and it is anticipated that such an initiative will be the catalyst and stimulator to further system enhancement and implementation of long term growth programs already identified by the Company.

As was the experience with Brumby's, the Michel's acquisition has also provided RFG with additional experienced and skilled operational staff who fortify and embellish the Company's human resource compliment - both in terms of franchisee support divisions and management expertise.

Michel's Patisserie 10 month contribution to RFG encompassed total revenue of approximately $70 million and an EBIT contribution of $11.8 million.

OUTLOOK

1Q09 results provide confidence that the growth strategies of the Company will once again underpin a strong FY09 performance.

The 2008 financial year has been a landmark period for the Company.

Having now initiated or achieved all of the strategic growth initiatives detailed in the Company's May 2006 Prospectus, RFG is well positioned to develop from its significant scale to deliver:

- enhanced and broader revenues streams, and
- increased shareholder value and outcomes.

During FY09 RFG management will again focus on driving all key performance metrics, fortifying franchisee health and wellbeing, while delivering performance optimization through consolidation and structural enhancement.

Considerable resources will also be applied to finalising the integration of the Michel's Patisserie system as well as implementing, evaluating and if successful rolling out the royalty based model for that system.

The Company's organic growth pipeline is strong and new outlet growth tracks comfortably with FY09 new outlet opening program. In terms of new store commissionings for the 2009 financial year, the Company has already identified sites, secured leases and recruited franchisees for approximately 85% of its full year forecast. At this juncture there is every indication that the Company's FY09 new outlet growth forecast of 55 outlets will be achieved if not exceeded.

Multi and cross system franchisee ownership will also be a focus in FY09, thereby fortifying new outlet growth.

Network Sales growth will continue to be supported by marketing initiatives including product enhancements and new outlet openings. Marketing programs executed for the first 3 months of FY09 together with product innovation has been directed towards increasing ATV to support AWS. Results for Q1 indicate that this strategy is succeeding.

In this respect the (weighted average) performance of the four franchise systems in Australia continues to defy adverse market conditions with Q1 network sales growth tracking at 7%, AWS in excess of 4% and ATV growth of 6.5% [1].

Whereas RFG has performed well year to date, notwithstanding the prevailing economic conditions, its franchise systems are not immune from further deterioration in consumer sentiment and retardation of discretionary spending, particularly where only one of the Company's systems (Brumby's Bakeries) operates within the "food staples" category.

While being mindful of the current economic and retail environment, RFG remains confident, through its high-profile brands, strong systems and exceptional franchisee support, of once again delivering robust, consistent and sustainable revenue and earnings for the 2009 financial year and beyond.

Anthony James (Tony) Alford
Managing Director & Chief Executive Officer

(1) Excludes ATV for Michel's Patisserie as no comparative information available.

ANNUAL FINANCIAL REPORT

FINANCIAL YEAR ENDED 30 JUNE 2008

SUMMARY FINANCIAL INFORMATION

FINANCIALYEARENDED30JUNE2008

	Proforma FY03 [1]	Proforma FY04 [1]	Proforma FY05 [1]	FY06	FY07	FY08	Adjusted FY08 [2]
Financial							
Network Sales [3]	$105.9m	$119.0m	$129.6m	$143.1m	$158.2m	$592.0m	
Total Revenue [4]	$14.0m	$16.4m	$18.3m	$20.5m	$23.6m	$114.9m	
EBITDA	$7.7m	$8.4m	$9.1m	$9.9m	$12.4m	$35.7m	$34.9m
EBIT	$7.6m	$8.3m	$8.9m	$9.8m	$12.2m	$34.4m	$33.6m
NPAT				$5.9m	$7.5m	$17.6m	$16.9m
Basic EPS			4.9 cps	8.6 cps	10.5 cps	19.9 cps	19.0 cps
Diluted EPS			4.9 cps	8.6 cps	10.4 cps	19.8 cps	18.9 cps
Operating							
Network Sales Growth		12.4%	8.9%	10.4%	10.6%	274.2%	
Total Revenue Growth		17.1%	11.6%	12.0%	15.1%	386.9%	
EBITDA Growth		9.1%	8.3%	8.8%	25.3%	187.9%	181.5%
EBIT Growth		9.2%	7.2%	10.1%	24.5%	182.0%	175.4%
NPAT Growth					27.1%	134.7%	125.3%
Basic EPS Growth				75.5%	22.1%	89.5%	81.0%
Dividend (paid or payable)					6.25 cps	8.5 cps	
Franchised Outlets [5]	285	303	319	332	360	1,052	
New Outlet Commissionings	15	15	26	27	37	61	

(1) Results are proforma adjusted as per the Company's Prospectus dated 9 May 2006.
(2) Results exclude non-recurring $0.754m gain realised on acquisition of Brumby's Bakeries.
(3) Derived from financial information including franchisee-reported turnover and has not been subject to audit.
(4) Excludes revenue derived from marketing activities (FY03: $3.0m; FY04: $4.1m; FY05: $5.8m; FY06: $6.4m; FY07: $6.2m; FY08: $10.3m).
(5) During FY08, the Group acquired the Brumby's Bakeries (321 franchised outlets at control date) and Michel's Patisserie (342 franchised outlets at control date) franchise systems.

CORPORATE DIRECTORY

Directors	Mr John Thomas Cowley *Chairman & Independent Director* Mr Anthony James Alford *Managing Director & Chief Executive Officer* Mr Nigel Norman Nixon *Executive Director & Corporate Counsel* Mr Colin Cameron Archer *Independent Director* Mr Bruce Alan Hancox *Independent Director*
Company Secretary	Mr Anthony Mark Connors
Registered Office	Alfords Level 1 HQ Robina 58 Riverwalk Avenue Robina QLD 4226
Principal Place Of Business	RFG House 26 Railway Street Southport QLD 4215
Share Register	Computershare Investor Services Level 19, 307 Queen Street Brisbane QLD 4000
Solicitors	McCullough Robertson Lawyers Level 11, 66 Eagle Street Brisbane QLD 4000
Auditors	Deloitte Touche Tohmatsu Level 25, 123 Eagle Street Brisbane QLD 4000
Bankers	Commonwealth Bank of Australia Level 9, 240 Queen Street Brisbane QLD 4000
Stock Exchange Listings	Retail Food Group Limited shares are listed on the Australian Securities Exchange (ASX:RFG).
Website Address	www.rfg.com.au

CORPORATE GOVERNANCE STATEMENT

The following Corporate Governance Statement sets out the Company's main corporate governance practices. For further information on corporate governance policies adopted by the Company, please refer to the Company's website www.rfg.com.au.

Unless otherwise disclosed herein, all principles of good corporate governance recommended by the ASX Corporate Governance Council have been adopted by the Board and applied during the financial year ended 30 June 2008.

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 fulfill 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 five Directors, three of which are non-executive Directors and are independent. The names of independent Directors of the Company are:

- Mr John Cowley (Chairman)
- Mr Colin Archer
- Mr Bruce Hancox (appointed 14 December 2007).

When determining whether a non-executive Director is independent the Director must not fail any of the following 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
Mr John Cowley	Chairman and Independent Non-Executive Director	13 October 2005 (re-elected 28 November 2007 following retirement by rotation)
Mr Anthony (Tony) Alford	Managing Director and Chief Executive Officer	28 October 2003
Mr Nigel Nixon	Executive Director and Corporate Counsel	29 November 2003 (re-elected 29 November 2006 following retirement by rotation)
Mr Colin Archer	Independent Non-Executive Director	12 April 2006 (re-elected 29 November 2006 following retirement by rotation)
Mr Bruce Hancox	Independent Non-Executive Director	14 December 2007

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 FY08 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 fulfill 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 changes to the ASX Corporate Governance Principles and Recommendations and in light of practical experience gained in operating as a listed company.

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the CEO and senior executives as set out in the Company's Corporate Governance Charter. These delegations are reviewed as appropriate.

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 of Conduct for Transactions in Securities. 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;
- perceived by the public, press, other shareholders or ASX as unfair.

No person to whom the Code applies can sell more than $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.

The Company's CEO and CFO have made the following certifications to the Company's Audit and Risk Management Committee and to the Board in respect to the Company's financial reports:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with the relevant Accounting Standards; and,
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

CORPORATE GOVERNANCE STATEMENT

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:

- Mr Colin Archer (Committee Chairman)
- Mr John Cowley
- Mr Bruce Hancox.

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

The Audit and Risk Management Committee currently comprises three independent non-executive Directors.

Mr Hancox was appointed a Committee member on 29 September 2008 following the resignation by Mr Anthony (Tony) Alford as a Committee member on that date. Given Mr Alford's membership of the Committee until the above date (including FY08), the composition of the Committee during this period did not comply with the ASX Corporate Governance Council recommendation that the Committee consist exclusively of non-executive Directors. It is noted that the Committee now complies with this recommendation.

The Audit and Risk Management Committee has a formal Charter and internal control framework. The Committee Charter requires that Committee meetings are convened at least four times each year. The Company's external auditors, the CEO and CFO are invited to attend each of the Committee's meetings at the discretion of the Committee.

Four (4) Audit and Risk Management Committee meetings were held during FY08 and were attended by all of the then Committee members at that time.

The Committee performs a variety of functions relevant to risk management and internal and external reporting and reports to the Board following each meeting. The Board, through the Audit and Risk Management Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the Company's policies are designed to ensure strategic, operational, legal, reputational and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives.

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:

- Mr John Cowley (Committee Chairman)
- Mr Colin Archer
- Mr 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.

The Charter of the Nominations Committee provides for the Committee to meet twice yearly. Two (2) Committee meetings were held during FY08. All Committee members attended the first of those meetings whereas one (1) Committee member was unable to attend the second of those meetings (in which case the remaining Committee members did attend and formed a quorum).

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:

- Mr John Cowley (Committee Chairman)
- Mr Colin Archer
- Mr 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 caliber executives and reward them for performance which results in long-term growth in shareholder value;
- all bonuses, options and incentives must be linked to predetermined performance criteria;
- any changes must be referential to measurable performance criteria.

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

The Charter of the Remuneration Committee provides for the Committee to meet at least twice yearly.

During FY08 five (5) Committee meetings were held. All Committee members attended four (4) of those meetings whereas one (1) Committee member was unable to attend one (1) of those meetings (in which case the remaining Committee members did attend and formed a quorum).

The Company has entered into executive service contracts with the executive Directors and the CFO. 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 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.

CORPORATE GOVERNANCE STATEMENT

DISCLOSURE AND COMMUNICATIONS

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.

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.

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 financial statements.

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 website at www.rfg.com.au.

DIRECTOR'S REPORT

The Directors submit herewith the annual financial report on the consolidated entity (referred to hereafter as the "Group") consisting of Retail Food Group Limited (referred to hereafter as the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2008. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

INFORMATION ABOUT THE DIRECTORS AND SENIOR MANAGEMENT

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

Name	Particulars
Mr John Cowley	Independent Chairman, joined the Board on 13/10/2005. Mr Cowley is a member of the Audit and Risk Management, and Chairman of the 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. Mr Cowley was re-elected to the Board at the Company's AGM held on 28 November 2007 following retirement by rotation.
Mr Anthony (Tony) Alford	Chief Executive Officer and Managing Director, Bachelor of Business (Accountancy), CPA. Mr Alford joined the Board on 28/10/2003. Has been an accountant in public practice for in excess of 19 years. Mr Alford commenced his involvement with 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 Group. Mr Alford was a member of the Audit and Risk Management Committee until 29 September 2008.
Mr Nigel Nixon	Corporate Counsel and Executive Director, Solicitor of the Supreme Court of Queensland and the Australian Capital Territory. Mr Nixon 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 was re-elected to the Board at the Company's AGM held on 29 November 2006 following retirement by rotation.
Mr Colin Archer	Independent Director, Bachelor of Economics, CA, 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 Chairman of the Audit and Risk Management Committee and a member of the Nomination and Remuneration Committees. Mr Archer was re-elected to the Board at the Company's AGM held on 29 November 2006 following retirement by rotation.
Mr Bruce Hancox	Independent Non-executive Director, joined the Board 14 December 2007. Mr Hancox has over 35 years corporate experience in manufacturing and retailing including 19 years with Brierley Investments Limited where he occupied the position of Group Chief Executive Officer and ultimately Chairman of the Board. He is a member of the Company's Audit and Risk Management Committee.

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

- Mr Bruce Hancox—appointed 14 December 2007.

DIRECTORSHIPS OF OTHER LISTED COMPANIES

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

Name	Company	Period Of Directorship
Mr John Cowley	Oaks Hotels and Resorts Limited	Appointed 2 November 2005
Mr Colin Archer	Oaks Hotels and Resorts Limited	Appointed 24 April 2005

DIRECTOR'S REPORT

DIRECTORS' SHAREHOLDINGS

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

Directors	Fully Paid Ordinary Shares No.	Executive Share Options No.
Mr John Cowley	53,633	176,100
Mr Anthony (Tony) Alford	23,432,795	140,000
Mr Nigel Nixon	5,355,600	231,000
Mr Colin Archer	217,760	136,100
Mr Bruce Hancox	–	–

REMUNERATION OF DIRECTORS

Information about the remuneration of Directors and senior management is set out in the Remuneration Report of this Directors' Report.

SHARE OPTIONS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

During and since the end of the financial year an aggregate of 602,200 share options were granted to the following Directors and senior management of the Company as part of their remuneration:

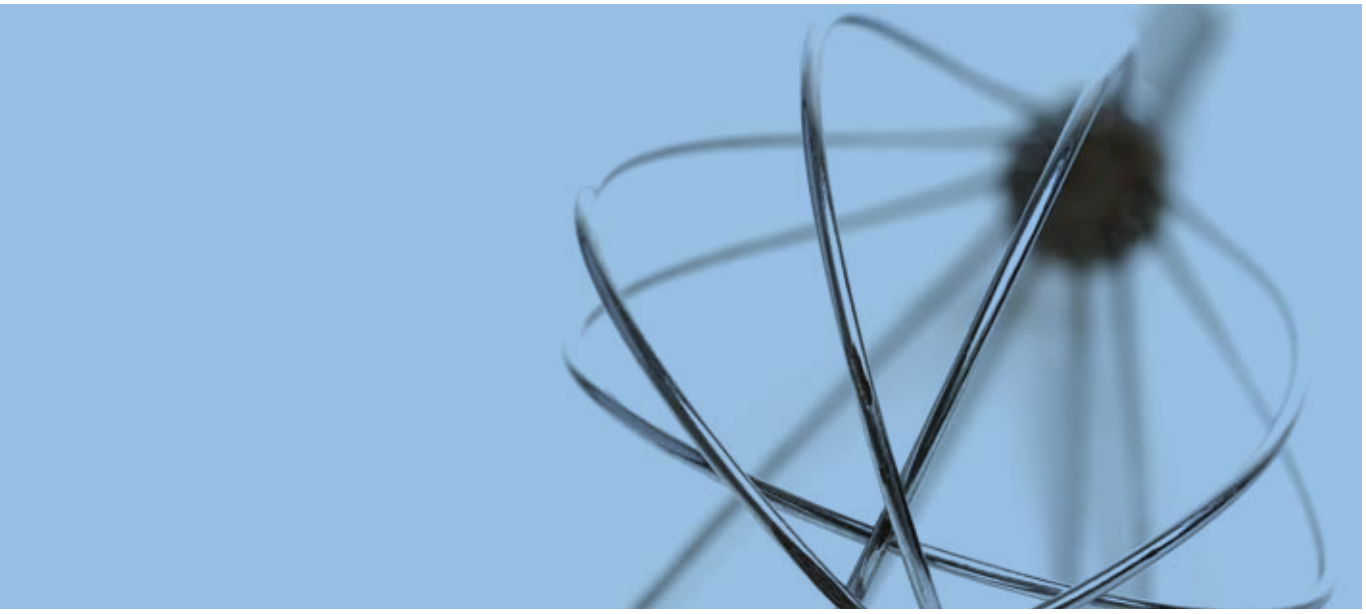
Directors And Senior Management	No. Options Granted	Issuing Entity	No. Ordinary Shares Under Option
Mr John Cowley	36,100	Retail Food Group Limited	36,100
Mr Anthony (Tony) Alford	70,000	Retail Food Group Limited	70,000
Mr Nigel Nixon	70,000	Retail Food Group Limited	70,000
Mr Colin Archer	36,100	Retail Food Group Limited	36,100
Mr Gary Best	70,000	Retail Food Group Limited	70,000
Mr Damien Peters	40,000	Retail Food Group Limited	40,000
Mr Mark Connors	70,000	Retail Food Group Limited	70,000
Mr Gary Alford	70,000	Retail Food Group Limited	70,000
Mr Gavin Nixon	70,000	Retail Food Group Limited	70,000
Ms Nicole Dodd	70,000	Retail Food Group Limited	70,000

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member). During the financial year, 13 Board meetings, 4 Audit and Risk Management Committee meetings, 5 Remuneration Committee meetings and 2 Nomination Committee meetings were held.

	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
Directors	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr John Cowley	13	11	4	4	5	4	2	1
Mr Anthony (Tony) Alford	13	13	4	4	–	–	–	–
Mr Nigel Nixon	13	13	–	–	5	5	2	2
Mr Colin Archer	13	12	4	4	5	5	2	2
Mr Bruce Hancox [1]	6	6	–	–	–	–	–	–

(1) Appointed to Board of Directors on 14 December 2007; appointed to Audit and Risk Management Committee on 29 September 2008.



COMPANY SECRETARY

The Company Secretary is Anthony Mark Connors. Mr Connors was appointed as Company Secretary on 26 April 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 Group's principal activities during the course of the financial year were:

- the intellectual property ownership of the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie franchise systems;
- development and management of the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie retail franchise systems throughout Australia and New Zealand; and
- development and management of the Central Manufacturing Facility, Coffee Roasting Facility (as part of a joint venture) and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie franchise systems.

CHANGES IN STATE OF AFFAIRS

No significant changes in the nature of the Group's core business activities occurred during the financial year other than with respect to the acquisition of:

- Brumby's Bakeries Holdings Limited (the ultimate owner of the Brumby's Bakeries franchise system) via off market takeover; and
- The Michel's Group Australia Pty Ltd (the ultimate owner of the Michel's Patisserie franchise system) pursuant to a Scrip & Cash Terms Agreement dated 6 September 2007.

REVIEW OF OPERATIONS AND FINANCIAL CONDITION

Group Overview

The Group demonstrated its ability to deliver sustained growth, increased earnings per share and greater shareholder value in the financial year ended 30 June 2008.

Net Profit After Tax (NPAT) of $17.6 million was up 134% (or $10.1 million) on the prior year, reflecting the continuing positive contribution of the Group's existing franchise systems, Donut King and bb's café, as well as the successful integration of the Brumby's Bakeries (12 months) and partial integration of Michel's Patisserie (10 months) franchise system.

NPAT of $17.6 million included a $0.754 million gain on the acquisition of Brumby's Bakeries representing the excess fair value of the net assets of the Brumby's Bakeries business acquired over the total consideration paid.

Total network sales across the Group's four franchise systems for FY08 was $592 million, an increase of $434 million over the previous year. Network sales increased as a consequence of:

- the addition of the Brumby's Bakeries and Michel's Patisserie franchise systems;
- 61 new outlet openings;
- increases in average weekly sales (AWS) and average transaction values (ATV) across all four brands; and,
- increasing customer counts across the respective systems.

Earnings per share (EPS) for the year increased 89.5% (or 9.4 cents) to 19.9 cents.

The Directors declared a fully franked final ordinary dividend of 4.5 cents a share, taking the full year dividend to 8.5 cents per share, an increase of approximately 36% on the prior year.

Businesses Acquired

During the financial year ended 30 June 2008, the Company completed the acquisition of the Brumby's Bakeries and Michel's Patisserie franchise systems.

Brumby's Bakeries

On 4 May 2007, the Company announced an off market bid for all of the shares in the then BSX listed Brumby's Bakeries Holdings Limited (Brumby's). The formal offer period relating to the Company's bid ended on 18 July 2007, at which time the Company had acquired a relevant interest in 99.87% of Brumby's shares. On 3 September 2007, the Company announced that it had completed the compulsory acquisition of the remaining shares not acquired in the off market process.

At the time of acquisition, 321 outlets existed in the Brumby's Bakeries franchise system.

Michel's Patisserie

On 7 September 2007, the Company announced that it had entered into a Scrip and Cash Terms Agreement ("SCTA") with the shareholders of The Michel's Group Australia Pty Limited (Michel's) to acquire all the issued shares in Michel's. On 14 December 2007, the Company completed the acquisition of 100% of the issued share capital for cash consideration of $46.1 million, and the assumption of debt totaling $57.8 million.

The consideration payable also included a conditional scrip component which was subject to an incentivated earn-out program based on Michel's FY08 adjusted EBIT performance. The vendor shareholders were entitled to be issued with the Company's scrip on a pro rata basis where Michel's FY08 adjusted EBIT for earnout calculation purposes was between $13.25 million and $18.0 million.

REVIEW OF OPERATIONS AND FINANCIAL CONDITION (CONT.)

On 19 August 2008, the Company announced that a committee established under the SCTA for the purposes of determining Michel's FY08 adjusted EBIT for earnout purposes, and consisting of representatives of the Company and the vendor shareholders, had determined that Michel's FY08 adjusted EBIT for earnout purposes did not exceed $13.25 million resulting in no further consideration to the vendor shareholders and the conversion of the 500,002 converting performance shares (previously issued to the vendor shareholders) to nil ordinary shares in the Company.

At the time of acquisition, 342 outlets existed in the Michel's Patisserie franchise system.

Operating Results For The Year

Total revenue for FY08 was $125.2 million, exceeding FY07 revenue by $95.5 million or 321.3%.

The Group is organised into two major operating divisions—franchising operations and wholesale / retail operations.

Franchising Operations

Franchising operations incorporates the development and management of the Group's four retail franchise systems—Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie—and involves the following principal activities:

- establishment and grant of new franchises;
- administration of royalties collection, supplier licensing, franchise compliance, franchise training and administration; and
- performance of marketing and promotional activities, brand development and awareness, and product research and development.

Segment revenue for FY08 was $46.8 million (FY07: $24.2 million), representing growth of $22.6 million (or 93.3%), and was driven by new outlet openings, growth in average weekly sales (of which the Group earns a royalty other than in connection with the Michel's Patisserie franchise system), and the additional business attributable to the inclusion of the Brumby's Bakeries and Michel's Patisserie franchise systems into the Group.

Segment revenue includes revenues derived from marketing activities of $10.3 million (FY07: $6.2 million).

Wholesale / Retail Operations

Wholesale / Retail Operations incorporates the development and management of the Group's Procurement & Distribution division, Wholesale & Manufacturing division and Company Store division. These divisions are managed and reported separately to the Franchising Operations segment, and involves the following principal activities:

- the procurement, sale and distribution of bakery and other related items to Michel's Patisserie franchisees;
- the manufacture and sale of products produced at the Central Manufacturing Facility (CMF) to Donut King franchisees;
- the interim operation of non-voluntary company owned or company managed stores across each of the four franchise systems; and
- the sale of store builds and company owned stores.

Segment revenue for FY08 was $76.9 million (FY07: $5.3 million), representing growth of $71.6 million, which is principally the result of wholesale and manufacturing activities attributable to the inclusion of the Michel's Patisserie franchise system.

A review of consolidated revenues and results by segment is set out below:

Segment	Segment Revenues		Segment Result	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Franchise operations	46,806	24,187	15,802	9,831
Wholesale / retail operations	76,916	5,250	13,871	69
	123,722	29,437	29,673	9,900
Eliminations	–	–	–	–
Unallocated	848	84	(5,299)	854
	124,570	29,521	24,374	10,754
Income tax expense			(6,741)	(3,234)
Profit for the year			17,633	7,520

Consolidated Result

Net Profit After Tax (NPAT) of $17.6 million was up 134% (or $10.1 million) on the prior year.

Ignoring the benefit of the $0.754 million gain on the acquisition of Brumby's Bakeries (refer above), and the $1.5 million (gain) change in fair value of a derivative financial instrument, underlying NPAT of $15.4 million represents a 105% increase on NPAT achieved in FY07.

Balance Sheet, Cashflow and Debt Structure

Net current assets of $6.6 million have increased by $15.0 million from FY07, and is the result of the settlement of the purchase consideration accrued at FY07 relating to the Brumby's acquisition, through the proceeds of long-term borrowings.

The Group continues to improve its cash generation, with cash inflows from operating activities growing by $6.9 million (or 108.1%) to $13.3 million in FY08. This increase is largely the result of the acquisitions made by the Company during FY08.

The acquisition of Brumby's and Michel's in FY08 was supported by increased core debt funding of $102.9 million and a capital raising of $44.4m in October / November 2007. The funding is in the form of an interest-only variable rate senior facilities agreement with CBA, with a maturity of December 2010. The Company hedges $101.5 million of the loan via an interest rate swap exchanging the variable rate interest for a fixed rate interest. The Company's total core debt presently stands at $110.7 million following the voluntary repayment of $5.0 million in FY08 and a further $3.0 million since the end of the financial year from excess free cash flows.

RFG's debt to equity ratio of 54.4% sits comfortably within its preferred range of 40% - 60%.

Performance Indicators

Outlet Commissionings

New outlet commissionings for FY08 were a record 61, exceeding FY07 new outlet commissionings by 24 or 64%.

New Outlet Growth

Franchise System	Details
Donut King	25 new outlet commissionings (FY07: 30) and 7 outlet closures (FY07: 6) resulting in Donut King net system growth during FY08 of 18 (or 6.2%). As at 30 June 2008 there were 307 Donut King outlets operating in the system with Donut King outlet commissionings growth being experienced primarily in Queensland, Victoria and New South Wales. In all other Australian States outlet numbers remained static.
Brumby's Bakeries	16 new outlet commissionings and 8 outlet closures resulting in Brumby's Bakeries net system growth during FY08 of 8. As at 30 June 2008 there were 307 Brumby's Bakeries outlets operating in Australia with outlet commissionings growth being experienced primarily in Queensland, Victoria and New South Wales. In all other Australian States outlet numbers remained static. As at 30 June 2008 there were 22 Brumby's Bakeries outlets located in New Zealand.
Michel's Patisserie	16 new outlets commissionings and 10 outlet closures resulting in Michel's Patisserie net system growth during FY08 of 6. As at 30 June 2008 there were 342 Michel's Patisserie outlets operating in Australia with outlet commissionings growth being experienced primarily in Queensland, Victoria and New South Wales. In all other Australian States outlet numbers remained static. As at 30 June 2008 there were 6 Michel's Patisserie outlets located in New Zealand.
bb's café	4 new commissionings and 7 outlet closures resulting in bb's café net system reduction during FY08 of 3. As at 30 June 2008 there were 68 bb's café outlets (FY07: 71), 24 of which are located in New Zealand (FY07: 24).

DIRECTOR'S REPORT

REVIEW OF OPERATIONS AND FINANCIAL CONDITION (CONT.)

Outlet Average Weekly Sales (AWS) & Average Transaction Values (ATV)

Franchise System	Average Weekly Sales (AWS)			Average Transaction Value (ATV)		
	2006 ($)	2007 ($)	2008 ($)	2006 ($)	2007 ($)	2008 ($)
Donut King	8,981	8,978	9,183	4.14	4.38	4.59
Growth	3.3%	0.0%	2.3%	4.5%	5.8%	4.8%
bb's café	9,285	9,814	10,274	5.97	6.44	6.75
Growth	6.7%	5.7%	4.7%	3.1%	7.9%	5.6%
Brumby's Bakeries			13,073			5.35
Growth			7.8%			8.9%
Michel's Patisserie			11,394			5.93
Growth			1.4%			3.3%

The Group's four franchise systems exhibited positive growth in both outlet average weekly sales (AWS) and average transaction values (ATV) for FY08.

Donut King outlet average weekly sales growth of 2.3% was supported by a full pricing policy and a strategic departure from discount vouchers. The 4.8% increase in average transaction values reflected several key promotions and improved merchandising emphasising yeast raised as opposed to cake donuts.

The bb's café FY08 outlet average weekly sales growth for Australian outlets was 4.7% on FY07 reflecting meal enhancements and "menu combo strategies". Promotions focusing on lunch, higher price point offers and health options also increased bb's café FY08 outlet average transaction values by 5.6%.

Brumby's Bakeries average weekly sales growth continued to be robust, largely unaffected by softening consumer discretionary spend due to the staple nature of its product. Product bundling and staff incentivised up-selling were key drivers supporting Brumby's 8.9% growth in average transaction value.

Michel's Patisserie AWS and ATV growth remained positive due to greater emphasis on product quality and fortification of the "coffee and cake" combo offer.

FUTURE DEVELOPMENTS

New Outlet Growth

FY09 Outlets Forecast	Donut King	bb's café	Brumby's Bakeries	Michel's Patisserie	Total
Beginning Stores	307	68	329	348	1052
Commissionings	21	4	14	16	55
Closures	(5)	(4)	(6)	(7)	(22)
Net Growth Anticipated	16	–	8	9	33
Closing Stores	323	68	337	357	1085

Total outlets for the Group as at 30 June 2009 are forecast to be 1085, a net increase of 33 stores based on forecast organic new store growth of 55 outlets, and 22 forecast closures.

Donut King and Brumby's Bakeries new outlet growth is anticipated to occur across all states in FY09, with 21 and 14 forecast new outlets respectively.

Outlet population within bb's café is anticipated to remain static, with 4 forecast new openings, offset by 4 forecast closures.

New outlet growth in the Michel's Patisserie system is forecast to be 9, resulting from 16 new outlets, offset by 7 closures.

The Group is continuing to encourage multi-outlet ownership by franchisees.

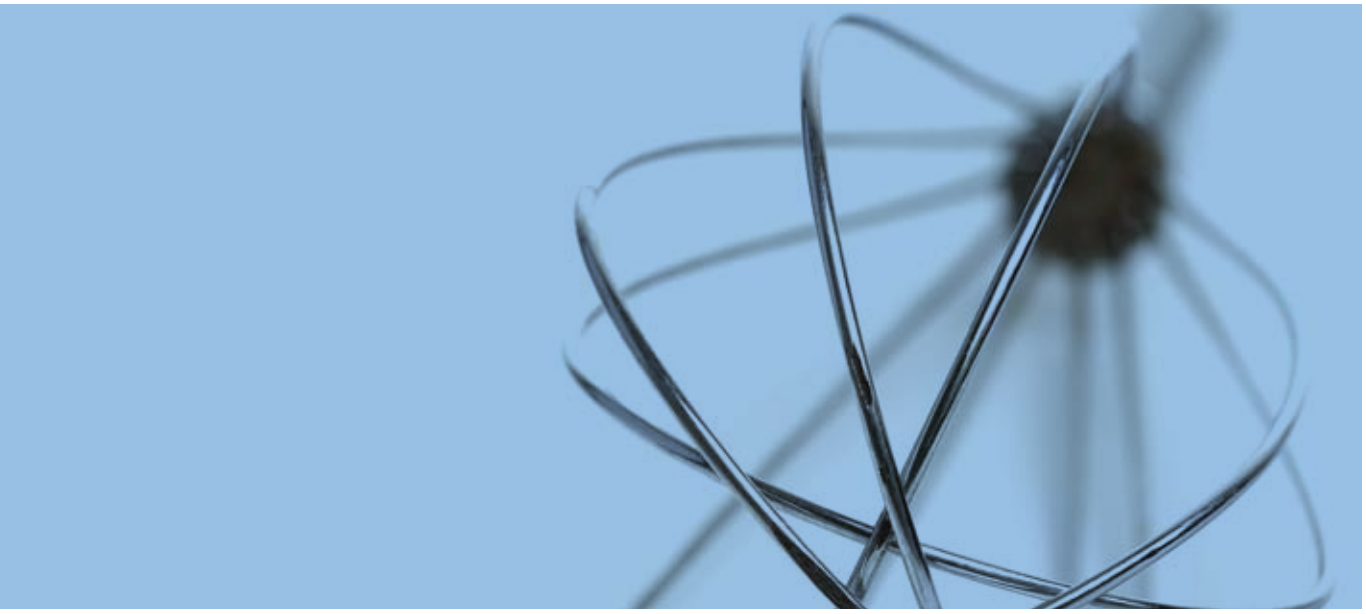
Outlet Average Weekly Sales (AWS) and Average Transaction Values (ATV)

During the financial year, the Group continued to devote considerable effort and resources to driving same outlet sales by:

- sustaining and/or enhancing franchisee average weekly sales (AWS), and
- increasing average transaction value (ATV).

Positive AWS growth was achieved in all systems (excepting bb's café NZ where AWS marginally declined). The growth supports the proposition that the Group's four franchise systems were largely resilient to significant changes in consumer sentiment and discretionary spending during FY08.

ATV increased across all systems. ATV remains important to the Group's four franchise systems given the quantum of customers the franchise systems attract and each outlets relatively low ATV. Where ATV is successfully increased it fortifies franchisee and outlet performance against increasing competition and decline in retail traffic flow.



Increasing AWS and ATV will continue to remain a focus and driver of both outlet and the Group's performance.

Central Manufacturing Facility (CMF)

As at 30 June 2008, the CMF was supplying donut product to approximately 200 Donut King outlets. The number of outlets taking donut products from the CMF has since increased to 250.

The CMF has capacity to service the current Donut King system in Australia with donut product. The Group expects to achieve "practical rollout" to Donut King outlets before the end of FY09. Any outlets not voluntarily converting to CMF supply will be required to migrate over at franchise renewal, or sale of the franchise.

Operational and Financial Targets

After the acquisition of two significant franchise systems in FY08, management's focus will continue to be on consolidation and structural enhancement in FY09 to achieve further economies and drive earnings, while completing the Michel's Patisserie integration.

Growth strategies continue to be directed toward leveraging:

- existing intellectual property in RFG's franchise systems; and
- brand management and franchising expertise;

for the benefit of all concerned stakeholders.

New initiatives are well underway to achieve further overhead rationalisations and greater operational efficiencies from the Group's increased scale.

To facilitate these objectives and in recognition of the significant increase in franchised outlets, the Group has established a specific division known as Franchise Strategy (FS). FS is charged with the responsibility of progressing to completion the Michel's Patisserie system integration within the Group. Coupled with this task, FS is also responsible for system enhancement, development, implementation and evaluation of the effectiveness of converting the Michel's Patisserie system from a "wholesale distribution" based revenue model to a traditional "royalty based" system similar to the other franchise systems under RFG's stewardship.

FS is also chartered post completion of the Michel's Patisserie integration to act as the Group's franchise system interface and strategist to over-all system delivery and enhancement.

The Group is positioned to maintain its growth profile and, in the absence of any significant deterioration in the domestic retail food market, the Group expects to deliver continued strong performance. Additional guidance in relation to the FY09 performance of the Group will be provided at a later time.

Disclosure of further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report as the Directors believe it would be likely to result in unreasonable prejudice to the Group.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There has not been any matter or circumstance occurring, 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:

Conversion of Performance Shares to Nil Ordinary Shares in the Company

On 7 September 2007, the Company announced that it had entered into a Scrip & Cash Terms Agreement ('SCTA') to acquire all of the issued shares in Michel's. Settlement of the SCTA was effected on 14 December 2007.

The SCTA provided for the issue of certain converting performance shares (the 'Replacement Shares') to the vendor shareholders in connection with the incentivised scrip based earn-out forming part of the consideration for Michel's. Where Michel's FY08 adjusted EBIT for earnout calculation purposes was between $13.25 million and $18.0 million, the Replacement Shares would convert to the Company's ordinary shares on a pro rata basis.

A committee consisting of representatives from the Company and the vendor shareholders was established under the terms of the SCTA to, among other things, determine Michel's 12 month adjusted EBIT for the purposes of the earn out calculation.

Based on 12 month accounts specifically prepared for earn out purposes, the Company announced on 19 August 2008 that the committee had determined that the Michel's FY08 adjusted EBIT did not exceed $13.25 million, and as a consequence, the Replacement Shares would convert to nil ordinary shares in the Company and therefore not have any dilutive effect on EPS at the reporting date.

Donut King Master License Agreement For China

On 4 July 2008, the Company announced that it had finalised the terms of a Master License Agreement ('MLA') with Shanghai based Mak Brands Limited concerning the proliferation of the Donut King franchise system within the Peoples Republic of China.

The China MLA:

- grants exclusive rights in respect of the Donut King system for the territory of Mainland China;
- is performance based for an initial term of 20 years;
- provides for the payment of an initial license fee on execution together with an ongoing royalty stream; and
- imposes strict performance criteria on the licensee requiring establishment of a minimum 20 outlets within 5 years from commencement and thereafter 8 outlets per annum.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE (CONT.)

Final Dividend

On 28 August 2008, the Board of Directors declared a final dividend for the financial year ended 30 June 2008, 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 & Option Plan ('ESOP') to assist in the recruitment, reward and retention of its Directors, executives and management personnel. 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, and consistent with the Company's May 2006 Prospectus, a total of 530,006 share options were granted to Directors, executives or employees on 1 August 2008. The exercise price is $1.32. Of the said options:

- 283,339 options will vest on 1 August 2009 and will lapse if not exercised by 31 July 2012;
- 123,333 options will vest on 1 August 2010 and will lapse if not exercised by 31 July 2013; and
- 123,334 options will vest on 1 August 2011 and will lapse if not exercised by 31 July 2014.

ENVIRONMENTAL REGULATIONS

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

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

DIVIDENDS

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Dividend Details	Cents Per Share	Total Amount $'000	Franked / Unfranked	Payment Date
Declared and paid during the financial year				
Final 2007 dividend	3.125	2,276	Franked	12 October 2007
Interim 2008 dividend	4.000	3,908	Franked	11 April 2008
		6,184		
Declared after the end of the financial year				
Final 2008 dividend	4.500	4,430	Franked	28 October 2008

In respect of the financial year ended 30 June 2007, as detailed in the Directors' report for that financial year, a final dividend of 3.125 cents per share (based on 72,672,224 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 12 October 2007. The final dividend was approved by the Directors following the conclusion of the 30 June 2007 financial year and therefore was not provided for in the Company's financial report. It was resolved that the final dividend would constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

In respect of profits of the financial year ended 30 June 2008, an interim dividend of 4.0 cents per share (based on 97,709,507 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 11 April 2008. The interim dividend was approved by the Directors on 28 February 2008 and it was resolved that the interim dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

In respect of profits of the financial year ended 30 June 2008, a final dividend of 4.5 cents per share (based on 98,455,360 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 28 October 2008. The final dividend was approved by the

Directors on 28 August 2008 and therefore was not provided for in the FY08 financial report. It was resolved that the final dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

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	No. Of Shares Under Option	Class Of Shares	Exercise Price Of Options	Expiry Date Of Options
Retail Food Group Limited	513,331	Ordinary	$1.00	31 July 2010
Retail Food Group Limited	496,666	Ordinary	$1.00	31 July 2011
Retail Food Group Limited	591,668	Ordinary	$1.00	31 July 2012
Retail Food Group Limited	294,062	Ordinary	$1.15	31 July 2011
Retail Food Group Limited	150,730	Ordinary	$1.15	31 July 2012
Retail Food Group Limited	150,740	Ordinary	$1.15	31 July 2013
Retail Food Group Limited	25,000	Ordinary	$1.67	31 March 2011
Retail Food Group Limited	15,000	Ordinary	$1.92	31 March 2012
Retail Food Group Limited	283,339	Ordinary	$1.32	31 July 2012
Retail Food Group Limited	123,333	Ordinary	$1.32	31 July 2013
Retail Food Group Limited	123,334	Ordinary	$1.32	31 July 2014

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 the Company.

Details of shares or interests issued during or since the end of the financial year as a result of exercise of an option are:

Issuing Entity	No. Of Shares Under Option	Class Of Shares	Amount Paid For Shares	Amount Unpaid On Shares
Retail Food Group Limited	324,999	Ordinary	$326,499	$nil

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 certain claims that may be raised against them relative to the operations of the Company, its former and current subsidiaries.

To the maximum permitted by the Corporations Act, the Deed Poll indemnifies those persons (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 financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 35 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 35 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 & 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 28 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.

REMUNERATION REPORT

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Retail Food Group Limited's Directors and its senior management for the financial year ended 30 June 2008. The prescribed details for each person covered by this report are contained below under the following headings:

(1) Director and senior management details
(2) remuneration policy
(3) relationship between the remuneration policy and Group performance
(4) remuneration of Directors and senior management
(5) key terms of employment contracts.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

(I) Director And Senior Management Details

The Company does not remunerate any of the Directors, key management personnel or specific executives. Rather, the Directors, key management personnel and specific executives are remunerated via subsidiaries of the Company; hence separate remuneration disclosure for the Company is not required.

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

- Mr John Cowley (Chairman)
- Mr Anthony (Tony) Alford (Managing Director and Chief Executive Officer) *
- Mr Nigel Nixon *
- Mr Colin Archer
- Mr Bruce Hancox (appointed 14 December 2007).

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

- Mr Gary Best (Chief Operating Officer) *
- Mr Damien Peters (Chief Financial Officer)
- Mr Andre Nell (Commercial Manager) (commenced 6 September 2007) *
- Mr Mark Connors (Company Secretary and Legal Counsel)
- Mr Gary Alford (appointed Head of Strategy – Franchise, on 15 August 2008, previously Group Manager Operations)
- Mr Gavin Nixon (Property Director) *
- Ms Nicole Dodd (Chief Marketing Officer).

* Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

(2) Remuneration Policy

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

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

- motivate executive and non-executive personnel to successfully manage and lead the Group with a view to driving long term growth and shareholder value;
- drive successful performance and achievement of long and short term goals and otherwise reinforce the objectives of the Group;
- deliver competitive remuneration packages necessary to attract and retain appropriate personnel;
- ensure fair remuneration having regard to duties, responsibilities and other demands;
- ensure flexibility to enable the Group to cope with planned or unforeseen threats and opportunities;
- ensure compliance with relevant laws; and to
- ensure sustainable value for all stakeholders.

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

- the need to attract, retain and motivate appropriate personnel;
- market practices;
- alternative benefits including incentive programs, fringe benefits and equity schemes;
- assessment of individual performance against set goals and targets; and
- scope of responsibility, duties and other demands.

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

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

- the need to attract, retain and motivate appropriately qualified and experienced Directors with diverse backgrounds and experiences best suited to ensure the Board is comprised of a range of skills necessary to properly understand the business environment in which the Group operates;
- the scope and complexity of the responsibilities assumed by such Directors in connection with the oversight and leadership of the Group;
- comparative market practices; and
- alternative benefits including equity schemes.

Role of the 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.

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;
- any changes must be referential to measurable performance criteria.

DIRECTOR'S REPORT

(3) Relationship Between Remuneration Policy And Group Performance

The compensation structures outlined below are designed to attract suitably qualified executives, reward the achievement of strategic objectives, and to achieve the broader outcome of long term success and the building of shareholder value. The compensation structures take into account:

- the capability and experience of the executive;
- the executive's ability to control and deliver the Group's forecast results;
- the attainment of pre-determined KPIs developed specially for the executive's role;
- the Group's performance including:
  - the Group's earnings; and
  - the growth in earnings per share and return on shareholder wealth;
- the amount of incentives within each executive's remuneration package.

Remuneration packages include a mix of fixed and variable compensation and short-term and long-term performance-based incentives. The mix of these components is based on the role the individual performs.

In addition to their salaries, the Group also provides non-cash benefits to its executives, and contributes to a post-employment superannuation plan on their behalf.

Fixed Compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any fringe benefits tax ("FBT") charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration Committee and the Managing Director / CEO, through a process that considers the individual, the achievement of pre-determined KPIs, and the overall performance of the Group.

An executive's remuneration is also reviewed on promotion.

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.

Performance-linked Compensation

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward executives for meeting or exceeding their financial and personal objectives. The short-term incentive ("STI") is an 'at risk' bonus provided in the form of cash, while the long-term incentive ("LTI") is provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan ("ESOP"). In respect of the options granted, there is no performance criteria required to be achieved in order for the option to vest. Rather, the decision to grant options to executives is based on past performance.

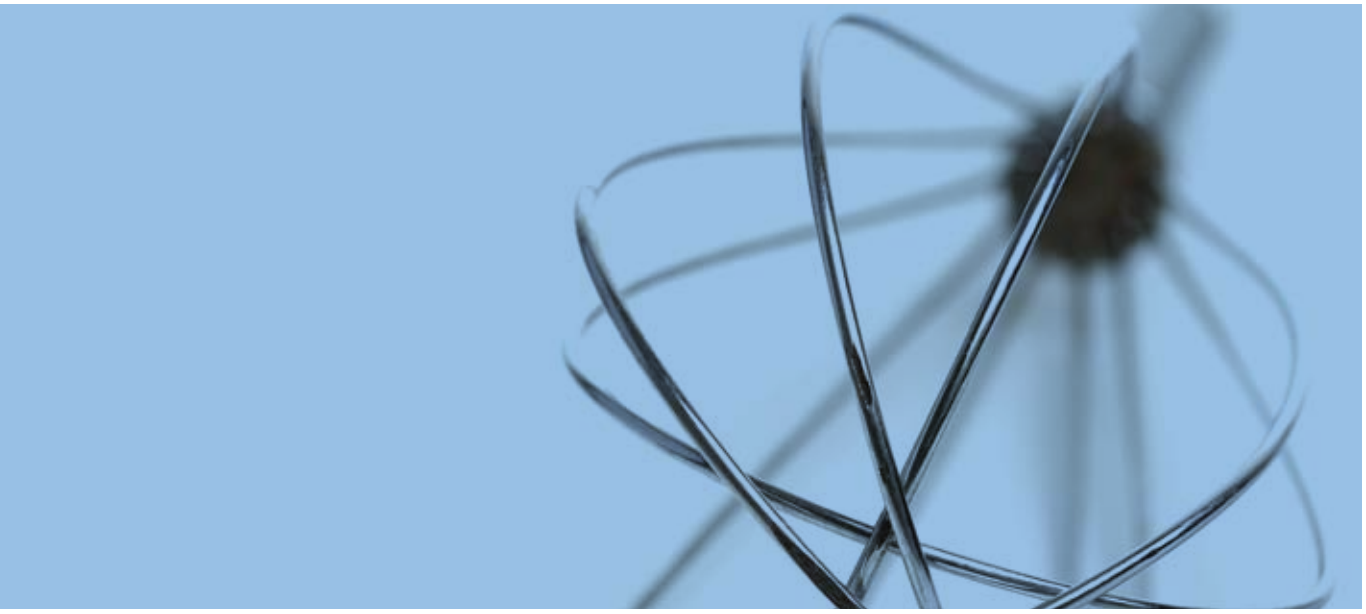
Short-term Incentive Bonus

Each year the Remuneration Committee sets pre-determined key performance indicators ("KPIs") for certain executives. The KPIs generally include measures relating to the Group and the individual, and include financial, people, customer, strategy and risk measures. The measures chosen directly align the individual's reward to the KPIs of the Group and to its strategy and performance. The Group undertakes a rigorous and detailed annual forecasting and budget process. The Board believes achievement of the annual forecast and budget is therefore the most relevant short-term performance condition. In the current year, the short-term incentive bonus scheme was applicable to one senior manager.

The financial performance objectives include but are not limited to "Net Profit", "Revenue", "Franchise Revenue", "Corporate Expenditure" and "Minimum Earnings Per Share" compared to budget and forecast amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic objectives, compliance with governance and regulatory requirements, new store commissionings, growth in network sales from effective brand marketing and promotions, growth in average weekly sales, growth in customer counts, customer satisfaction and staff development.

At the end of the financial year, the Remuneration Committee assesses the actual performance of the Group and the relevant individual against the KPIs set at the beginning of the financial year. No bonus is awarded where performance objectives are not achieved. The CEO recommends to the Remuneration Committee the performance bonus amounts of individuals for approval by the Board. This method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance.

Following the successful acquisitions of the Brumby's Bakeries and Michel's Patisserie franchise systems, as well as the commissioning of the Central Manufacturing Facility during FY08, the Committee is reassessing short-term and long-term performance incentives for executives during FY09.



Long-term Incentive Bonus

Options have been issued over ordinary shares under the ESOP (in accordance with thresholds set in plans approved by the Board on 9 May 2006), as determined by the Board. Once granted, the ability to exercise the options is conditional upon the executive remaining an employee of the Group. The Remuneration Committee considers this equity performance-linked compensation structure to be appropriate as executives only receive a benefit where there is a corresponding benefit to shareholders.

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to June 2008:

	Proforma FY04 (1)	Proforma FY05 (1)	FY06	FY07	FY08	Adjusted FY08 (2)
Total Revenue (3)	$16.4m	$18.3m	$20.5m	$23.6m	$114.9m	
EBIT	$8.3m	$8.9m	$9.8m	$12.2m	$34.4m	$33.6m
NPAT			$5.9m	$7.5m	$17.6m	$16.9m
Total Revenue Growth	17.1%	11.6%	12.0%	15.1%	386.9%	
EBIT Growth	9.2%	7.2%	10.1%	24.5%	182.0%	175.4%
NPAT Growth				27.1%	134.7%	125.3%

(1) Results are proforma adjusted as per the Company's Prospectus dated 9 May 2006.
(2) Results exclude non-recurring $0.754m gain realised on acquisition of Brumby's Bakeries.
(3) Excludes revenue derived from marketing activities (FY04: $4.1m; FY05: $5.8m; FY06: $6.4m; FY07: $6.2m; FY08: $10.3m).

	Proforma FY04 (1)	Proforma FY05 (1)	FY06	FY07	FY08	Adjusted FY08 (2)
Share price at start of financial year				$0.85	$1.49	
Share price at end of financial year			$0.85	$1.49	$1.27	
Interim dividend			2.9 cps	3.125 cps	4.0 cps	
Final dividend			nil	3.125 cps	4.5 cps	
Basic EPS		4.9 cps	8.6 cps	10.5 cps	19.9 cps	19.0 cps
Diluted EPS		4.9 cps	8.6 cps	10.4 cps	19.8 cps	18.9 cps

(1) Results are proforma adjusted as per the Company's Prospectus dated 9 May 2006.
(2) Results exclude non recurring $0.754m gain realised on acquisition of Brumby's Bakeries.
(3) Retail Food Group Limited listed on the Australian Securities Exchange on 22 June 2006. Accordingly, no share price information is available for dates prior to the listing. Further, no dividend information or earnings per share information has been presented for FY05 (in respect of dividends) and FY04 due to the nature of the capital structure that existed prior to listing.

(4) Remuneration Of Directors And Senior Management

	Short-term Employment Benefits			Post Employment Benefits	Share-based Payments		
30 June 2008	Salary & Fees $	Bonus $	Other $	Super-annuation $	Options $	Total $	Consisting of Options
Non–executive Directors							
Mr John Cowley	62,699	–	–	3,946	14,372	81,017	17.7%
Mr Colin Archer	52,134	–	–	3,279	12,238	67,651	18.1%
Mr Bruce Hancox (1)	31,769	–	–	–	–	31,769	0%
Executive Directors and senior management							
Mr Anthony (Tony) Alford *	366,200	–	–	–	24,289	390,489	6.2%
Mr Nigel Nixon *	259,827	–	1,745	–	21,675	283,247	7.7%
Mr Gary Best (Chief Operating Officer) *	177,927	–	–	10,940	22,689	211,556	10.7%
Mr Damien Peters (Chief Financial Officer)	119,500	–	1,488	4,454	5,161	130,603	4.0%
Mr Andre Nell (Commercial Manager) * (2)	211,415	–	14,999	18,441	–	244,855	0.0%
Mr Mark Connors (Company Secretary)	152,350	–	–	9,897	19,381	181,628	10.7%
Mr Gary Alford (Group Manager Operations)	156,311	–	8,279	11,450	23,222	199,262	11.7%
Mr Gavin Nixon (Property Director) *	169,962	35,000	4,200	–	20,608	229,770	9.0%
Ms Nicole Dodd (Chief Marketing Officer)	83,839	–	–	6,941	18,421	109,201	16.9%

* Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

(1) Appointed 14 December 2007.

(2) Commenced with the Group on 6 September 2007, following the acquisition of Michel's.

	Short-term Employment Benefits			Post Employment Benefits	Share-based Payments		
30 June 2007	Salary & Fees $	Bonus $	Other $	Super-annuation $	Options $	Total $	Consisting of Options
Non–executive Directors							
Mr John Cowley	60,000	–	–	5,400	12,545	77,945	16.1%
Mr Colin Archer	50,000	–	–	4,500	8,960	63,460	14.1%
Executive Directors and senior management							
Mr Anthony (Tony) Alford *	366,200	–	–	–	18,817	385,017	4.9%
Mr Nigel Nixon *	185,000	–	1,410	–	14,426	200,836	7.2%
Mr Gary Best (Chief Operating Officer) *	158,027	–	–	11,846	16,129	186,002	8.7%
Mr Mark Connors (Company Secretary)	120,000	–	–	10,187	10,573	140,760	7.5%
Mr Gary Alford (Group Manager Operations)	117,614	–	2,760	10,585	17,025	147,984	11.5%
Mr Gavin Nixon (Property Director) *	154,200	–	4,200	13,878	12,634	184,912	6.8%
Mr Robert Sutherland (Regional Leasing and Property Manager) *	166,200	–	4,200	14,958	12,007	197,365	6.1%

* Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

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

	Fixed		Short-Term Incentive		Long-Term Incentive	
	FY08	FY07	FY08	FY07	FY08	FY07
Non–executive Directors						
Mr John Cowley	82.3%	83.9%	–	–	17.7%	16.1%
Mr Colin Archer	81.9%	85.9%	–	–	18.1%	14.1%
Mr Bruce Hancox	100.0%		–		–	
Executive officers and senior management						
Mr Anthony (Tony) Alford	93.8%	95.1%	–	–	6.2%	4.9%
Mr Nigel Nixon	92.3%	92.8%	–	–	7.7%	7.2%
Mr Gary Best	89.3%	91.3%	–	–	10.7%	8.7%
Mr Damien Peters	96.0%		–		4.0%	
Mr Andre Nell	100.0%		–		–	
Mr Mark Connors	89.3%	92.5%	–	–	10.7%	7.5%
Mr Gary Alford	88.3%	88.5%	–	–	11.7%	11.5%
Mr Gavin Nixon	75.8%	93.2%	15.2%	–	9.0%	6.8%
Ms Nicole Dodd	83.1%		–		16.9%	

Bonuses

Mr Gavin Nixon was granted a cash bonus for his performance during FY08 (representing 100% of possible entitlement). The amount was determined after performance reviews were completed and approved by the CEO and the Remuneration Committee.

No other executives were eligible for bonuses during FY08.

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 'ESOP', Directors, executives and senior employees may be granted options to purchase parcels of ordinary shares on terms resolved upon by the Board. Certain Directors and senior management have also been granted options pursuant to the terms of formal Option Deeds which are outside 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. All share options are non-transferable in accordance with the provisions of the ESOP.

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.

During the financial year, the following share-based payment arrangements were in existence:

Option Series	Grant Date	Expiry Date	Grant Date Fair Value	Exercise Price	Vesting Date
Executive Share Option Plan					
Tier 1A	1 August 2006	31 July 2010	$0.1480	$1.00	1 August 2007
Tier 1B	1 August 2006	31 July 2011	$0.1704	$1.00	1 August 2008
Tier 1C	1 August 2006	31 July 2012	$0.1849	$1.00	1 August 2009
Tier 2A	1 August 2007	31 July 2011	$0.5813	$1.15	1 August 2008
Tier 2B	1 August 2007	31 July 2012	$0.5918	$1.15	1 August 2009
Tier 2C	1 August 2007	31 July 2013	$0.5927	$1.15	1 August 2010
Tier 4A	1 April 2008	31 March 2011	$0.1782	$1.67	1 April 2008
Tier 5A	1 April 2008	31 March 2012	$0.1909	$1.92	1 April 2009
Senior Management Share Option Plan					
Tier 1A	1 August 2006	31 July 2010	$0.1480	$1.00	1 August 2007

Tiers 3A, B & C options were issued on 1 August 2008.

There are no performance criteria that need to be met in relation to the options granted before the beneficial interest vests in the recipient, other than the continued service of the Director, executive or senior management to the Group. Options are forfeited if the Director, executive or senior management ceases to be employed by the Group prior to the exercise of the option.

The following grants of share-based payment compensation to Directors and executives relate to the current financial year:

Name	Option Series	During The Financial Year			
		No. Granted	No. Vested	% Of Grant Vested	% Of Grant Forfeited
Mr John Cowley	Tier 1A (1)	–	46,667	100%	–
	Tier 2A,B,C	21,100	–	–	–
Mr Anthony (Tony) Alford	Tier 1A (1)	–	70,000	100%	–
	Tier 2A,B,C	40,000	–	–	–
Mr Nigel Nixon	Tier 1A (1)	–	53,667	100%	–
	Tier 2A,B,C	40,000	–	–	–
Mr Colin Archer	Tier 1A (1)	–	33,333	100%	–
	Tier 2A,B,C	21,100	–	–	–
Mr Gary Best	Tier 1A (1)	–	60,000	100%	–
	Tier 2A,B,C	40,000	–	–	–
Mr Damien Peters	Tier 4A	25,000	25,000	100%	–
	Tier 5A	15,000	–	–	–
Mr Mark Connors	Tier 1A (1)	–	39,333	100%	–
	Tier 2A,B,C	40,000	–	–	–
Mr Gary Alford	Tier 1A (1)	–	63,333	100%	–
	Tier 2A,B,C	40,000	–	–	–
Mr Gavin Nixon	Tier 1A (1)	–	47,000	100%	–
	Tier 2A,B,C	40,000	–	–	–
Ms Nicole Dodd	Tier 1A (1)	–	33,333	100%	–
	Tier 2A,B,C	40,000	–	–	–

(1) Granted 1 August 2006.

During the financial year, the following Directors and executives exercised options that were granted to them as part of their remuneration. Each option converts into one ordinary share of Retail Food Group Limited.

Name	No. Of Options Exercised	No. Of Ordinary Shares Issued	Amount Paid	Amount Unpaid
Mr Anthony (Tony) Alford	70,000	70,000	$70,000	$nil
Mr Gary Best	60,000	60,000	$60,000	$nil
Ms Nicole Dodd	33,333	33,333	$33,333	$nil

DIRECTOR'S REPORT

The following table summarises the value of options granted, exercised or lapsed to Directors and executives during the financial year:

Name	Value Of Options Granted At The Grant Date (1) $	Value Of Options Exercised At The Exercise Date $	Value Of Options Lapsed At The Date Of Lapse $
Mr John Cowley	12,420	nil	nil
Mr Anthony (Tony) Alford	23,544	30,100	nil
Mr Nigel Nixon	23,544	nil	nil
Mr Colin Archer	12,420	nil	nil
Mr Gary Best	23,544	52,200	nil
Mr Damien Peters	7,319	nil	nil
Mr Mark Connors	23,544	nil	nil
Mr Gary Alford	23,544	nil	nil
Mr Gavin Nixon	23,544	nil	nil
Ms Nicole Dodd	23,544	30,000	nil

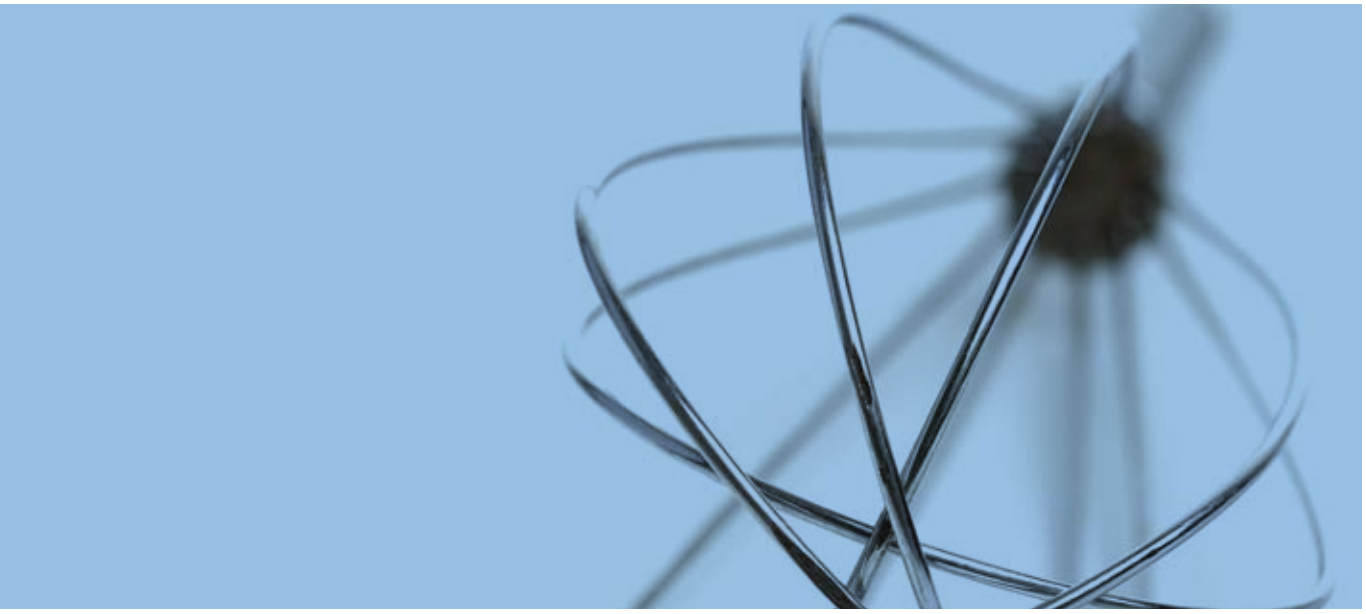
(1) The value of options granted during the year is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

(5) Key Terms Of Employment Contracts

Tony Alford, Nigel Nixon, Gary Best and Andre Nell have entered into executive employment contracts with the Group. Each agreement is for a term of three (3) years and can be terminated by the Group on six (6) months notice and by the executive on three (3) months notice. No Director or executive is eligible for a termination payout other than in circumstances where the parties agree to same in lieu of the required notice of termination.

The employment specifics of the executives are as follows:

Name	Particulars
Mr Anthony (Tony) Alford	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Nigel Nixon	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Gary Best	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Damien Peters	No written employment contract has been entered into with the Company.
Mr Andre Nell	The contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) requires the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd may terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Mark Connors	No written employment contract has been entered into with the Company.
Mr Gary Alford	No written employment contract has been entered into with the Company.
Mr Gavin Nixon	No written employment contract has been entered into with the Company.
Ms Nicole Dodd	No written employment contract has been entered into with the Company.



The Directors believe that the compensation for each executive is appropriate for the duties allocated to them, the size of the Group's business and the industry in which the Group operates. The service contracts outline the components of compensation paid to the executives (including executive Directors), but do not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the executive and any changes required to meet the principles of the Remuneration Policy.

The employment specifics of the non-executive Directors are as follows:

Name	Particulars
Mr John Cowley	No written employment contract has been entered into with the Company.
Mr Colin Archer	The letter of appointment entered into with the Company requires the Director to give notice of resignation in accordance with the Company's Constitution. The Company may also terminate the Director's appointment in accordance with the Company's Constitution.
Mr Bruce Hancox	No written employment contract has been entered into with the Company.

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Board has also considered the advice of independent external advice to ensure non-executive Directors' fees and payments are appropriate and inline with the market. Non-executive Director remuneration takes the form of a set fee plus superannuation entitlements, however, may comprise other benefits or rewards in certain circumstances.

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 Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are granted share options.

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

On behalf of the Directors

RETAIL FOOD GROUP LIMITED

Anthony James (Tony) Alford
Managing Director & Chief Executive Officer
Southport, 29th September 2008

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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29 September 2008

The Directors
Retail Food Group Limited
RFG House
26 Railway Street
Southport QLD 4215

Dear Directors,

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 2008, 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

M G Sheerin
Partner
Chartered Accountants

Deloitte.

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

Report on the Financial Report

We have audited the accompanying financial report of Retail Food Group Limited, which comprises the balance sheet as at 30 June 2008, 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 31 to 92.

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 2, 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 financial report, comprising the financial statements and notes of the company and the consolidated entity, complies 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 2008 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 27 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Retail Food Group Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Sheerin

M G Sheerin
Partner
Chartered Accountants
Brisbane, 29 September 2008

DIRECTOR'S 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 consolidated entity; 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

Anthony James (Tony) Alford
Managing Director & Chief Executive Officer
Southport, 29th September 2008

INDEX TO FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Company	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
Continuing operations					
Revenue from sale of goods	5	76,916	5,250	–	–
Cost of sales	7	(45,955)	(4,356)	–	–
Gross profit		30,961	894	–	–
Other revenue	5	48,286	24,469	13,110	7,198
Change in fair value of derivative financial instruments		1,482	–	908	–
Share of profits of jointly controlled entity accounted for using the equity method		27	–	–	–
Selling expenses		(2,928)	(1,697)	–	–
Marketing expenses		(11,538)	(4,573)	–	–
Occupancy expenses		(2,321)	(998)	–	–
Administration expenses		(12,517)	(2,888)	–	–
Operating expenses		(12,017)	(1,954)	–	–
Finance costs	6	(10,597)	(1,442)	(8,659)	(1,428)
Other expenses		(4,464)	(1,057)	(9)	–
Profit before tax	7	24,374	10,754	5,350	5,770
Income tax expense	8	(6,741)	(3,234)	(1,605)	(457)
Profit for the year from continuing operations		17,633	7,520	3,745	5,313
Discontinued operations					
Profit for the year from discontinued operations		–	–	–	–
Profit for the year		17,633	7,520	3,745	5,313
Attributable to:					
Equity holders of the parent		17,633	7,520	3,745	5,313
		17,633	7,520	3,745	5,313
Earnings per share					
From continuing and discontinued operations:					
Basic (cents per share)	23	19.9	10.5		
Diluted (cents per share)	23	19.8	10.4		
From continuing operations:					
Basic (cents per share)	23	19.9	10.5		
Diluted (cents per share)	23	19.8	10.4		

The financial statements should be read in conjunction with the accompanying notes.

BALANCE SHEET

AS AT 30 JUNE 2008

	Note	Consolidated		Company	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets					
Cash and cash equivalents	30a	4,102	1,548	6	159
Trade and other receivables	9	14,971	5,791	–	19
Other financial assets	10	4,945	39	14,317	7,746
Inventories	11	1,445	329	–	–
Current tax assets		136	–	–	–
Other	14	124	185	–	–
Total current assets		25,723	7,892	14,323	7,924
Non–current assets					
Other financial assets	10	50	20,072	181,557	64,101
Property, plant and equipment	12	9,237	7,416	–	–
Deferred tax assets	8	1,530	167	261	453
Intangible assets	13	192,500	42,029	–	–
Total non-current assets		203,317	69,684	181,818	64,554
Total assets		229,040	77,576	196,141	72,478
Current liabilities					
Trade and other payables	16	8,811	1,557	918	176
Borrowings	17	1,598	2,237	–	1,900
Current tax liabilities		2,736	575	2,736	575
Provisions	18	4,383	407	–	–
Other	19	1,590	11,556	–	10,888
Total current liabilities		19,118	16,332	3,654	13,539
Non-current liabilities					
Borrowings	17	115,190	24,372	112,639	23,088
Provisions	18	93	118	–	–
Total non-current liabilities		115,283	24,490	112,639	23,088
Total liabilities		134,401	40,822	116,293	36,627
Net assets		94,639	36,754	79,848	35,851
Equity					
Issued capital	20	78,453	32,301	78,453	32,301
Reserves	21	476	192	476	192
Retained earnings	22	15,710	4,261	919	3,358
Total equity		94,639	36,754	79,848	35,851

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

Consolidated	Fully Paid Ordinary Shares $'000	Equity Settled Employee Benefits Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 1 July 2006	31,014	–	(1,019)	29,995
Profit for the year	–	–	7,520	7,520
Total recognised income and expense	–	–	7,520	7,520
Issue of ordinary shares	1,297	–	–	1,297
Share issue costs	(15)	–	–	(15)
Related income tax	5	–	–	5
Recognition of share-based payments	–	192	–	192
Payment of dividends	–	–	(2,240)	(2,240)
Balance as at 30 June 2007	32,301	192	4,261	36,754
Balance as at 1 July 2007	32,301	192	4,261	36,754
Profit for the year	–	–	17,633	17,633
Total recognised income and expense	–	–	17,633	17,633
Issue of ordinary shares	44,400	–	–	44,400
Issue of ordinary shares under DRP	2,265	–	–	2,265
Share issue costs	(1,095)	–	–	(1,095)
Related income tax	329	–	–	329
Recognition of share-based payments	–	317	–	317
Issue of shares under executive share option plan	220	–	–	220
Transfer from equity-settled employee benefits reserve	33	(33)	–	–
Payment of dividends	–	–	(6,184)	(6,184)
Balance as at 30 June 2008	78,453	476	15,710	94,639

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FORTHEFINANCIALYEARENDED30JUNE2008

Company	Fully Paid Ordinary Shares $'000	Equity Settled Employee Benefits Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 1 July 2006	31,014	–	285	31,299
Profit for the year	–	–	5,313	5,313
Total recognised income and expense	–	–	5,313	5,313
Issue of ordinary shares	1,297	–	–	1,297
Share issue costs	(15)	–	–	(15)
Related income tax	5	–	–	5
Recognition of share-based payments	–	192	–	192
Payment of dividends	–	–	(2,240)	(2,240)
Balance as at 30 June 2007	32,301	192	3,358	35,851
Balance as at 1 July 2007	32,301	192	3,358	35,851
Profit for the year	–	–	3,745	3,745
Total recognised income and expense	–	–	3,745	3,745
Issue of ordinary shares	44,400	–	–	44,400
Issue of ordinary shares under DRP	2,265	–	–	2,265
Share issue costs	(1,095)	–	–	(1,095)
Related income tax	329	–	–	329
Recognition of share-based payments	–	317	–	317
Issue of shares under executive share option plan	220	–	–	220
Transfer from equity-settled employee benefits reserve	33	(33)	–	–
Payment of dividends	–	–	(6,184)	(6,184)
Balance as at 30 June 2008	78,453	476	919	79,848

The financial statements should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

FORTHEFINANCIALYEARENDED30JUNE2008

	Note	Consolidated		Company	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash flows from operating activities					
Receipts from customers		130,102	30,635	19	360
Payments to suppliers and employees		(102,782)	(19,769)	(182)	(3)
Interest and other costs of finance paid		(9,901)	(1,442)	(7,165)	(1,428)
Income taxes paid		(4,163)	(3,054)	(3,074)	(3,046)
Net cash provided by / (used in) operating activities	30e	13,256	6,370	(10,402)	(4,117)
Cash flows from investing activities					
Payment for investment securities	29	–	(8,583)	–	(8,583)
Interest received		632	198	435	30
Amounts advanced to related parties		(1,664)	(477)	(54,436)	–
Proceeds from repayment of related party loans		1,683	1,252	21,113	6,465
Amounts advanced to other entities		(273)	–	–	–
Payments for property, plant and equipment		(878)	(5,114)	–	–
Proceeds from sale of property, plant and equipment		670	36	–	–
Payment for business	29	(82,552)	–	(83,444)	–
Net cash used in investing activities		(82,382)	(12,688)	(116,332)	(2,088)
Cash flows from financing activities					
Proceeds from issues of equity securities	20	44,620	–	44,620	
Payment for share issue costs	20	(1,095)	(235)	(1,095)	(235)
Proceeds from borrowings		158,207	9,413	158,207	9,413
Payment for debt issue costs		(1,637)	(100)	(1,637)	(100)
Repayment of borrowings		(124,496)	(1,900)	(69,595)	(1,900)
Dividends paid		(3,919)	(943)	(3,919)	(943)
Net cash provided by financing activities		71,680	6,235	126,581	6,235
Net increase / (decrease) in cash and cash equivalents		2,554	(83)	(153)	30
Cash and cash equivalents at the beginning of the year	30a	1,548	1,631	159	129
Cash and cash equivalents at the end of the year	30a	4,102	1,548	6	159

The financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Retail Food Group Limited (the Company) is a public company listed on the Australian Securities Exchange (ASX: RFG), 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 Administration Office
Alfords Level 1 HQ Robina 58 Riverwalk Avenue Robina QLD 4226	RFG House 26 Railway Street Southport QLD 4215

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

- the intellectual property ownership of the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie franchise systems;
- development and management of the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie retail franchise systems throughout Australia and New Zealand; and
- development and management of the Central Manufacturing Facility, Coffee Roasting Facility (as part of a joint venture) and the wholesale supply of certain products to the Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie franchise systems.

2. 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 Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 29 September 2008.

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.

Critical Accounting Judgements And Key Sources Of Estimation Of Uncertainty

In the application of the Group's accounting policies, management is required to make judgements, 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 other factors that are considered to be relevant. 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. Refer to note 3 for a discussion of significant accounting judgements, estimates and assumptions.

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. There has been no impact on the financial results and positions arising from the adoption of these new accounting standards. The Group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Statements' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'
- AASB 2008-4 'Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities'

Standards And Interpretations Issued Not Yet Effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below 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 financial report:

Standard	Effective For Annual Reporting Periods Beginning On Or After	Expected To Be Initially Applied In The Financial Year Ending
AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010
AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010

Initial application of the following Standards and Interpretations is not expected to have any material impact on the financial report of the Group:

Standard	Effective For Annual Reporting Periods Beginning On Or After	Expected To Be Initially Applied In The Financial Year Ending
AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvement Process'	1 January 2009	30 June 2010
AASB 2008-6 'Further amendments to Australian Accounting Standards arising from the Annual Improvement Process'	1 July 2009	30 June 2010
AASB 2008-7 'Amendments to Australian Accounting Standards—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'	1 January 2009	30 June 2010
AASB 2008-8 'Amendments to Australian Accounting Standards—Eligible Hedged Items'		
AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010
AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009
AASB 2008-2 'Amendments to Australian Accounting Standards—Puttable Financial Instruments and Obligations arising on Liquidation'	1 January 2009	30 June 2010

The potential effect of the initial application of the following Standard has not yet been determined:

Standard	Effective For Annual Reporting Periods Beginning On Or After	Expected To Be Initially Applied In The Financial Year Ending
AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements	1 July 2009	30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

(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, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition. 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.

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations. The fair value of a hedging derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

(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 employees have rendered service entitling them to the contributions.

(g) Financial assets

Investments in subsidiaries are measured at cost in the Company financial statements. 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.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

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 using the effective interest method less impairment.

Interest income is recognised by applying the effective interest rate.

Investments in listed companies

Investments in listed companies are classified as fair value through profit or loss, or as available for sale, as appropriate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(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. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of:

- the amount of the obligation under the contract, as determined under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- the amount initially recognised less, where appropriate, cumulative amortisation in accordance with the revenue recognition policies described in note 2(u).

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.

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 its functional currency being the currency of the primary economic environment in which the entity operates. 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 the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency 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 2(b));
- 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 are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency 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) Goods and services tax

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included 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 within operating cash flows.

(k) Goodwill

Goodwill acquired in a business combination is initially measured at its 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 at the date of the acquisition.

Goodwill is subsequently measured at its cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to the other assets of the cash generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(l) Impairment of long-lived assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 immediately in profit or loss, unless the relevant asset is carried at revalued amount, 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 immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(m) 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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 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 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-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 8. 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.

(n) Intangible assets

Intangible assets acquired in a business combination

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

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

Brand names and intellectual property

Intangible assets include brand names and intellectual property.

Brand names are identified and recognised at the time of a business combination and recorded at their fair value, if their fair value can be measured reliably. Intellectual property is recorded at cost.

Brand names and intellectual property 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 or initial fair value (as the case may be) less impairment losses. Expenditure incurred in developing, maintaining or enhancing intangible assets is expensed in the period in which it is incurred.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with all categories being valued on a first in first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(p) 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.

(q) 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 lessor

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 2(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.

(r) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(s) Property, plant and equipment

Land is measured at cost.

Plant and equipment, leasehold improvements, equipment under finance leases, and buildings are stated at cost less accumulated depreciation and impairment. Construction in progress is stated at cost. Cost includes expenditure that is directly attributable to the acquisition or construction 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

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

Buildings	40 years
Leasehold improvements	5 – 40 years
Plant and equipment	2 – 13.33 years
Equipment under finance lease	2 – 13.33 years

(t) 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.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Make good

A provision is recognised for the make good obligations in respect of restoring sites to their original condition when the premises are vacated. Management has estimated the provision based on historical data in relation to store closure numbers and costs, as well as future trends that could differ from historical amounts.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent reporting dates, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation recognised in accordance with AASB 118 'Revenue'.

(u) Revenue

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

Sale of goods

Revenue of 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 from investments is recognised when the Group's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(v) 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. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 32.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

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

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

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

Impairment of goodwill and indefinite life intangible assets

The Group tests annually whether goodwill and indefinite life intangibles have suffered any impairment, in accordance with the

accounting policy stated in note 2(k) and 2(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 13 for details of these assumptions.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, with the assumptions detailed in note 32. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Estimation of useful lives of assets

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONT.)

Deferred purchase consideration

In relation to certain acquisitions that have been made by the Group, deferred contingent consideration may be payable if certain specific conditions are achieved. When the deferred contingent consideration payable becomes probable and the amount can be reliably measured the Group brings it to account. The calculation of the payable for each acquisition requires the use of estimates and judgements which are reviewed each reporting period.

During the year, the Company acquired The Michel's Patisserie Group Australia Pty Ltd ('Michel's'). As part of the consideration for the purchase of Michel's, the Company issued 500,002 converting performance shares (Replacement Shares) which will convert to a number of RFG ordinary shares in accordance with an earn out formula based on Michel's FY08 adjusted EBIT. For every dollar by which Michel's adjusted EBIT in FY08 exceeds $13.25 million the Replacement Shares will convert to $8 worth of RFG ordinary shares up to a maximum total value of $38 million (which will be achieved where Michel's adjusted EBIT in FY08 exceeds $18 million). The Company has not recorded any consideration payable in relation to this contingent consideration as at 30 June 2008. Refer to note 29 for further details.

Onerous lease provisions and make good provisions

A provision has been made for the present value of future lease payments that the Group is presently obliged to make payments under non-cancellable onerous lease contracts relating to certain loss-making non-voluntary company stores. A provision has been made for the present value of the Director's best estimate of the future sacrifice of economic benefits that will be required to restore site occupied by the loss-making non-voluntary company stores that existed at the reporting date, to a state specified in the relevant lease agreement. The estimate has been made on the basis of quotes obtained from restoration specialists or past experience.

The calculation of both provisions requires assumptions such as the likelihood of sale of the non-voluntary company store, the estimated lease termination costs, and the expected costs of making good the premises. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time.

4. SEGMENT INFORMATION

The Group's primary segment reporting format is business segments as the Group's risks and returns are affected predominantly by differences in the products and services produced. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Group is organised into two major operating divisions – franchising operations and wholesale / retail operations. These divisions are the basis on which the Group reports its primary segment information. The principal products and services of each of these divisions are as follows:

Business Segment	Description
Franchising Operations	Franchising operations incorporates the development and management of the Group's four retail franchise systems—Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie—and involves the following principal activities: • the establishment and grant of new franchises; • the administration of royalties collection, supplier licensing, franchise compliance, franchise training and administration; and • the performance of marketing and promotional activities, brand development and awareness, and product research and development.
Wholesale / Retail Operations	Wholesale / Retail Operations incorporates the development and management of the Group's Procurement & Distribution division, Wholesale & Manufacturing division and Company Store division. These divisions are managed and reported separate to the Franchising Operations segment, and involves the following principal activities: • the procurement, sale and distribution of bakery and other related items to Michel's Patisserie franchisees; • the manufacture and sale of products produced at the Central Manufacturing Facility (CMF) to Donut King franchisees; • the interim operation of non-voluntary company owned or company managed stores across each of the four franchise systems; and • the sale of store builds and company owned stores.

Segment Revenues	Sale Of Goods		Franchisor Income		Inter-Segment Revenue		Total	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Franchising Operations	–	–	46,806	24,187	–	–	46,806	24,187
Wholesale / Retail Operations	76,916	5,250	–	–	–	–	76,916	5,250
Total of all segments							123,722	29,437
Eliminations							–	–
Unallocated							848	84
Consolidated revenue (excluding interest)							124,570	29,521

Segment Result	2008 $'000	2007 $'000
Franchising Operations	15,802	9,831
Wholesale / Retail Operations	13,871	69
	29,673	9,900
Eliminations	–	–
Unallocated	(5,299)	854
Profit before tax	24,374	10,754
Income tax expense	(6,741)	(3,234)
Profit for the year	17,633	7,520

An insignificant portion of the Group's activities are located outside of Australia, and hence no secondary reporting segment has been disclosed.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE

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

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Continuing operations				
Revenue from the sale of goods	76,916	5,250	–	–
Revenue from the rendering of services	46,806	22,954	–	–
	123,722	28,204	–	–
Interest revenue:				
Bank deposits	630	197	435	150
Other loans and receivables	2	1	8,245	240
	632	198	8,680	390
Rental revenue – operating lease rental revenue	94	84	–	–
Gain on acquisition of business	754	–	–	–
Dividends – subsidiaries	–	–	–	4,250
Management fee – subsidiaries	–	–	4,430	2,355
Other (aggregate immaterial items)	–	1,233	–	203
	125,202	29,719	13,110	7,198

6. FINANCE COSTS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Interest on bank overdrafts and loans	9,741	1,627	8,083	1,627
Interest on obligations under finance leases	280	52	–	–
Less : amounts included in the cost of qualifying assets	–	(237)	–	(199)
Total interest expense	10,021	1,442	8,083	1,428
Other finance costs	576	–	576	–
	10,597	1,442	8,659	1,428

The weighted average capitalisation rate on funds borrowed generally is nil %p.a. (FY07: 8.2%p.a.)

7. PROFIT FOR THE YEAR

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(a) Gains and losses				
Gain / (loss) on disposal of property, plant and equipment	10	2	–	–
	10	2	–	–
(b) Other expenses				
Cost of sales	(45,955)	(4,356)	–	–
Inventory – write-down of inventory to net realisable value	(44)	–	–	–
Impairment of trade receivables	(1,217)	(109)	–	–
Depreciation of non-current assets	(1,343)	(256)	–	–
Amortisation of non-current assets	–	(19)	–	–
	(1,343)	(275)	–	–
Operating lease rental expense – minimum lease payments	(2,099)	(934)	–	–
Employee benefits expense:				
Post employment benefits (defined contribution plans)	(1,298)	(343)	–	–
Share-based payments (equity-settled share-based payments)	(317)	(192)	–	–
Termination benefits	(252)	–	–	–
Other employee benefits	(17,855)	(5,098)	–	–
	(19,722)	(5,633)	–	-

8. INCOME TAXES

Income tax recognised in profit or loss

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Tax expense / (income) comprises:				
Current tax expense / (income)	5,730	3,033	1,084	296
Adjustments recognised in the current year in relation to the current tax of prior years	–	–	–	–
	5,730	3,033	1,084	296
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	1,011	201	521	161
	6,741	3,234	1,605	457
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 operations	24,374	10,754	5,350	5,770
Income tax expense calculated at 30%	7,312	3,226	1,605	1,731
Effect on revenue that is exempt from taxation	(361)	(28)	–	–
Effect of expenses that are not deductible in determining taxable profit	99	71	–	1
Effect of transactions within the tax-consolidated group that are exempt from taxation	–	–	–	–
Effect of tax concessions (research and development and other allowances)	(309)	(35)	–	–
Effect of rebatable dividends	–	–	–	(1,275)
	6,741	3,234	1,605	457
Adjustments recognised in the current year in relation to the current tax of prior years	–	–	–	–
	6,741	3,234	1,605	457

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.

Deferred tax balances

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

2008	Consolidated				
	Opening Balance $'000	Charged To Income $'000	Credited To Equity $'000	Other [1]	Closing Balance $'000
Temporary differences					
Property, plant and equipment	(137)	20	–	–	(117)
Intangible assets	(376)	–	–	–	(376)
Employee benefits	157	272	–	–	429
Provisions	36	(797)	–	1,807	1,046
Doubtful debts	–	282	–	–	282
Prepaid borrowing costs	50	(50)	–	–	–
IPO listing costs	404	(134)	–	–	270
Share issue costs	–	(66)	329	–	263
Interest rate swap	–	(445)	–	–	(445)
Other	–	(60)	–	238	178
	134	(978)	329	2,045	1,530
Unused tax losses and credits					
Benefit of tax losses acquired	33	(33)	–	–	–
	167	(1,011)	329	2,045	1,530
Present in the balance sheet as:					
Deferred tax (liability)	–				–
Deferred tax asset	167				1,530
	167				1,530

(1) Deferred tax assets relating to business combinations during the year. Refer to note 29.

NOTES TO THE FINANCIAL STATEMENTS

8. INCOME TAXES (CONT.)

2008	Company				
	Opening Balance $'000	Charged To Income $'000	Credited To Equity $'000	Other $'000	Closing Balance $'000
Temporary differences					
Brumby's Bakeries Holdings Ltd share acquisition costs	(1)	1	–	–	–
Prepaid borrowing costs	50	(50)	–	–	–
IPO listing costs	404	(134)	–	–	270
Share issue costs	–	(66)	329	–	263
Interest rate swap	–	(272)	–	–	(272)
	453	(521)	329	–	261
Present in the balance sheet as:					
Deferred tax (liability)	–				–
Deferred tax asset	453				261
	453				261

2007	Consolidated				
	Opening Balance $'000	Charged To Income $'000	Credited To Equity $'000	Other $'000	Closing Balance $'000
Temporary differences					
Property, plant and equipment	–	(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
IPO listing costs	534	(135)	5	–	404
	362	(234)	5	–	134
Unused tax losses and credits					
Benefit of tax losses acquired	–	33	–	–	33
	–	33	–	–	33
	362	(201)	5	–	167
Present in the balance sheet as:					
Deferred tax (liability)	–				–
Deferred tax asset	362				167
	362				167

2007	Company				
	Opening Balance $'000	Charged To Income $'000	Credited To Equity $'000	Other $'000	Closing Balance $'000
Temporary differences					
Brumby's Bakeries Holdings Ltd share acquisition costs	–	(1)	–	–	(1)
Prepaid borrowing costs	75	(25)	–	–	50
IPO listing costs	534	(135)	5	–	404
	609	(161)	5	–	453
Present in the balance sheet as:					
Deferred tax (liability)	–				–
Deferred tax asset	609				453
	609				453

Unrecognised deferred tax assets

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
The following deferred tax assets have not been brought to account as assets:				
- Tax losses – capital	248	248	248	248
	248	248	248	248

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 arrangements

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 the 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 such amounts under the tax sharing agreement is considered remote.

9. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Trade receivables [1]	13,461	4,796	–	–
Allowance for doubtful debts	(939)	–	–	–
	12,522	4,796	–	–
Goods and services tax recoverable	103	–	–	19
Accrued income	1,785	970	–	–
Sundry debtors	561	25	–	–
	14,971	5,791	–	19

(1) The average credit period on sales of goods and rendering of services is 30 days.
No interest is charged. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Included in the Group's trade receivable balance are debtors with a carrying amount of $7,270 thousand (FY07: $3,042 thousand) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds collateral over the majority of these balances in the form of the franchise outlets.

Ageing of past due but not impaired

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
30 – 60 days	1,587	585	–	–
61 – 90 days	1,467	432	–	–
91+ days	4,216	2,026	–	–
	7,270	3,043	–	–

Movement in the allowance for doubtful debts

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance at the beginning of the year	–	–	–	–
Impairment losses recognised on receivables	1,217	109	–	–
Amounts written off as uncollectible	(278)	(109)	–	–
Amounts recovered during the year	–	–	–	–
Impairment losses reversed	–	–	–	–
Balance at the end of the year	939	–	–	–

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of $939 thousand (FY07: $nil) for the Group. The impairment recognised represents the difference between the carrying amount of these trade receivables and the estimated recoverable amount. The Group holds collateral over the majority of these balances in the form of the franchise outlets.

Ageing of impaired trade receivables

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
30 – 60 days	–	–	–	–
61 – 90 days	75	–	–	–
91+ days	864	–	–	–
	939	–	–	–

10. OTHER FINANCIAL ASSETS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Investments carried at cost:				
Non-current				
Investments in listed entities [1]	–	19,471	–	19,471
Investments in subsidiaries	–	–	134,278	41,934
	–	19,471	134,278	61,405
Financial assets carried at fair value through profit or loss:				
Current				
Interest rate swap	2,317	–	2,317	–
	2,317	–	2,317	–
Loans carried at amortised cost:				
Current				
Loans to subsidiaries [2]	–	–	12,000	7,746
Loans to other related parties	1,233	21	–	–
Loans to other entities [3]	1,395	18	–	–
Non-current				
Loans to subsidiaries [2]	–	–	47,279	2,696
Loans to other entities [3]	50	601	–	–
	2,678	640	59,279	10,442
	4,995	20,111	195,874	71,847
Disclosed in the financial statements as:				
Current other financial assets	4,945	39	14,317	7,746
Non-current other financial assets	50	20,072	181,557	64,101
	4,995	20,111	195,874	71,847

(1) Investments in listed entities in FY07 relates to the Group's ownership of Brumby's Bakeries Holdings Limited shares and acceptances to its offer under a bidders statement as part of the acquisition of the Brumby's group. In FY08, the acquisition was completed, and the investment in Brumby's has been classified as an investment in subsidiary, accordingly.

(2) Receivables from entities in 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 the market rate plus a margin of 2%.

(3) Loans to other entities include amounts loaned to franchisees (vendor finance). Before accepting any new loans to franchisees, the Group reviews potential franchisees credit quality, which is determined by reviewing a business plan and the franchisees' projected future cash flows for that franchised outlet, to ensure the franchisee is able to meet its interest and principal repayments on the loan. On average, interest is charged at market rates plus a margin of 2%. Loans to franchisees are secured over the franchised outlet, including the business and shop fittings.

II. INVENTORIES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Raw materials	958	73	–	–
Equipment held for resale	–	16	–	–
Stores held for resale	487	240	–	–
	1,445	329	–	–

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Consolidated				
	Land & Buildings At Cost $'000	Leasehold Improvements At Cost $'000	Plant & Equipment At Cost $'000	Motor Vehicles At Cost $'000	Total $'000
Gross carrying amount					
Balance as at 1 July 2006	4	177	691	120	992
Additions	2,581	1,693	2,968	45	7,287
Disposals	–	–	–	(63)	(63)
Transfers	–	(23)	(22)	–	(45)
Balance as at 1 July 2007	2,585	1,847	3,637	102	8,171
Additions	–	87	1,073	15	1,175
Disposals	–	–	–	–	–
Acquisitions through business combinations	–	96	1,787	97	1,980
Transfers	–	–	–	–	–
Balance as at 30 June 2008	2,585	2,030	6,497	214	11,326
Accumulated depreciation and impairment losses					
Balance as at 1 July 2006	–	(44)	(467)	(58)	(569)
Disposals	–	–	–	26	26
Transfers	–	17	27	–	44
Depreciation expense	–	(10)	(232)	(14)	(256)
Balance as at 1 July 2007	–	(37)	(672)	(46)	(755)
Disposals	–	–	–	–	–
Transfers	–	–	20	–	20
Impairment losses charged to profit	–	–	–	(11)	(11)
Depreciation expense	–	(133)	(1,171)	(39)	(1,343)
Balance as at 30 June 2008	–	(170)	(1,823)	(96)	(2,089)
Net book value					
As at 30 June 2007	2,585	1,810	2,965	56	7,416
As at 30 June 2008	2,585	1,860	4,674	118	9,237

During the year, the Group carried out a review of the recoverable amount of its motor vehicle fleet. The review led to the recognition of an impairment loss of $11 thousand that has been recognised in profit or loss. This loss is attributable to greater than anticipated wear and tear.

Of the charge for the year, impairment losses of $11 thousand (FY07: $nil) have been included in “other expenses”.

For additions by the Group during the year, an amount of $297 thousand (FY07: $1,621 thousand), was in relation to assets under finance lease.

The Company does not hold any property, plant and equipment.

13. INTANGIBLE ASSETS

Consolidated	Goodwill $'000	Indefinite Life		Finite Life	Total $'000
		Brands $'000	Intellectual Property Rights $'000	Other Costs $'000	
Gross carrying amount					
Balance as at 1 July 2006	–	38,333	3,697	24	42,054
Additions	–	1	–	–	1
Other – write-off	–	–	(2)	(3)	(5)
Balance as at 1 July 2007	–	38,334	3,695	21	42,050
Acquisitions through business combinations	23,438	127,033	–	–	150,471
Balance as at 30 June 2008	23,438	165,367	3,695	21	192,521
Accumulated amortisation / impairment losses					
Balance as at 1 July 2006	–	–	–	(2)	(2)
Amortisation expense	–	–	–	(19)	(19)
Balance as at 1 July 2007	–	–	–	(21)	(21)
Amortisation expense	–	–	–	–	–
Balance as at 30 June 2008	–	–	–	(21)	(21)
Net book value					
As at 30 June 2007	–	38,334	3,695	–	42,029
As at 30 June 2008	23,438	165,367	3,695	–	192,500

The Company does not hold any intangible assets.

Determination as indefinite life

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

Key factors taken into account in assessing the useful life of brands and intellectual property were:

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

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

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

13. INTANGIBLE ASSETS (CONT.)

Allocation of goodwill for impairment tests

During the financial year, $23,438 thousand of goodwill was realised in respect of the Company's acquisition of The Michel's Group Australia Pty Ltd ('Michel's'). Accordingly the goodwill recognised as at 30 June 2008 has been allocated for impairment testing purposes to the following cash-generating unit:

Goodwill	Consolidated	
	2008 $'000	2007 $'000
Michel's Patisserie franchise system	23,438	–

Allocation of indefinite useful life assets for impairment tests

Indefinite Life Intangibles	Consolidated	
	2008 $'000	2007 $'000
Donut King franchise system	35,923	35,923
bb's café franchise system	6,106	6,106
Brumby's Bakeries franchise system	44,833	–
Michel's Patisserie franchise system	82,200	–
	169,062	42,029

Michel's, Brumby's, Donut King and bb's café cash generating units

The operations in each of the four franchise systems are similar, and their recoverable amounts are based on similar assumptions. The recoverable amounts of the four franchise systems (each identified as a CGU) are based primarily on a value in use calculation which uses cash flow projections based on the financial budget approved by the Board for FY09 as the year one cash flow.

The cash flows in years two to five are based on the expected average percentage growth rate (Donut King—3%; bb's café—1%; Brumby's Bakeries—8%; Michel's Patisserie—3.5%) for the individual brand. The growth rates applied are based on management's estimate of forecast cash flow by franchise system after considering FY08 with the FY09 budget year. Management believes the growth rates applied are reasonable considering forecast sales growth, forecast store count growth, economies of scale and further cost savings realised from further integration of the two businesses acquired during FY08. A pre-tax discount rate of 17.5% has been used in preparing the value in use calculations. An indefinite terminal cash flow calculation has been applied for cash flows beyond year five, using the year five cash flow as a base. A growth rate of 2.5% has been used in determining the terminal value for Donut King, Brumby's Bakeries and Michel's Patisserie. For bb's café a growth rate of 1% has been used in determining the terminal value.

Management believes that any reasonable change in the key assumptions on which the recoverable amounts are based would not cause the system's carrying amount to exceed its recoverable amount.

Key assumptions

The key assumptions used in the value in use calculation for the various significant cash-generating units are budgeted system cash flows that are assumed to increase, driven by higher average weekly sales, increased market share, increased customer counts and new store commissionings. These assumptions reflect prior experience and management's plan to focus on economies of scale and further cost savings from the integrated acquired businesses during FY09 and beyond.

14. OTHER ASSETS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Prepayments	124	109	–	–
Prepaid tax installments	–	67	–	–
Other – due diligence costs	–	9	–	–
	124	185	–	–

15. ASSETS PLEDGED AS SECURITY

In accordance with the security arrangements of liabilities, as disclosed in note17 to the financial statements, all non-current assets of the Group, except goodwill and deferred taxes, have been pledged as security. The holder of the security does not have the right to sell or repledge the assets other than in an event of default.

The Group does not hold title to the equipment under finance lease pledged as security.

16. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Trade payables [1]	4,731	1,514	–	176
Accruals and other creditors	3,599	–	918	–
Goods and services tax (GST) payable	481	43	–	–
	8,811	1,557	918	176

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

17. BORROWINGS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Secured – at amortised cost:				
Current				
Bank loans	–	1,900	–	1,900
Finance lease liabilities [2]	1,598	337	–	–
Non-current				
Bank loans [1]	112,639	23,088	112,639	23,088
Finance lease liabilities [2]	2,551	1,284	–	–
	116,788	26,609	112,639	24,988
Disclosed in the financial statements as:				
Current borrowings	1,598	2,237	–	1,900
Non-current borrowings	115,190	24,372	112,639	23,088
	116,788	26,609	112,639	24,988

(1) Interest-only variable interest rate senior facilities agreement with CBA, with a maturity of 5 December 2010. The Company hedges the loan via an interest rate swap exchanging the variable rate interest for a fixed rate interest. Secured by the non-current assets, excluding goodwill and deferred tax assets.

(2) Secured by the assets leased.

18. PROVISIONS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Employee benefits [1]	1,336	407	–	–
Onerous leases and make-good [2]	640	–	–	–
Contract termination costs [3]	1,333	–	–	–
Legal claims [4]	1,000	–	–	–
Other	74	–	–	–
	4,383	407	–	–
Non-current				
Employee benefits [1]	93	118	–	–
	93	118	–	–
	4,476	525	–	–

	Consolidated		
	Onerous Leases and Make-Good $'000	Contract Termination Costs $'000	Legal Claims $'000
Balance at 1 July 2007	–	–	–
Additional provisions recognised	–	–	–
Acquired via business combination	1,485	1,543	1,000
Payments made	(845)	(210)	–
	640	1,333	1,000

(1) The current provision for employee benefits represents annual leave entitlements only. There is no vested long-service leave as at the reporting date, and accordingly, all long-service leave has been disclosed as non-current.

(2) The provision for onerous lease contracts represents the present value of future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease agreements, less revenue expected to be earned on the lease including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements, where applicable. The onerous leases are expected to be exited by the Group within twelve months.
The provision for make-good in respect of restoring retail sites to their original condition when the premises are vacated. Management has estimated the provision based on historical data in relation to stores on hand at the reporting date, the intention for closure, the estimated costs, as well as future trends that could differ from historical amounts.
The make-good activities are expected to be completed by the Group within twelve months. The combined provision for onerous lease contracts and associated make-good obligations was recognised at the time of accounting for the Brumby's Bakeries and Michel's business combinations. Refer to note 29 for details.

(3) The provision for contract termination costs represents the present value of the Directors' best estimate of the costs directly and necessarily incurred in terminating certain supply and employee contracts.

(4) The provision for legal claims represents the present value of the Directors' best estimate of anticipated future outflows in connection with certain disputes with franchisees. The provision for legal claims represents the Directors' best estimate of the contingent liabilities of The Michel's Group Australia Pty Ltd at the time of acquisition by the Group, and has been recognised as a liability by the Group (as opposed to disclosed as a contingent liability) in accordance with AASB 3 Business Combinations. Refer to note 29 for details.

NOTES TO THE FINANCIAL STATEMENTS

19. OTHER LIABILITIES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Retention bonds and deposits	410	668	–	–
Unearned income	1,180	–	–	–
Amount payable for offer acceptances – listed company investment	–	10,888	–	10,888
	1,590	11,556	–	10,888

20. ISSUED CAPITAL

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
98,350,360 fully paid ordinary shares (FY07: 72,672,224)	78,453	32,301	78,453	32,301
500,002 converting performance shares (FY07: nil)	–	–	–	–
	78,453	32,301	78,453	32,301

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.

	2008		2007	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares[1]			71,691	31,014
Balance at beginning of financial year	72,672	32,301	–	–
Issue of ordinary shares	24,000	44,400	981	1,297
Issue of ordinary shares under DRP	1,458	2,265	–	(15)
Share issue costs	–	(1,095)	–	5
Related income tax	–	329	–	–
Issue of shares under executive share option plan	220	220		
Transfer from equity-settled employee benefits reserve	–	33	–	–
Balance at end of financial year	98,350	78,453	72,672	32,301
Converting performance shares				
Balance at beginning of financial year	–	–	–	–
Issue of converting performance shares[2]	500	–	–	–
Balance at end of financial year	500	–	–	–

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

(2) As part of the consideration for the purchase of The Michel's Group Australia Pty Limited ("Michel's"), the Company issued 500,002 converting performance shares ("Replacement Shares") which were to convert to a number of RFG ordinary shares in accordance with an earnout formula based on Michel's FY08 adjusted EBIT. For every dollar by which Michel's adjusted EBIT in FY08 exceeded $13.25 million for earnout calculation purposes (a measure different from EBIT), the Replacement Shares would convert to $8 worth of RFG ordinary shares up to a maximum total value of $38.0 million (which would be achieved where Michel's adjusted EBIT in FY08 exceeded $18.0 million). The Company has not recorded any consideration payable in relation to this contingent consideration as at 30 June 2008.

Share options granted under the executive share option plan

In accordance with the provisions of the executive share option plan, as at 30 June 2008, Directors, executives and senior employees have options over 2,342,197 ordinary shares (of which 1,803,866 are unvested), in aggregate, with 513,331 of those options expiring on 31 July 2010, 25,000 expiring on 31 March 2011, 895,728 expiring on 31 July 2011, 15,000 expiring on 31 March 2012, 742,398 expiring on 31 July 2012 and the remainder expiring on 31 July 2013. As at 30 June 2007, Directors, executives and senior employees had options over 2,066,664 ordinary shares (none had vested), in aggregate, with 786,663 of those options expiring on 31 July 2010, 639,999 expiring on 31 July 2011 and the remainder expiring on 31 July 2012.

Share options granted under the executive share option plan carry no rights to dividends and no voting rights. Further details of the executive share option plan are contained in note 32 to the financial statements.

21. RESERVES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Equity-settled employee benefits				
Balance at beginning of financial year	192	–	192	–
Share-based payment	317	192	317	192
Transfer to share capital	(33)	–	(33)	–
Balance at end of financial year	476	192	476	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 32 to the financial statements.

22. RETAINED EARNINGS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance at the beginning of the financial year	4,261	(1,019)	3,358	285
Net profit attributable to members of the parent entity	17,633	7,520	3,745	5,313
Dividends provided for or paid (note 24)	(6,184)	(2,240)	(6,184)	(2,240)
Balance at the end of the financial year	15,710	4,261	919	3,358

23. EARNINGS PER SHARE

	Consolidated	
	2008 Cents per share	2007 Cents per share
Basic earnings per share		
From continuing operations	19.9	10.5
From discontinued operations	–	–
Total basic earnings per share	19.9	10.5
Diluted earnings per share		
From continuing operations	19.8	10.4
From discontinued operations	–	–
Total diluted earnings per share	19.8	10.4

Basic earnings per share	2008 $'000	2007 $'000
Net profit	17,633	7,520
Earnings used in the calculation of basic EPS	17,633	7,520
Adjustments to exclude profit for the period from discontinued operations	–	–
Earnings used in the calculation of basic EPS from continuing operations	17,633	7,520

	2008 No. '000	2007 No. '000
Weighted average number of ordinary shares for the purposes of basic EPS	71,902	

Diluted earnings per share	2008 $'000	2007 $'000
Net profit	17,633	7,520
Earnings used in the calculation of diluted EPS	17,633	7,520
Adjustments to exclude profit for the period from discontinued operations	–	–
Earnings used in the calculation of diluted EPS from continuing operations	17,633	7,520

	2008 No. '000	2007 No. '000
Weighted average number of ordinary shares for the purposes of basic EPS	88,608	71,902
Shares deemed to be issued for no consideration in respect of: executive options	646	258
Weighted average number of ordinary shares for the purposes of diluted EPS	89,254	72,160

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	2008 No. '000	2007 No. '000
Executive options	191	–

24. DIVIDENDS

	2008		2007	
	Cents per share	Total $'000	Cents per share	Total $'000
Recognised amounts				
Fully paid ordinary shares				
Final dividend – fully franked at 30% tax rate (1)	3.125	2,276	–	–
Interim dividend – fully franked at 30% tax rate (2)	4.000	3,908	3.125	2,240
	7.125	6,184	3.125	2,240
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend – fully franked at 30% tax rate (3)	4.500	4,430	3.125	2,276

(1) In respect of the financial year ended 30 June 2007, as detailed in the Directors' report for that financial year, a final dividend of 3.125 cents per share (based on 72,672,224 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 12 October 2007. The final dividend was approved by the Directors following the conclusion of the 30 June 2007 financial year and therefore was not provided for in the Company's financial report. It was resolved that the final dividend would constitute an eligible dividend for the purpose of the Company's dividend reinvestment plan.

(2) In respect of profits of the financial year ended 30 June 2008, an interim dividend of 4.0 cents per share (based on 97,709,507 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 11 April 2008. The interim dividend was approved by the Directors on 28 February 2008 and it was resolved that the interim dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

(3) In respect of profits of the financial year ended 30 June 2008, a final dividend of 4.5 cents per share (based on 98,455,360 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 28 October 2008. The final dividend was approved by the Directors on 28 August 2008 and therefore was not provided for in the Company's financial report. It was resolved that the final dividend would constitute an eligible dividend for the purposes of the Company's dividend reinvestment plan.

	Company	
	2008 $'000	2007 $'000
Adjusted franking account balance	12,695	3,411

25. COMMITMENTS FOR EXPENDITURE

	Company		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Capital expenditure and commitments				
Plant and equipment	15	9	–	–
Not longer than 1 year	–	–	–	–
Longer than 1 year and not longer than 5 years	–	–	–	–
Longer than 5 years	15	9	–	–

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	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Contingent liabilities				
Financial guarantees on franchisee loans	814	814	–	–
Rental guarantees	877	287	–	–
	1,691	1,101	–	–

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 thousand by the Australia and New Zealand Banking Group (the ANZ Bank) to certain franchisees. The guarantees have been given as security in respect of loans made by the ANZ Bank to enable certain franchisees to commission their outlets. The guarantees are subject to the ANZ Banks usual terms and conditions. No liabilities have been recognised in relation to these guarantees. The Directors believe that if the guarantees are ever called upon, the Group will be able to recover any liability incurred pursuant to the Franchisor's rights under the franchise agreement in respect of each outlet.

Rental Guarantees

The Group, via various subsidiaries, is guarantor to a number of leases occupied and licensed to franchisees. No liabilities have been recognised as part of these rental guarantees.

Franchisee Disputation

Michel's Patisserie

The Group is presently involved in a number of disputes with various current and former Michel's Patisserie franchisees over a variety of matters including but not limited to claims of misleading and deceptive conduct alleged to have occurred prior to Retail Food Group Limited's acquisition of The Michel's Group Australia Pty Ltd (TMGA). As at the date hereof, one (1) former franchisee has commenced litigation. That litigation will be vigorously defended. A number of other franchisees have served Notices of Dispute under the Franchising Code of Conduct which may result in those matters being referred to mediation (in circumstances where they are not resolved). As a consequence of the foregoing disputation, a provision has been recognised as part of acquisition accounting completed in respect of the business combination for TMGA (refer to note 18 for details). Be that as it may, any litigious proceedings arising from the said disputes will be vigorously defended.

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 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. Retail Food Group is exposed to no liability or claim relative to the above mentioned former Juice Fusion franchisees.

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 license 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 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 leases relate to plant and equipment with lease terms between one and five years, and motor vehicles with lease terms between three and four years. The Group has options to purchase the leased assets for a nominal amount at the completion of the lease agreement.

Finance lease liabilities

Consolidated	Minimum Future Lease Payments		Present Value Of Minimum Future Lease Payments	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
No later than 1 year	1,912	398	1,598	337
Later than 1 year and not later than 5 years	2,840	1,517	2,551	1,284
Later than five years	–	–	–	–
Minimum future lease payments*	4,752	1,915	4,149	1,621
Less future finance charges	(603)	(294)	–	–
Present value of minimum lease payments	4,149	1,621	4,149	1,621
Included in the financial statements as: (note 17)				
Current borrowings			1,598	337
Non-current borrowings			2,551	1,284
			4,149	1,621

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

Operating leases

Leasing arrangements

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

Non-cancellable operating lease commitments

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Not longer than 1 year	3,762	100	–	–
Longer than 1 year and not longer than 5 years	7,893	520	–	–
Longer than 5 years	831	–	–	–
	12,486	620	–	–

In respect of non-cancellable operating leases the following liabilities have been recognised:

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Onerous lease contracts – current (note 18)	640	–	–	–
Onerous lease contracts – non-current (note 18)	–	–	–	–
	640	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

28. SUBSIDIARIES AND ASSOCIATES

Name Of Entity	Country Of Incorporation	Ownership Interest 2008 (%)	Ownership Interest 2007 (%)
Parent entity			
Retail Food Group Limited [1]	Australia		
Subsidiaries			
Aroma Grande Pty Ltd [2]	Australia	100	100
Barista Pty Ltd [2]	Australia	100	100
bb's Bagel Pty Ltd [2]	Australia	100	100
bb's café System Pty Ltd [2]	Australia	100	100
bb's Plantation Pty Ltd [2]	Australia	100	100
Biloela Coffee Pty Ltd [2]	Australia	100	100
Booming Pty Ltd [2]	Australia	100	100
Breadsmith Pty Ltd [2]	Australia	100	–
Bruffin Pty Ltd [2]	Australia	100	–
Brumby's Bakeries Holdings Pty Ltd [2]	Australia	100	–
Brumby's Bakeries Pty Ltd [2]	Australia	100	–
Brumby's Cafe Pty Ltd [2]	Australia	100	–
Brumby's Quick Pty Ltd [2]	Australia	100	–
Cappuccino Frappe Pty Ltd [2]	Australia	100	100
Chatslease Pty Ltd [2]	Australia	100	100
Cheddarmite Pty Ltd [2]	Australia	100	–
Choppa Loaf Pty Ltd [2]	Australia	100	–
Coleville Enterprises Pty Ltd [2]	Australia	100	–
Donquay Pty Ltd [2]	Australia	100	–
Donut King Franchise Pty Ltd [2]	Australia	100	100
Donut King Holdings Pty Ltd [2]	Australia	100	100
Donut King System Pty Ltd [2]	Australia	100	100
Donut Mac Pty Ltd [2]	Australia	100	100
Donut Management Pty Ltd [2]	Australia	100	100
Donutcino Pty Ltd [2]	Australia	100	100
Equipment Finance Australia Pty Ltd [2]	Australia	100	100
Frapaccino Pty Ltd [2]	Australia	100	100
Frosty Cappuccino Pty Ltd [2]	Australia	100	100
Fuznik Pty Ltd [2]	Australia	100	100
Hot Dog Construction Zone (Aust) Pty Ltd [2]	Australia	100	100
Jonamill Pty Ltd [2]	Australia	100	–
Michel's Leasing Pty Ltd [2]	Australia	100	–

Name Of Entity	Country Of Incorporation	Ownership Interest 2008 (%)	Ownership Interest 2007 (%)
Michel's Patisserie (SA) Pty Ltd (2)	Australia	100	–
Michel's Patisserie (VQ) Pty Ltd (2)	Australia	100	–
Michel's Patisserie (VQL) Pty Ltd (2)	Australia	100	–
Michel's Patisserie (WA) Pty Ltd (2)	Australia	100	–
Michel's Patisserie Management Pty Ltd (2)	Australia	100	–
Mule Enterprises Pty Ltd (2)	Australia	100	–
Regional Franchising Systems Pty Ltd (2)	Australia	100	100
RFG Finance Pty Ltd (2)	Australia	100	100
RFG Investments Pty Ltd (2)	Australia	100	100
RFGA Assets Management Pty Ltd (2)	Australia	100	100
RFGA CMF Pty Ltd (2)	Australia	100	100
RFGA Holdings (Aust) Pty Ltd (2)	Australia	100	100
RFGA Holdings Pty Ltd (2)	Australia	100	100
RFGA Management Pty Ltd (2)	Australia	100	100
RFGA Master Lease Pty Ltd (2)	Australia	100	100
RFGA Training Pty Ltd (2)	Australia	100	100
Roasted Beans Pty Ltd (2)	Australia	100	100
Rouse Hill Leasing Pty Ltd (2)	Australia	100	–
Snowycold No 1 Pty Ltd (2)	Australia	100	–
Snowycold No 2 Pty Ltd (2)	Australia	100	–
Snowycold Pty Ltd (2)	Australia	100	–
Strawberry Cushion Pty Ltd (2)	Australia	100	–
Tear'n'Share Pty Ltd (2)	Australia	100	–
The Big Mule Trust (2)	Australia	100	–
The Bread Centre Securities Trust (2)	Australia	100	–
The Donquay Trust (2)	Australia	100	–
The Michel's Group Australia Pty Ltd (2)	Australia	100	–
bb's Coffee and Bake (NZ) Leasing Limited	New Zealand	100	100
bb's New Zealand Ltd	New Zealand	100	100
Brumby's Bakeries (NZ) Ltd	New Zealand	100	–
RFG (NZ) Holdings Limited	New Zealand	100	100
RFG (NZ) Limited	New Zealand	100	100
Associates			
Caffe Coffee Pty Ltd	Australia	50	50

(1) Retail Food Group Limited is the head entity within the tax consolidated group.
(2) These companies are members of the tax consolidated group.

29. ACQUISITION OF BUSINESSES

Name Of Businesses Acquired	Principal Activity	Date Of Acquisition	Proportion Of Shares Acquired (%)	Cost Of Acquisition $'000
Brumby's Bakeries Holdings Pty Ltd (and controlled entities) [1] [formerly Brumby's Bakeries Holdings Limited]	Intellectual property owner and franchisor of the Brumby's Bakeries franchise system	02/07/2007	100%	45,959
The Michel's Group Australia Pty Ltd (and controlled entities) [2]	Intellectual property owner and franchisor of the Michel's Patisserie franchise system	06/09/2007	100%	46,068

(I) Acquisition of Brumby's Bakeries Holdings Limited ('Brumby's')

On 4 May 2007, the Company announced an off market bid for all of the shares in Brumby's Bakeries Holdings Limited (Brumby's). The formal offer period relating to the Company's bid ended on 18 July 2007, at which time the Company had acquired a relevant interest in 99.87% of Brumby's shares. On 3 September 2007, the Company announced that it had completed the compulsory acquisition of the remaining shares not acquired in the off market process.

The transaction has been accounted for using the purchase method of accounting. The net assets acquired in the business combination, and the gain arising, are as follows:

Net Assets Acquired	Book Value $'000	Fair Value Adjustment $'000	Fair Value On Acquisition $'000
Current assets			
Cash and other cash equivalents	1,434	–	1,434
Trade and other receivables	3,008	–	3,008
Other financial assets	173	–	173
Inventories	450	–	450
Other	42	–	42
Non-current assets			
Other financial assets	353	–	353
Plant and equipment	501	–	501
Deferred tax assets	772	–	772
Intangible assets	2,725	42,108	44,833
Current liabilities			
Trade and other payables	(2,906)	–	(2,906)
Borrowings	(94)	–	(94)
Current tax liabilities	(349)	–	(349)
Provisions	(897)	–	(897)
Non-current liabilities			
Borrowings	(158)	–	(158)
Provisions	(449)	–	(449)
	4,605	42,108	46,713
Gain on acquisition of business			(754)
			45,959

Net Cash Flow On Acquisition	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total purchase consideration [1]	45,959	–	45,959	–
Less: non-cash consideration for Brumby's	–	–	–	–
Consideration paid in cash [2]	45,959	–	45,959	–
Less: cash and cash equivalent balances acquired	(1,434)	–	–	–
	44,525	–	45,959	–

(1) Disclosed as 'Investment in Listed Entities' ($19,471 thousand) per 30 June 2007 financial report because control was not obtained until 2 July 2007.
(2) As at 30 June 2007, total cash paid in respect of the acquisition of Brumby's was $8.583 million.

A gain of $0.754 million was realised by the Group in connection with the acquisition of Brumby's, representing the excess of the fair value of net assets acquired over the total consideration paid. This gain has been recognised in the income statement in accordance with AASB 3 Business Combinations and is disclosed in "Other Revenue".

Included in the net profit for the period since acquisition is $6.4 million attributable to the additional business generated by Brumby's.

(2) Acquisition of The Michel's Group Australia Pty Limited ('Michel's')

On 7 September 2007, the Company announced that it had entered into a Scrip and Cash Terms Agreement ("SCTA") with the shareholders of The Michel's Group Australia Pty Limited (Michel's) to acquire all the issued shares in Michel's. On 14 December 2007, the Company completed the acquisition of 100% of the issued share capital for cash consideration of $46.1 million.

The consideration payable also included a scrip component which was subject to an incentivated earn-out program based on Michel's FY08 adjusted EBIT performance. The vendor shareholders were entitled to be issued with the Company's scrip on a pro rata basis where Michel's FY08 adjusted EBIT for earnout calculation purposes was between $13.25 million and $18.0 million.

On 19 August 2008, the Company announced on behalf of a committee consisting of representatives of the Company and the vendor shareholders that the committee had determined that Michel's FY08 adjusted EBIT did not exceed $13.25 million which resulted in the payment of no further consideration to the vendor shareholders and the conversion of the 500,002 converting performance shares previously issued to the vendor shareholders to nil ordinary shares in the Company.

The transaction has been accounted for using the purchase method of accounting. The net assets acquired in the business combination, and the goodwill arising, are as follows:

29. ACQUISITION OF BUSINESSES (CONT.)

Net Assets Acquired	Book Value $'000	Fair Value Adjustment $'000	Fair Value On Acquisition $'000
Current assets			
Cash and other cash equivalents	1,143	–	1,143
Trade and other receivables	5,713	–	5,713
Inventories	941	–	941
Current tax assets	136	–	136
Non-current assets held for sale	660	–	660
Non-current assets			
Plant and equipment	3,257	(1,778)	1,479
Deferred tax assets	973	300	1,273
Intangible assets	75,403	6,797	82,200
Current liabilities			
Trade and other payables	(8,830)	–	(8,830)
Borrowings	(55,775)	–	(55,775)
Provisions	(3,239)	–	(3,239)
Non-current liabilities			
Borrowings	(1,990)	–	(1,990)
Provisions	(81)	–	(81)
Contingent liabilities	–	(1,000)	(1,000)
	18,311	4,319	22,630
Goodwill on acquisition			23,438
			46,068

Net Cash Flow On Acquisition	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total purchase consideration	46,068	–	46,068	–
Less: non-cash consideration for Michel's	–	–	–	–
Consideration paid in cash	46,068	–	46,068	–
Less: cash and cash equivalent balances acquired	(1,143)	–	–	–
Add: bank overdraft acquired	1,685	–	–	–
	46,610	–	46,068	–

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Michel's. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit from expected synergies, revenue growth and future market development and the assembled workforce of Michel's. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Included in the net profit for the period since acquisition is $7.6 million attributable to the additional business generated by Michel's.

Had this business combination been effected at 1 July 2007, the net profit contribution of Michel's to the Group would have been $9.1 million. The Directors of the Group consider this 'pro forma' number to represent an approximate measure of Michel's on an annualised basis and to provide a reference point for the comparison in future periods. In determining the pro forma net profit of Michel's the business been acquired at the beginning of the current reporting period, the Directors have annualised the result recognised from Michel's for the period since acquisition, being 10 months.

30. 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	
Net Cash Flow On Acquisition	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash and cash equivalents	4,102	1,548	6	159

(b) Business acquired

During the financial year, the Group completed two acquisitions, namely, the acquisition of the Brumby's Bakeries and Michel's Patisserie franchise systems. Refer to note 29 for details.

The net cash outflow relating to these acquisitions is reconciled as follows:

	Consolidated		Company	
Net Cash Flow On Acquisition	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Net cash outflow in connection with Brumby's acquisition (note 29)	35,942	8,583	37,376	8,583
Net cash outflow in connection with Michel's acquisition (note 29)	46,610	–	46,068	–
	82,552	8,583	83,444	8,583

(c) Non-cash financing and investing activities

During the financial year, the Group acquired $297 thousand (FY07: $1,621 thousand) of equipment under a finance lease. This acquisition will be reflected in the cash flow statement over the term of the finance lease via lease repayments.

NOTES TO THE FINANCIAL STATEMENTS

30. NOTES TO THE CASH FLOW STATEMENT (CONT.)

(d) Financing facilities

Net Cash Flow On Acquisition	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Secured bank overdraft facility, reviewed annually and payable at call:				
amount used	–	–	–	–
amount unused	5,807	300	5,000	–
	5,807	300	–	–
Lease finance facility, reviewed annually:				
amount used	4,149	1,621	–	–
amount unused	6,692	1,334	6,000	–
	10,841	2,955	6,000	–
Secured bank loan facility:				
amount used (before deducting debt issue costs)	113,700	24,988	113,700	24,988
amount unused	6,300	612	6,300	–
	120,000	25,600	120,000	24,988

The Group has access to financing facilities at reporting date as indicated above. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Profit for the year	17,633	7,520	3,745	5,313
(Gain)/loss on sale or disposal of non-current assets	(10)	(2)	–	–
Share of jointly controlled entities' profit	(27)	–	–	–
Depreciation and amortisation	1,343	187	–	–
Impairment of non current assets	11	–	–	–
Equity-settled share-based payment	317	192	–	–
Interest income received and receivable	(632)	(198)	(8,680)	(30)
Dividends received and receivable	–	–	–	(4,250)
Capitalised interest expense	–	237	–	199
Management fees	–	–	(4,430)	–
Fair value (gain)/loss on derivatives	(1,482)		(908)	–
Increase/(decrease) in current tax liability	1,812	(54)	2,161	(54)
Increase/(decrease) in deferred tax balances	682	(195)	192	(156)
Increase/(decrease) in amounts due under the tax-funding arrangement	–	–	(3,243)	–
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Trade and other receivables	(1,302)	(1,597)	19	(341)
Inventories	275	82	–	–
Other assets	(167)	(189)	–	(22,896)
Increase/(decrease) in liabilities:				
Trade and other payables	(4,482)	32	742	(201)
Provisions	(715)	265	–	–
Other liabilities	–	90	–	18,301
Net cash from operating activities	13,256	6,370	(10,402)	(4,117)

31. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group and the Company manages its capital to ensure that entities in the Group and the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's and the Company's overall strategy remains unchanged from FY07.

The capital structure of the Group and the Company consists of debt, which includes borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings, as disclosed in notes 20,21 and 22 respectively.

The Group operates in Australia and New Zealand, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

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

Gearing ratio

The Group's and the Company's management and Board of Directors review the capital structure on an annual basis. As a part of this review, management and the Board of Directors, considers the cost of capital and the risks associated with each class of capital. The Group and the Company has a target gearing ratio of 40 - 60% in line with the industry norm that is determined as the proportion of net debt to equity. Based on recommendations of management and the Board of Directors, the Group and the Company will balance its overall capital structure through the payment of dividends, and new share issues as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at year end was as follows:

	Consolidated		Company	
Net Cash Flow On Acquisition	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Debt [1]	116,788	26,069	112,639	24,988
Cash and cash equivalents	(4,102)	(1,548)	(6)	(159)
Net debt	112,686	24,521	112,633	24,829
Equity [2]	94,639	36,754	79,848	35,851
Net debt to equity ratio	54.4%	40.0%	58.5%	40.9%

(1) Debt is defined as long- and short-term borrowings, as detailed in note 17.
(2) Equity includes all capital and reserves.

(b) Categories of financial instruments

	Consolidated		Company	
Net Cash Flow On Acquisition	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Financial assets:				
Fair value through profit or loss assets				
Interest rate swap	2,317	–	2,317	–
Loans and receivables:				
Trade and other receivables	14,971	5,791	–	19
Loans and receivables	2,678	640	59,279	10,422
Cash and cash equivalents	4,102	1,548	6	159
Financial liabilities:				
At amortised cost:				
Bank loan	112,639	24,988	112,639	24,988
Finance lease liabilities	4,149	1,621	–	–

(c) Financial risk management objectives

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

The Group and the Company seeks to minimise the effects of the above mentioned risks, by using derivative financial instruments to hedge against these risk exposures. The use of financial derivatives is governed by the Group's and the Company's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of derivatives and non-derivative financial instruments, and the investment of excess liquidity. Group and Company compliance with policies and exposure limits is reviewed by the CFO and the Board of Directors. The Group and the Company does not enter into or trade financial instruments, including derivate financial instruments, for speculative purposes.

The Group's and the Company's management and Board of Directors' reviews quarterly annually to monitor the risks and policies implemented to mitigate risk exposure.

(d) Market risk

The Group's and the Company's activities expose it primarily to the financial risk of changes in interest rates (refer note 31(e)). The Group and the Company enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps to mitigate the risk of rising interest rates.

The Group has minor financial risk to changes in foreign exchange rates in respect of the operations in New Zealand, however, these risks are considered to be insignificant given the small size of the operation in that country.

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

There has been no change to the Group's or the Company's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

Hedging Activities

The Group and the Company holds financial instruments to hedge risks relating to underlying transactions. The major exposure to interest rate risk arises from long-term borrowings. Details of hedging activities are provided below.

The Group does not apply hedge accounting.

(e) Interest rate risk management

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

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Group's:

- net profit would increase by $445 thousand and decrease by $653 thousand. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.
- net profit would increase by $2,570 thousand and decrease by $1,585 thousand mainly as a result of the changes in the fair value of the interest rate swap.

Interest rate swap contracts

Under interest rate swap contracts, the Group and the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group and the Company to mitigate the risk of changing interest rates on the Group's and the Company's cash flows. The average interest rate is based on the outstanding balances at the end of the financial year.

31. FINANCIAL INSTRUMENTS (CONT.)

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

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2008 %	2007 %	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Consolidated						
3 to 4 years	6.13	–	41,600	–	1,452	–
4 to 5 years	7.27	–	35,757	–	350	–
5 years +	7.47	–	24,103	–	281	–
			101,460	–	2,083	–
Company						
3 to 4 years	6.13	–	41,600	–	1,452	–
4 to 5 years	7.27	–	35,757	–	350	–
5 years +	7.47	–	24,103	–	281	–
			101,460	–	2,083	–

The interest rate swap contract does not qualify for hedge accounting and changes in fair value are therefore recognised immediately in the income statement. The interest rate swaps settle on a quarterly basis. The Group will settle the difference between the fixed and floating interest rate on a net basis.

Interest rate cap contract

Under an interest rate cap contract, the Group receives payment (based on a notional amount) at the end of each quarter in which the interest rate exceeds the agreed strike price.

Such a contract enables the Group to mitigate the risk of rising interest rates on a portion of the floating interest debt held and participate in any fall in interest rates below the agreed strike price applicable to that debt. The average interest rate is based on the outstanding balances at the end of the financial year.

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2008 %	2007 %	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Consolidated						
4 to 5 years	7.47	–	8,850	–	235	–
			8,850	–	235	–
Company						
4 to 5 years	7.47	–	8,850	–	235	–
			8,850	–	235	–

(f) Credit risk management

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 measure of mitigating the risk of financial loss from defaults. Credit exposure is controlled by limits that are reviewed continually.

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

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

Financial assets and other credit exposures	Maximum credit risk	
	2008 $'000	2007 $'000
Consolidated		
Financial guarantees on franchisee loans	814	814
Rental guarantees on franchise stores	877	287
	1,691	1,101

The Group has provided financial guarantees to a third party financier in order to enable the franchisees to commission their respective outlets. In the event that a loan defaults, the Group's policy is to operate the outlet on an interim basis as a non-voluntary company store.

The Company has not provided any financial guarantees or rental guarantees to franchisees.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's and the Company's short, medium and long-term funding and liquidity management requirements. The Group and the Company manages liquidity risk by maintaining adequate reserves and reserve banking facilities by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Included in note 30(d) is a listing of additional undrawn facilities that the Company / Group has at its disposal to further reduce liquidity risk.

31. FINANCIAL INSTRUMENTS (CONT.)

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities and non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Consolidated			Company		
	Less Than 1 Year $'000	1 – 5 Years $'000	More Than 5 Years $'000	Less Than 1 Year $'000	1 – 5 Years $'000	More Than 5 Years $'000
2008:						
Trade payables	4,731	–	–	–	–	–
Other payables	4,080	–	–	918	–	–
Retention bonds and deposits	410	–	–	–	–	–
Bank loan	9,000	127,200	–	9,000	127,200	–
Finance lease liability	1,912	2,840	–	–	–	–
	20,133	130,040	–	9,918	127,200	–
2007:						
Trade payables	1,514	–	–	176	–	–
Other payables	43	–	–	–	–	–
Retention bonds and deposits	668	–	–	–	–	–
Bank loan	2,062	25,050	–	2,062	25,050	–
Finance lease liability	398	1,517	–	–	–	–
	4,685	26,567	–	2,238	25,050	–

(h) Fair value of financial instruments

The fair values of derivative instruments are determined as follows:

- the fair value of interest rate swaps is the estimated amount that the Group and the Company would receive or pay to terminate the interest rate swap at the end of the financial year, taking into account the current interest rate.

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

(i) Foreign currency risk management

The Group's Australian operations are predominantly in Australian dollars and there is limited foreign currency exchange risk associated with the Australian business. The Group's New Zealand operations are predominantly in New Zealand dollars. Due to the insignificant contribution of the New Zealand operations to the Group, the risk of exposure of movements in foreign currencies is considered insignificant also.

32. 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 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:

Option Series	Number	Grant Date	Expiry Date	Vesting Date	Exercise Price	Grant Date Fair Value
Executive Share Option Plan						
Tier 1A	639,999	01.08.06	31.07.10	01.08.07	$1.00	$0.1480
Tier 1B	639,999	01.08.06	31.07.11	01.08.08	$1.00	$0.1704
Tier 1C	640,002	01.08.06	31.07.12	01.08.09	$1.00	$0.1849
Tier 2A	304,062	01.08.07	31.07.11	01.08.08	$1.15	$0.5813
Tier 2B	150,730	01.08.07	31.07.12	01.08.09	$1.15	$0.5918
Tier 2C	150,740	01.08.07	31.07.13	01.08.10	$1.15	$0.5927
Tier 4A	25,000	01.04.08	31.03.11	01.04.08	$1.67	$0.1782
Tier 5A	15,000	01.04.08	31.03.12	01.04.09	$1.92	$0.1909
Senior Management Share Option Plan						–
Tier 1A	146,664	01.08.06	31.07.10	01.08.07	$1.00	$0.1480

The weighted average fair value of the share options granted during the financial year is $0.5617 (FY07: $0.1664). Options were priced using the Black-Scholes 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 and behavioral considerations. Expected volatility is based on the historical share price volatility for a period consistent with the option life. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options at the mid-point of the expiry period (i.e. mid-point between the vesting date and the expiry date).

	Option Series							
Inputs Into The Model	Tier 1A	Tier 1B	Tier 1C	Tier 2A	Tier 2B	Tier 2C	Tier 4A	Tier 5A
Grant date share price	$0.84	$0.84	$0.84	$1.65	$1.65	$1.65	$1.39	$1.39
Exercise price	$1.00	$1.00	$1.00	$1.15	$1.15	$1.15	$1.67	$1.92
Expected volatility	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	42.00%	42.00%
Option life	2.5 years	3.5 years	4.5 years	2.5 years	3.5 years	4.5 years	1.5 years	2.5 years
Dividend yield	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	5.50%	5.50%
Risk-free interest rate	5.17%	5.17%	5.17%	6.39%	6.39%	6.39%	6.09%	6.09%

NOTES TO THE FINANCIAL STATEMENTS

32. SHARE-BASED PAYMENTS (CONT.)

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

Net Cash Flow On Acquisition	2008		2007	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance at beginning of the financial year	2,066,664	$1.00	–	–
Granted during the financial year	645,532	$1.19	2,066,664	$1.00
Forfeited during the financial year	(150,000)	$1.00	–	–
Exercised during the financial year [1]	(219,999)	$1.00	–	–
Expired during the financial year	–	–	–	–
Balance at end of the financial year [2]	2,342,197	$1.05	2,066,664	$1.00
Exercisable at end of the financial year	538,331	$1.03	–	–

(1) Exercised during the financial year

The following share options granted under the executive share option plan were exercised during the financial year:

2008 Option Series	Number Exercised	Exercise Date	Share Price At Exercise Date
Tier 1A—Issued 1 August 2006	13,333	07/09/07	$1.84
Tier 1A—Issued 1 August 2006	103,333	28/09/07	$1.87
Tier 1A—Issued 1 August 2006	33,333	26/10/07	$1.90
Tier 1A—Issued 1 August 2006	70,000	19/03/08	$1.43
	219,999		

(2) Balance at the end of the financial year

30 June 2008	Number Outstanding	Remaining Life (in days)
Tier 1A—Issued 1 August 2006	513,331	761
Tier 1B—Issued 1 August 2006	591,666	1,126
Tier 1C—Issued 1 August 2006	591,668	1,492
Tier 2A—Issued 1 August 2007	304,062	1,126
Tier 2B—Issued 1 August 2007	150,730	1,492
Tier 2C—Issued 1 August 2007	150,740	1,857
Tier 4A—Issued 1 April 2008	25,000	1,004
Tier 5A—Issued 1 April 2008	15,000	1,370
	2,342,197	

30 June 2007	Number Outstanding	Remaining Life (in days)
Tier 1A – Issued 1 August 2006	786,663	1,127
Tier 1B – Issued 1 August 2006	639,999	1,492
Tier 1C – Issued 1 August 2006	640,002	1,858
	2,066,664	

33. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Consolidated		Company	
	2008 $	2007 $'000	2008 $	2007 $
Short-term employee benefits	1,909,644	1,389,811	–	–
Post-employment benefits	69,348	71,354	–	–
Other long-term benefits	–	–	–	–
Termination benefits	–	–	–	–
Share-based payment	182,056	123,116	–	–
	2,161,048	1,584,281	–	–

Detailed remuneration disclosures are provided in the Remuneration Report, contained in the Directors' Report.

34. RELATED PARTY TRANSACTIONS

Equity interests in related parties

Equity interests in subsidiaries

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

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in note 28 to the financial statements.

Equity interests in other related parties

There are no equity interests in other related parties.

Transactions with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 33 to the financial statements.

Loans to key management personnel

There were no loans outstanding at the end of the financial year (FY07:$nil) to key management personnel or their related parties.

34. RELATED PARTY TRANSACTIONS (CONT.)

Key management personnel equity holdings

Fully paid ordinary shares of Retail Food Group Limited:

	Balance 1 July 2007 No.	Granted As Compensation No.	Received On Exercise Of Options No.	Net Other Change No.	Balance 30 June 2008 No.	Balance Held Nominally No.
30 June 2008:						
Mr John Cowley	51,175	–	–	2,458	53,633	–
Mr Anthony (Tony) Alford	22,353,156	–	70,000	939,639	23,362,795	956,575
Mr Nigel Nixon	5,293,229	–	–	62,371	5,355,600	2,615,882
Mr Colin Archer	195,705	–	–	22,055	217,760	–
Mr Bruce Hancox	–	–	–	–	–	–
Mr Gary Best	1,348,765	–	60,000	29,035	1,437,800	–
Mr Damien Peters	–	–	–	–	–	–
Mr Andre Nell	–	–	–	–	–	–
Mr Mark Connors	10,000	–	–	(100)	9,900	–
Mr Gary Alford	1,446,463	–	–	40,049	1,486,512	–
Mr Gavin Nixon	5,293,229	–	–	62,371	5,355,600	2,726,855
Ms Nicole Dodd	1,945	–	33,333	(33,239)	2,039	–
	35,993,667	–	163,333	1,124,639	37,281,639	6,299,312
30 June 2007:						
Mr John Cowley	50,000	–	–	1,175	51,175	–
Mr Anthony (Tony) Alford [1]	28,251,590	–	–	(5,898,434)	22,353,156	944,699
Mr Nigel Nixon	5,231,644	–	–	61,585	5,293,229	2,615,822
Mr Colin Archer	175,000	–	–	20,705	195,705	–
Mr Gary Best	1,317,800	–	–	30,965	1,348,765	–
Mr Mark Connors	10,000	–	–	–	10,000	–
	35,036,034	–	–	(5,784,004)	29,252,030	3,560,521

(1) On 1 September 2006, Mr Alford resigned his position as a Director of Rastus Investments Pty Ltd (which then held 7,207,152 ordinary shares in Retail Food Group Limited). As a consequence of that resignation, Mr Alford was no longer deemed to hold a relevant interest in the shares held by the aforementioned company. Further details concerning this matter may be accessed via the Appendix 3Y Change of Directors Interest Notice and explanatory memorandum lodged with the ASX in respect of Mr Alford's notifiable interests on 8 September 2006. In the meantime, it is noted that Mr Alford's beneficial interest in Retail Food Group Limited increased during FY07 as a consequence of share purchases and DRP participation (as the case may be).

Executive share options of Retail Food Group Limited:

	Balance 1 July 2007 No.	Granted As Compensation No.	Exercised No.	Net Other Change No.	Balance 30 June 2008 No.	Balance Vested 30 June 2008 No.	Vested But Not Exercisable No.	Vested And Exercisable No.	Options Vested During The Year No.
30 June 2008:									
Mr John Cowley	140,000	21,100	–	–	161,100	46,667	–	46,667	46,667
Mr Anthony (Tony) Alford	210,000	40,000	(70,000)	–	180,000	–	–	–	70,000
Mr Nigel Nixon	161,000	40,000	–	–	201,000	53,667	–	53,667	53,667
Mr Colin Archer	100,000	21,100	–	–	121,100	33,333	–	33,333	33,333
Mr Bruce Hancox	–	–	–	–	–	–	–	–	–
Mr Gary Best	180,000	40,000	(60,000)	–	160,000	–	–	–	60,000
Mr Damien Peters	–	40,000	–	–	40,000	25,000	–	25,000	25,000
Mr Andre Nell	–	–	–	–	–	–	–	–	–
Mr Mark Connors	118,000	40,000	–	–	158,000	39,333	–	39,333	39,333
Mr Gary Alford	190,000	40,000	–	–	230,000	63,333	–	63,333	63,333
Mr Gavin Nixon	141,000	40,000	–	–	181,000	47,000	–	47,000	47,000
Ms Nicole Dodd	33,333	40,000	(33,333)	–	40,000	–	–	–	33,333-
	1,273,333	362,200	(163,333)	–	1,472,200	308,333	–	308,333	471,666
30 June 2007:									
Mr John Cowley	–	140,000	–	–	140,000	–	–	–	–
Mr Anthony (Tony) Alford	–	210,000	–	–	210,000	–	–	–	–
Mr Nigel Nixon	–	161,000	–	–	161,000	–	–	–	–
Mr Colin Archer	–	100,000	–	–	100,000	–	–	–	–
Mr Gary Best	–	180,000	–	–	180,000	–	–	–	–
Mr Damien Peters	–	–	–	–	–	–	–	–	–
Mr 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.

During the financial year, 163,333 options (FY07: nil) were exercised by key management personnel at an exercise price of $1.00 per option for 163,333 ordinary shares in Retail Food Group Limited (FY07: nil). No amounts remain unpaid on the options exercised during the financial year at year end.

Details of the Executive Share Option Plan and of share options granted during FY08 and FY07 are contained in note 32.

34. RELATED PARTY TRANSACTIONS (CONT.)

Other transactions with key management personnel of the Group

Profit for the year includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel or their related entities:

	Consolidated	
	2008 $	2007 $
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:		
Rental revenue	–	83,990
Other	–	32,961
Franchise revenue	127,567	370,079
	127,567	487,030
Consolidated profit includes the following expenses arising from transactions with key management personnel of the Group and their related parties:		
Accountancy fees	–	178,250
Rental expense	49,435	97,673
Other administration services	4,591	37,127
	54,026	313,050
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	–	45,000
Non-current	–	–
	–	45,000

Transactions with other related parties

Transactions between the Company and its related entities

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

During the financial year, the following transactions occurred between the Company and its other related parties:

- the Company recognised a tax payable in respect of the tax liabilities of its wholly-owned subsidiaries. Payments to / from the Company are made in accordance with the terms of the tax funding arrangement.
- the Company provided various services including but not limited to administration and financing totaling $12,675 thousand (FY07: $2,355 thousand).

The following balances arising from transactions between the Company and its other related parties are outstanding at the reporting date:

- Loans receivables totaling $59,279 thousand are receivable from subsidiaries (FY07: $10,442 thousand).

Transactions and balances between the Company and its subsidiaries were eliminated in the preparation of consolidated financial statements of the Group.

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.

The Group leased a warehouse facility (leased initially for the original Central Manufacturing Facility prior to its relocation to the Group's owned premises) from Yak Investments Pty Ltd. Yak Investments Pty Ltd is a related party of Mr Anthony (Tony) Alford and Mr Gary Best. A total of $29,440 (excluding GST) was paid or payable during the year. (FY07: $88,320 excluding GST).

The Group utlises a storage / archive facility that is owned the Cranot Superannuation Fund. The Cranot Superannuation Fund is a related party of Mr Anthony (Tony) Alford and Mr Gary Alford. A total of $19,995 (excluding GST) was paid or payable during the year. (FY07: $9,353 excluding GST).

Bureau Services Pty Ltd is a company associated with Mr Antony (Tony) Alford. It was reimbursed $4,591 (excluding GST) for business related expenditure during the financial year. (FY07: $4,166 excluding GST).

Donut Holdings Pty Ltd is a related part of Mr Gavin Nixon. Donut Holdings Pty Ltd owned and operated one Donut King outlet during the year. Included in revenue for the year is an amount of $127,567 (excluding GST) earned by the Group in respect of royalties and product sales (from the CMF) to this store. (FY07: $nil).

Parent entities

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

35. REMUNERATION OF AUDITORS

	Consolidated		Company	
	2008 $	2007 $'000	2008 $	2007 $
Auditor of the parent entity				
Audit or review of the financial report	355,000	148,500	–	–
Other non-audit services :				
Due diligence services	72,444	79,605	–	–
Tax consolidation advice	30,000	–	–	–
	457,444	228,105	–	–

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

36. SUBSEQUENT EVENTS

Conversion of Performance Shares to Nil Ordinary Shares in the Company

On 7 September 2007, the Company announced that it had entered into a Scrip & Cash Terms Agreement ('SCTA') to acquire all of the issued shares in Michel's. Settlement of the SCTA was effected on 14 December 2007.

The SCTA provided for the issue of certain converting performance shares (the 'Replacement Shares') to the vendor shareholders in connection with the incentivised scrip based earn-out forming part of the consideration for Michel's. Where Michel's FY08 adjusted EBIT for earnout calculation purposes was between $13.25 million and $18.0 million, the Replacement Shares would convert to the Company's ordinary shares on a pro rata basis.

A committee consisting of representatives from the Company and the vendor shareholders was established under the terms of the SCTA to, among other things, determine Michel's 12 month adjusted EBIT for the purposes of the earn out calculation.

Based on 12 month accounts specifically prepared for earn out purposes, the Company announced on 19 August 2008 that the committee had determined that the Michel's FY08 adjusted EBIT did not exceed $13.25 million, and as a consequence, the Replacement Shares would convert to nil ordinary shares in the Company and therefore not have any dilutive effect on EPS at the reporting date.

Donut King Master License Agreement For China

On 4 July 2008, the Company announced that it had finalised the terms of a Master License Agreement ('MLA') with Shanghai based Mak Brands Limited concerning the proliferation of the Donut King franchise system within the Peoples Republic of China.

The China MLA:

- grants exclusive rights in respect of the Donut King system for the territory of Mainland China;
- is performance based for an initial term of 20 years;
- provides for the payment of an initial license fee on execution together with an ongoing royalty stream; and
- imposes strict performance criteria on the licensee requiring establishment of a minimum 20 outlets within 5 years from commencement and thereafter 8 outlets per annum.

Final Dividend

On 28 August 2008, the Board of Directors declared a final dividend for the financial year ended 30 June 2008, 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 & 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, and consistent with the Company's May 2006 Prospectus, a total of 530,006 share options were granted to Directors, executives or employees on 1 August 2008. The exercise price is $1.32. Of the said options:

- 283,339 options will vest on 1 August 2009 and will lapse if not exercised by 31 July 2012;
- 123,333 options will vest on 1 August 2010 and will lapse if not exercised by 31 July 2013; and
- 123,334 options will vest on 1 August 2011 and will lapse if not exercised by 31 July 2014.

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 29 AUGUST 2008

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary share capital

- 98,420,360 fully paid ordinary shares are held by 1,148 individual shareholders.

All issued ordinary shares carry one vote per share.

Converting performance shares

- Nil converting performance shares.

As disclosed in note 36 to the financial statements, all 500,002 converting performance shares on issue converted to nil ordinary shares in Retail Food Group Limited on 19 August 2008.

Options

- 1,626,665 options granted on 1 August 2006 are held by 21 individual option holders.
- 605,532 options granted on 1 August 2007 are held by 23 individual option holders.
- 40,000 options granted on 1 April 2008 are held by 1 individual option holder.
- 530,006 options granted on 1 August 2008 are held by 24 individual option holders.

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	168	109,549	0.11	–	–
1,001 – 5,000	455	1,296,831	1.32	–	–
5,001 – 10,000	200	1,505,425	1.53	–	–
10,001 – 100,000	258	7,166,812	7.28	12	493,336
100,001 and over	67	88,341,743	89.76	13	2,308,867
	1,148	98,420,360	100.00	25	2,802,203
Holding less than a marketable parcel	34	7,768	0.01		

SUBSTANTIAL SHAREHOLDERS

	Fully Paid		Partly Paid	
Ordinary Shareholders	Number	Percentage	Number	Percentage
National Nominees Limited	12,883,377	13.1	–	–
CGFH C2 Pty Ltd	9,000,870	9.1	–	–
Alfords Holdings (Qld) Pty Ltd	8,369,296	8.5	–	–
Gotham City Pty Limited	7,000,000	7.1	–	–
HSBC Custody Nominees (Australia) Limited	6,469,895	6.6	–	–
Brecot Pty Ltd	5,342,737	5.4	–	–
Thorney Holdings Pty Ltd	5,066,979	5.1	–	–

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 29 AUGUST 2008

TWENTY LARGEST HOLDERS OF QUOTED EQUITY INSTRUMENTS

Ordinary Shareholders	Fully Paid		Partly Paid	
	Number	Percentage	Number	Percentage
1. National Nominees Limited	12,883,377	13.1	–	–
2. CGFH C2 Pty Ltd	9,000,870	9.1	–	–
3. Alfords Holdings (Qld) Pty Ltd	8,369,296	8.5	–	–
4. Gotham City Pty Limited	7,000,000	7.1	–	–
5. HSBC Custody Nominees (Australia) Limited	6,469,895	6.6	–	–
6. Brecot Pty Ltd	5,342,737	5.4	–	–
7. Thorney Holdings Pty Ltd	5,066,979	5.1	–	–
8. JP Morgan Nominees Australia Limited	4,059,114	4.1	–	–
9. Anttra Pty Ltd	3,980,698	4.0	–	–
10. Invia Custodian Pty Limited	3,925,193	4.0	–	–
11. Absolute Investments Australia Pty Ltd	1,610,000	1.6	–	–
12. Migaloo Pty Ltd	1,560,438	1.6	–	–
13. ANZ Nominees Limited	1,395,008	1.4	–	–
14. Risby Investments Pty Ltd	1,332,008	1.4	–	–
15. BHM Enterprises Pty Ltd	1,225,050	1.2	–	–
16. WSS Holdings (Aust) Pty Ltd	1,112,531	1.1	–	–
17. AMA Holdings (Qld) Pty Ltd	1,096,787	1.1	–	–
18. Saga Investments Pty Ltd	920,513	0.9	–	–
19. FTT Holdings Pty Ltd	804,670	0.8	–	–
20. Gain Capital Management Pty Ltd	795,000	0.8	–	–
Total	77,950,164	79.2	–	–

Company Secretary	Registered Office	Principal Administration Office	Share Registry
Mr Anthony Mark Connors RFG House 26 Railway Street Southport QLD 4215	Alfords Level 1 HQ Robina 58 Riverwalk Avenue Robina QLD 4226	RFG House 26 Railway Street Southport QLD 4215	Computershare Investor Services Level 19, 307 Queen Street Brisbane QLD 4000

THE RIGHT MIX

ALL THE INGREDIENTS

FOR FUTURE DEVELOPMENT

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