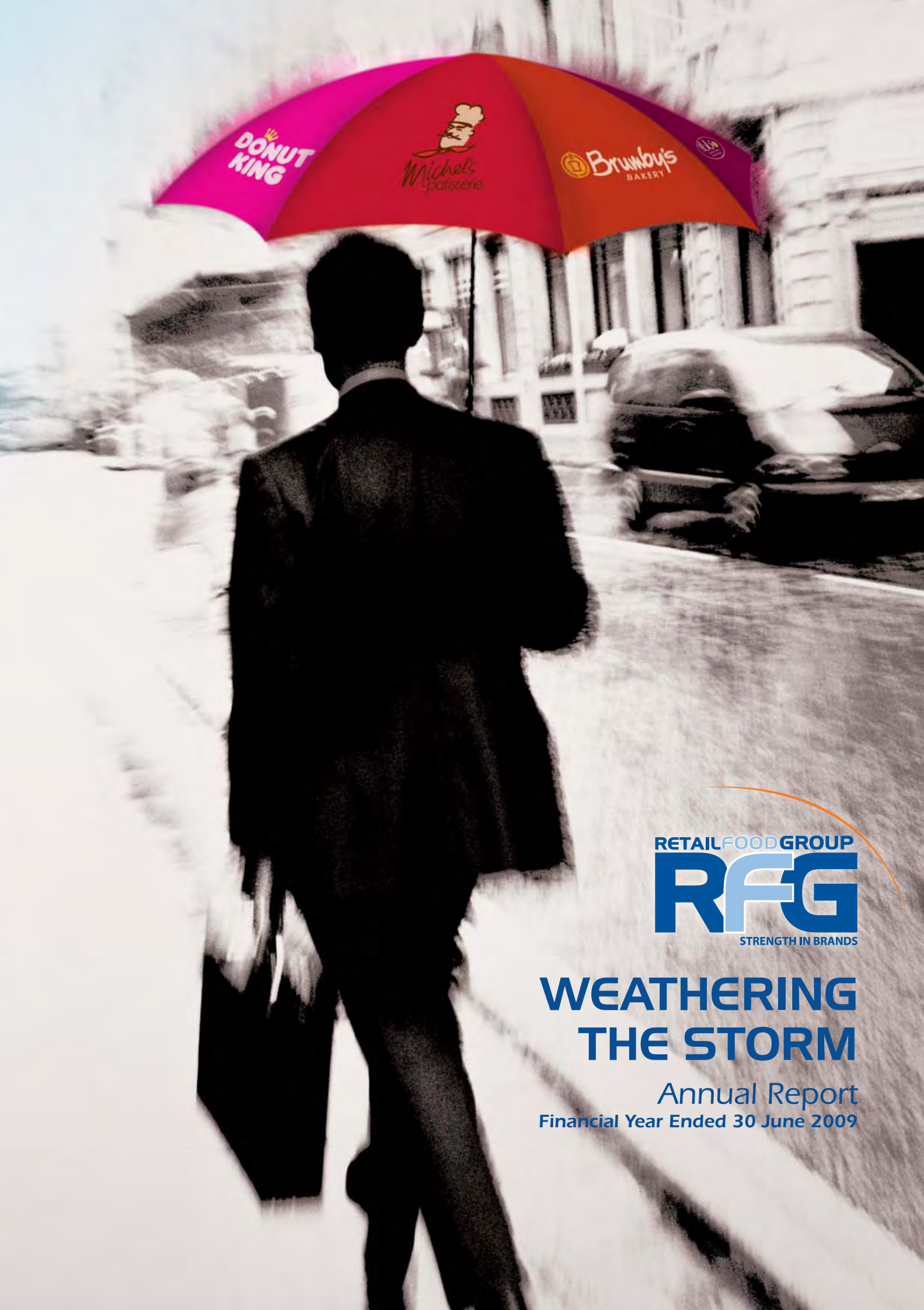


RETAIL FOOD GROUP

RFG

STRENGTH IN BRANDS

WEATHERING THE STORM

Annual Report

Financial Year Ended 30 June 2009

RETAIL FOOD GROUP DESIGNS, DEVELOPS AND MANAGES RETAIL FRANCHISE SYSTEMS AND IS THE INTELLECTUAL PROPERTY OWNER AND LICENSOR OF THE DONUT KING, BB'S CAFÉ, BRUMBY'S BAKERIES AND MICHEL'S PATISSERIE FRANCHISE SYSTEMS.

OUTLETS

NETWORK SALES

RETAIL FOOD GROUP

- DELIVERED RECORD FY09 PERFORMANCE IN CHALLENGING ECONOMIC CONDITIONS
- SINCE LISTING IN 2006, CUMULATIVE AVERAGE GROWTH RATE ACHIEVED:
  > EPS 40.2% > NPAT 58.5%

DONUT KING

As Australia's largest specialty donut and coffee chain, Donut King operates more than 320 stores across Australia, employing over 4,600 staff, serving over 30 million donuts to Australians every year.

Donut King has recently expanded internationally with the first Donut King store opening its doors in Shanghai, China on 1 November 2008. We are still growing so more people can enjoy the Donut King experience.

Donut King operates within the 'impulse buy', 'reward' and 'treat' segments of the food retailing sector. Donut King prides itself on offering tasty, treat snacks to people of all ages. FY09 saw the launch of the gourmet range of donuts, "Sensations" and more recently the Royal Bean coffee blend. Product innovation, re-invigoration, providing value and continued store growth and expansion, has been the secret to Donut King being able to weather the storm.

FY09 HIGHLIGHTS

- Network sales of $149 million (FY08: $144 million);
- Outlets of 325 (FY08: 307 outlets);
- Significant net outlet growth of 18 (from 24 commissionings) supported by active multi-outlet ownership market;
- International expansion in China progressing – 4 outlets trading;
- Average weekly sales of $9,256 per outlet (FY08: $9,183) and average transaction value of $4.93 (FY08: $4.59); and
- Sales and transaction value growth reflect several key promotions and improved merchandising emphasising yeast raised donuts.

In the 20 years since it was founded, Michel's Patisserie has grown to become one of Australia's largest specialty 'coffee and cake' retailers. The Michel's Patisserie product offer is prided on the delivery of superior products for sophisticated coffee drinkers and cake connoisseurs. During FY09, Michel's re-focused the menu offering to drive growth through a successful coffee marketing campaign and reinvigorated cake promotions.

FY09 HIGHLIGHTS

- Network sales of $215 million (FY08: $199 million);
- Outlets of 345 (FY08: 348 outlets);
- Conversion from a 'wholesale-distribution' based system to a traditional 'royalty-based' system accelerated with some 150+ outlets on or committed to the transition;
- Average weekly sales of $11,868 per outlet (FY08: $11,394) and average transaction value of $6.08 (FY08: $5.93); and
- Sales and transaction value growth remained positive due to greater emphasis on product and fortification on the "coffee and cake" combo offers.

Brumby's BAKERY

Brumby's Bakeries is a specialty bread and savoury retailer. Brumby's operates within the 'baked fresh', 'convenient' and 'wholesome' segment of the food retailing sector and has been part of the RFG Group since 2007. Brumby's has a unique range and variety of products that satisfies the trend of bread and high fibre foods being a staple part of the diet. Throughout FY09, Brumby's has seen a target shift to families and applied a much stronger focus on providing value focused combination offers to its customer base.

FY09 HIGHLIGHTS

- Network sales of $234 million (FY08: $215 million);
- Outlets of 331 (FY08: 329 outlets);
- Reinvigoration of the Brumby'sGO! concept stores (9 operating);
- Average weekly sales of $13,410 per outlet (FY08: $12,630) and average transaction value of $5.65 (FY08: $5.35); and
- Sales and transaction value 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.

bb's café is a café franchise with 40 outlets in Australia and 22 outlets in New Zealand. bb's café operates within the 'time out', 'relaxation' and 'meeting place' segment of the food retailing sector.

bb's café has a wide range of food and beverages to cater for all eating occasions during the day. Throughout FY09, bb's café has focused on providing value bundles offers to customers and placed a strong emphasis on promoting its quality coffee range. In 2009, the bb's system achieved superior average weekly sales and average transaction value growth to any other system and enjoyed increased customer patronage.

FY09 HIGHLIGHTS

- Network sales of $33.5 million (FY08: $34.0 million);
- Outlets of 62 (FY08: 68 outlets);
- Average weekly sales of $11,242 per outlet (FY08: $10,274) and average transaction value of $7.16 (FY08: $6.75); and
- Sales and transaction value growth reflects customers recognition of broad offers and focus on lunch time values.

RETAIL FOOD GROUP
RFG
STRENGTH IN BRANDS

CHAIRMAN'S LETTER

JOHN COWLEY, AM

Dear Shareholder,

On behalf of the Board of Directors, it is my pleasure to present to you the Retail Food Group Limited Annual Report for the financial year ended 30 June 2009.

Whilst the Company's activities during FY09 could be reasonably described as sedate in comparison to the significant events of FY08, including acquisition of the Brumby's Bakeries and Michel's Patisserie franchise systems, nevertheless they represented a reinforcement of RFG as an innovative company well able to deliver profitable and sustainable outcomes for all stakeholders.

In that respect, for the fourth consecutive year since listing on the ASX, the Company has achieved exceptional results that bear testimony to the strength of its business model and the robust nature of its franchise systems.

It is therefore of considerable personal satisfaction to note that the Company achieved FY09 net profit after tax of $23.5 million – an increase of 33.4% (or $5.9 million) over the previous corresponding period.

Earnings per share of 23.7 cents represented a 19.1% increase on the 19.9 cents achieved in FY08 and together with the Company's continuing strong cashflows provided for an 8.8% increase in the dividend to shareholders (on a full year basis) from 8.5 cps to 9.25 cps.

To these results may be added the Company's significant reduction of debt by a further $23.2 million (or 20.4%).

That the foregoing outcomes have been achieved notwithstanding the immense challenges presented by the well publicized "Global Financial Crisis" not only adds lustre to the nature of the Company's results but positions RFG to drive future revenues and capitalize on its growing presence within the marketplace as the economy normalises.

In terms of its franchising operations, each of the Company's four iconic systems, Michel's Patisserie, Brumby's Bakeries, Donut King and bb's café, performed strongly with total network sales growing to $632 million (an increase of $40 million on FY08). Weighted Average Weekly Sales (AWS) across all franchised outlets grew 4.1% whilst weighted Average Transaction Values (ATV) experienced an increase in excess of 6.4%.

The Brumby's Go! concept has also been reinvigorated, and together with the exploration of alternative site opportunities, has positioned the Company to further expand upon total franchised outlets and assisted in the commissioning during FY09 of 59 new outlets – bringing total franchised outlets to 1,063.

The Company's decision to venture outside of the Australian and New Zealand markets and license its Donut King system to Mak Brands Limited has been vindicated with five outlets established in China to date. Whilst still within an establishment phase, the Donut King system continues to grow in that country and illustrates the opportunities available to RFG in terms of the potential for successful international licensing of its intellectual property. Those opportunities continue to be investigated and explored.

Both the Brumby's Bakeries and Michel's Patisserie systems have been further integrated under RFG's umbrella with significant enhancements made for the benefit of both the Company and the franchisee community. Of particular note, transitioning of the Michel's Patisserie system from a wholesale distribution model to a traditional royalty model has proceeded in advance of schedule with over 150 outlets now operating under, or committed to, the royalty model.

During FY09 the Company also successfully embarked upon the consolidation of its coffee roasting operations, the expansion of its coffee distribution business to include New Zealand and China and otherwise the development and implementation of "Royal Bean"– an exciting new coffee blend for the Donut King system. The Company continues to fortify its coffee roasting operations in order to position itself for further revenue growth within this sector of its business model.

In January the Company disposed of its Central Manufacturing Facility (CMF) at profit. That transaction released capital which facilitated accelerated reduction of debt whilst providing an additional revenue stream and secure long-term supply of quality product for franchisees with a proven trade partner.

The underlying strength of the Company's historical business drivers together with expansion of its franchise systems in non-traditional markets (including international markets) provides the Company with a solid platform for continued growth and earnings. RFG is therefore confident of leveraging further enhanced performance and financial outcomes for all stakeholders.

The dedication and valued efforts of management, staff and franchisees are evidenced by the Company's impressive FY09 results. I take this opportunity to thank them for their collective efforts in that regard.

I would also like to thank our valued shareholders for your commitment to the Company and trust that this Report is received with the same level of satisfaction in which it is given.

John Cowley, AM
Chairman, Retail Food Group Limited


RETAILFOODGROUP
RFG
STRENGTH IN BRANDS

MANAGING DIRECTOR'S REPORT

ANTHONY JAMES (TONY) ALFORD

Whereas FY08 was a year of Acquisition and Integration, FY09 may best be described as one of Consolidation, enhancing the performance of each franchise system under the stewardship of Retail Food Group Limited.

Retail Food Group Limited (RFG or the Company) continued the delivery of enhanced performance and record outcomes for all stakeholders throughout FY09, notwithstanding challenging economic conditions which resulted in severe disruptions to retailing, consumer spend and consumer confidence.

The FY09 net profit after tax (NPAT) of $23.5 million represented a 33.4% increase over FY08 and was facilitated by a 20.2% uplift in Franchise Revenue and a 12.1% growth in Wholesale / Retail Receipts.

For the third full consecutive year subsequent to Listing (in June 2006), the Company's performance has both exceeded forecast and market expectations.

The FY09 results are particularly noteworthy given the difficult retail environment and reinforces the Company as an enterprise with franchise systems, business model and revenue streams remarkably resilient to adverse domestic economic conditions.

The performance of RFG is also pleasing given the results were achieved by a combination of driving the Company's organic business pursuits together with a lower cost of doing business – the key benefit of scale brought about by franchise system acquisition and consolidation.

EXCEEDING FORECASTS

For the 2009 financial year, Retail Food Group achieved a $5.9 million increase in NPAT to $23.5 million and EPS growth of 19.1%.

RFG's record NPAT of $23.5 million, a 33.4% increase on FY08 was underpinned by:

- full year contribution from the Michel's Patisserie franchise system (10 months in FY08);
- 59 new outlet commissionings;
- (franchise outlet) network sales of $632 million, an increase of $40 million on the previous corresponding period ('pcp');
- increases in licensing and product procurement revenues;
- liberation and realization of further acquisition synergies;
- execution of marketing initiatives which has resulted in positive average weekly sales (AWS) growth over the four franchise systems, largely as a consequence of,
- successfully increasing average transaction values (ATV) which also fortifies franchisees against decreased shopping centre foot traffic;
- profitable disposal of the Central Manufacturing Facility (CMF) which provided additional free cash flow for accelerated reduction of debt and provided for the;
- introduction of an additional revenue stream and secured long-term supply of quality product to the RFG franchisee community; and,
- achievement of Brumby's Bakeries and Michel's Patisserie integration benefits ahead of schedule.

Earnings per share (EPS) for FY09 of 23.7 cents represents a 19.1% increase on FY08 (19.9 cents) [1].

EPS from Core Operations [2] was 23.6 cents, an increase of 35.6% on pcp.

Due to the structure of the Company's franchise models, RFG continues to enjoy strong, consistent and recurrent cashflows which – allied with low capital expenditure requirements – results in substantial free cash flow generation, as evidenced by a 97.6% conversion of gross operating cashflow to EBITDA (FY08: 76.6%).

Further testament to the strength of the Company's operating cash flow liberation in FY09 was;

- continued debt reduction totalling $23.2 million, decreasing the Company's gearing ratio from 54.4% to 45.7% [3],while also,
- the declaration of a final dividend for the year ending 30 June 2009 of 4.75 cents per share (cps), which together with the interim dividend of 4.50cps represented an 8.8% increase over FY08.

(1) Based upon weighted average number of shares on issue (FY09: 99.2 million; FY08: 88.6 million).
(2) Results from 'Core Operations' excludes amounts recognised in the income statement relating to the impact of:
- derivative financial instruments (interest rate swaps) (FY09: $1.0m loss; FY08: $1.5m gain).
- non-recurring gain on disposal of Central Manufacturing Facility ('CMF') (FY09: $1.1m gain; FY08: $nil).
- non-recurring gain on acquisition of Brumby's Bakeries (FY09: $nil, FY08: $0.8m gain).

(3) Calculated as Net Debt / (Net Debt + Equity).

MANAGING DIRECTOR'S REPORT

	FY09	FY08	Increase
Total Network Sales	$632m	$592m	6.8%
Total Revenue [3]	$130.5m	$114.1m	14.4%
EBITDA	$41.6m	$35.7m	16.5%
EBIT	$40.3m	$34.4m	17.2%
NPAT	**$23.5m**	**$17.6m**	**33.4%**
Earnings Per Share (EPS) [1]	23.7 cents	19.9 cents	19.1%
Number of Franchised Outlets	1,063	1,052	
New Outlet Commissionings	59	61	

Following relevant adjustments [2], results from Core Operations are:

	FY09	FY08	Increase
EBIT from Core Operations	$40.1m	$32.2m	24.5%
NPAT from Core Operations	**$23.4m**	**$15.4m**	**51.9%**
Earnings Per Share (EPS) from Core Operations [1]	23.6 cents	17.4 cents	35.6%

(1) Based upon weighted average number of shares on issue (FY09: 99.2 million; FY08: 88.6 million).
(2) Results from 'Core Operations' excludes amounts recognised in the income statement relating to the impact of:
- derivative financial instruments (interest rate swaps) (FY09: $1.0m loss; FY08: $1.5m gain).
- non-recurring gain on disposal of Central Manufacturing Facility ('CMF') (FY09: $1.1m gain; FY08: $nil).
- non-recurring gain on acquisition of Brumby's Bakeries (FY09: $nil, FY08: $0.8m gain).

(3) Excludes revenue derived from marketing activities (FY09: $12.6m; FY08: $10.3m).

The Company's performance continued to be underpinned by increased franchise outlet network sales which is a function of;

- new outlet growth, and
- average weekly sales (AWS).

During FY09, RFG devoted considerable resources to driving network sales by increasing AWS and growing average transaction values (ATV) across all franchise systems.

That positive AWS growth was achieved in all systems during FY09 supports the Company's position that the franchise systems under its stewardship have to date been remarkably resilient to significant changes in consumer sentiment and discretionary spending.

Increased ATV also fortified the Company's franchisee community against intense retail competition, decreased discretionary spending and any decline in shopping centre foot traffic.

Where RFG can continue to successfully execute marketing initiatives designed to maintain franchisee AWS and increasing ATV, it protects both the profitability of our franchisees and the revenue of the Company.

MANAGING DIRECTOR'S REPORT

FRANCHISED OUTLET EXPANSION

During the 2009 financial year, 59 new outlets were commissioned, consistent with previous forecasts.

The Company achieved organic new outlet growth in all four of its franchise systems;

- Donut King: +24;
- Michel's Patisserie: +13;
- Brumby's Bakeries: +19; and
- bb's Café: +3.

Notwithstanding the considerable economic headwind within the Australian economy over the the financial year, the Company's organic new outlet growth was only two less than the record achieved in FY08 and represented the second highest annual new outlet commissioning in the Company's history.

As at 30 June 2009, RFG had 1,063 franchised outlets, comprising:

- Donut King: 325 outlets, a net increase of 18 outlets over pcp;
- Michel's Patisserie: 345 outlets, a net decrease of 3 outlets over pcp;
- Brumby's Bakeries: 331 outlets, a net increase of 2 outlets over pcp; and,
- bb's café: 62 outlets, a net decrease of 6 outlets over pcp

The majority of the Company's franchisee outlet population is positioned within shopping centres and, as a result, new outlet growth was impacted by stagnant lessor development (limiting new site opportunities) together with challenges associated with attracting and securing suitable new franchisee candidates during volatile economic conditions.

Whilst applicant franchisee enquiry continued to be high, it did not automatically translate to increases in the number of suitably qualified applicants or applicant approvals.

In FY10, RFG anticipates that multi-system and cross-system ownership will continue to increase across each of the Company's four franchise systems. Of the 59 new outlets commissioned in FY09, 25 or 42% of the outlets commissioned were to existing RFG franchisees. Multi-outlet ownership continues to be most prevalent within the Brumby's Bakeries system which also enjoyed the greatest incidence of multi-site ownership in FY09.

Significant operational resources have been deployed to ensure that the Company continues to organically develop its franchise systems. This has resulted in the reinvigoration of the Brumby's Go! concept (currently nine outlets) together with exploitation of non-traditional site opportunities such as service stations.

While organic outlet growth opportunity is presently impeded by a dearth of shopping centre development, RFG is confident that net outlet growth will continue throughout FY10 supported by existing site opportunity, further proliferation outside of shopping centres, and continued increase in the incidence in multi-site and cross system ownership. However, as has historically been the mandate, aggressive new outlet growth will not be made at the expense of quality sites and franchisees.

GROWTH STRATEGIES

The RFG Board and management recognise that sustained and enhanced positive franchisee outcomes are critical to extracting value not only for franchisees but also for the Company.

Maintenance of franchisee operational servicing systems, together with franchisee financial health and wellbeing, remains a core tenant of RFG's medium to long-term growth strategy.

In order to drive performance and enhance stakeholder outcomes during FY09, RFG continued to develop, enhance and refine its franchise systems, further commercialise its valuable suite of intellectual property and exploit scale opportunities brought about by acquisitions.

The development and modification of franchisee service and support structures remains an ongoing feature of the Company's operational strategy and RFG continues to invest considerable personnel resources in the pursuit thereof. While there exists genuine opportunity to realise further positive outcomes from continued integration of the four franchise systems – and particularly with respect to the Michel's Patisserie system – neither expense reduction nor revenue growth will be to the detriment of service delivery to the franchisee community.

Additionally, in FY09 the Company witnessed the result of endeavors to exploit internationally its intellectual property assets, with the granting of the Master Licence rights for the Donut King system in the territory of China. As at 30 June 2009, four Donut King outlets had been commissioned in that country with a further outlet commissioned in August 2009.

The international exploitation and commercialization of the Company's franchise systems remains a significant untapped opportunity that RFG continues to pursue. However, and as is the case with domestic organic growth, that pursuit will be approached in a measured and conservative manner that places long-term stability, reward and structure above short term gain. In this respect, it remains the overriding objective of the Company to enter international licensing arrangements with high caliber licensees whose commercial objectives and aspirations are consistent with those of RFG.

Following the successful roll out of the Company's 'frozen blank' donut pilot program, RFG completed the sale of it's Central Manufacturing Facility (CMF) in July 2009. That transaction liberated significant capital which was wholly applied to the reduction of debt and otherwise removed the supply side risks and expenses associated with operating a manufacturing business. Importantly, RFG also secured an ongoing licence fee revenue stream and secured the long-term supply of consistent quality product to its franchisee community.

During FY09, the Company also consolidated its two coffee roasting operations into a single facility situated in Sydney. Coffee operations have also been extended to include the distribution of product to New Zealand and China together with launch of the "Royal Bean" coffee blend for the Donut King system. The Company has identified further opportunity to expand its coffee roasting activities and is presently investigating appropriate systems, structures and markets to garner additional revenue growth.

MANAGING DIRECTOR'S REPORT

Further system enhancements are forecast in the Brumby's Bakeries and Michel's Patisserie systems where the Company intends to introduce through its trade partner relationships time and cost efficient product enhancements.

In this respect, and following significant increase in scale and franchise outlets, RFG continues to investigate strategic supply chain synergies and alignment opportunities that provide beneficial outcomes to both franchisees and RFG.

MICHEL'S PATISSERIE

During FY09 RFG successfully implemented a transition program within the Michel's Patisserie system in order to enhance franchisee profitability and afford greater scope for long-term organic growth.

Consistent with previous advice to the market, the Company commenced the transition of the Michel's Patisserie system from a "wholesale distribution" model (where a significant portion of revenue is derived by the wholesale mark up of product sold to franchisees) to a traditional "royalty based" model whereby franchisor revenue is derived as franchise service fees or 'royalties'(calculated as a percentage of franchisee retail sales).

The transition program incorporated the introduction of the 'royalty' model to all new franchisees entering the system together with initiatives whereby existing outlets were also encouraged to convert prior to their formal franchise renewal.

To date, the transition of the Michel's Patisserie system to the 'royalty' model is well in advance of expectations with over 150 outlets now operating under or committed to the program.

The transitioning process also constitutes the most significant advancement to the Michel's Patisserie system since its inception. It has introduced greater transparency to the supply chain and fortified franchisee profitability thereby representing a significant catalyst for long-term organic outlet growth and sustainability. The transitioning process also facilitates additional system enhancement opportunities, including development of national bakery and supply solutions which are presently the subject of investigation and / or implementation.

Whereas the transition brings immediate financial benefit to franchisees and provides significant long-term opportunity for RFG, the nature and speed of franchisee migration to the alternative model may result in short term disadvantage to the Company as the realization of other strategies designed to supplement and support the Company's earnings cannot be fully commissioned (and their benefits fully enjoyed) until a significant majority of Michel's Patisserie franchisees have transitioned.

Notwithstanding the foregoing, RFG has developed interim strategies in order to maintain FY10 Michel's Patisserie contribution to EBIT at levels consistent with FY09 while being mindful that the optimal benefits of conversion will accrue to RFG in FY11 and beyond.

FY10 INITIATIVES

1Q10 results provide confidence that the growth strategies of the Company will once again underpin a strong FY10 performance.

Trading results for 1QFY10 remain in line with the Company's expectations, notwithstanding continued volatile and unpredictable retail data, which is best exampled by the fact that (to date) there exists for RFG and its franchisees no apparent correlation between the reported increase in consumer confidence and discretionary spending behavior.

RFG's franchise systems are not immune to external market forces and the Company remains cautious in terms of FY10 full year outlook given the prevailing economic environment.

Whilst RFG's franchise systems have to date proven resilient to depressed economic conditions, FY10 results will be increasingly dependent upon the strength of the domestic economy, and with it, increasing consumer confidence which translates into growth in discretionary spend.

As already stated, RFG anticipates that organic outlet growth will be challenged by the lack of new shopping centre development and or refurbishment.

That said, the Company remains focused on driving further growth and enhanced outcomes for all stakeholders via a range of initiatives which include development of new products and menu innovation, continuation of product bundling, strengthening franchisee health and profitability, further expansion of coffee operations, supply chain efficiencies and structural enhancement, reinvigoration of the Brumby's Go! concept and organic growth in non-traditional sites.

During FY10 the Company also anticipates completion of its programmed outlet rationalization program in connection with the Michel's Patisserie and Brumby's Bakery systems. That program will fortify average weekly sales across those networks, reduce the cost of supporting those systems' and ultimately assist in the facilitation of new outlet commissionings.

Given continuing robust free cashflows and anticipated increased operational efficiencies, the Company also remains well placed to:

a) continue to reduce debt;
b) evaluate and explore optimal refinance opportunities with multiple financiers; and
c) consider enhanced and accelerated growth via the acquisition of value accretive complementary franchising systems capable of providing additional scale, synergies, organic growth and intellectual property enhancement opportunities.

While being alert to 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 2010 financial year and beyond.

Anthony James (Tony) Alford
Managing Director and Chief Executive Officer,
Retail Food Group Limited

RETAIL FOOD GROUP LIMITED
ANNUAL FINANCIAL REPORT

Financial Year Ended 30 June 2009

ACN 106 840 082

SUMMARY FINANCIAL INFORMATION

	FY06	FY07	FY08	FY09	CORE OPERATIONS [1] FY08	CORE OPERATIONS [1] FY09
Financial						
Network Sales [2]	$143.1m	$158.2m	$592.0m	$632.0m		
Total Revenue [3]	$20.5m	$23.6m	$114.1m	$130.5m	$114.1m	$130.5m
EBITDA	$9.9m	$12.4m	$35.7m	$41.6m	$33.5m	$41.5m
EBIT	$9.8m	$12.2m	$34.4m	$40.3m	$32.2m	$40.1m
NPAT	$5.9m	$7.5m	$17.6m	$23.5m	$15.4m	$23.4m
Basic EPS	8.6 cps	10.5 cps	19.9 cps	23.7 cps	17.4 cps	23.6 cps
Operating						
Network Sales Growth	10.4%	10.6%	274.2%	6.8%		
Total Revenue Growth	12.0%	15.1%	383.5%	14.4%	383.5%	14.4%
EBITDA Growth	8.8%	25.3%	187.9%	16.5%	170.2%	23.9%
EBIT Growth	10.1%	24.5%	182.0%	17.2%	163.9%	24.5%
NPAT Growth		27.1%	134.7%	33.4%	105.3%	51.9%
Basic EPS Growth		22.1%	89.5%	19.1%	65.7%	35.6%
Dividend (paid or payable)		6.25 cps	8.5 cps	9.25 cps		
Franchised Outlets [4]	332	360	1,052	1,063		
New Outlet Commissionings	27	37	61	59		

(1) Results from 'Core Operations' exclude amounts recognised in the income statement relating to the impact of:
- derivative financial instruments (interest rate swaps) (FY09: $1.0m loss; FY08: $1.5m gain). Interest rate swaps were designated as hedges in July 2008 reducing ongoing volatility in the income statement.
- non-recurring gain on disposal of Central Manufacturing Facility (CMF) (FY09: $1.1m gain; FY08: $nil).
- non-recurring gain on acquisition of Brumby's Bakeries (FY09: $nil; FY08: $0.8m gain).

(2) Derived from financial information including franchisee-reported turnover and has not been subject to audit.
(3) Excludes revenue derived from marketing activities (FY06: $6.4m; FY07: $6.2m; FY08: $10.3m; FY09: $12.6m).
(4) 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

Retail Food Group Limited (the Company) and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review its governance framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The following Corporate Governance Statement sets out the Company's main corporate governance practices. All these practices, unless otherwise stated, were in place for the entire year. The policies and practices developed and implemented by the Board comply with the August 2007 *ASX Principles of Good Corporate Governance and Recommendations*.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Directors are responsible to the shareholders for promoting and managing the performance of the Group in both the short and longer term. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The responsibilities of the Board include:

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

The Board has reserved to itself, in addition to those matters reserved to it by law, the following matters and all power and authority in relation to those matters:

- composition of the Board itself (including appointment and retirement or removal of Directors);
- oversight of the Group including its control and accountability systems;
- appointing and removing the Chief Executive Officer;
- ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer and the Company Secretary;
- reviewing and overseeing the operation of systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and regulatory compliance;
- input into and final approval of management's development of corporate strategy and performance objectives;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- performance of investment and treasury functions;
- monitoring industry developments relevant to the Group and its business;
- developing suitable key indicators of financial performance for the Group and its business;
- the overall corporate governance of the Group including strategic direction, establishing goals for management and monitoring the achievement of these goals; and
- oversight of committees.

The Board has delegated specific responsibilities to various Board Committees who act, subject to the terms of their respective charters, in an advisory capacity subject to the oversight of the Board.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior management of the Group. These delegations are reviewed as appropriate.

The Board generally meets on a monthly basis. On an annual basis, the Board sets financial and non-financial performance hurdles for the Chief Executive Officer and senior management and performance is assessed against these performance hurdles. A performance assessment for the Chief Executive Officer and senior management last took place in November 2008.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The Board operates in accordance with the broad principles set out in its charter. The charter details the Board's composition and responsibilities.

Board Composition

The composition of the Board is determined according to the following principles:

- the Board must comprise members with a broad range of experience, expertise, skills and contacts relevant to the Group and its business;
- there must be at least four Directors;
- the number of Directors may be increased where the Board considers that additional expertise is required in specific areas or when an outstanding candidate is identified;
- the Chairman must be a non-executive Director who is also independent; and
- at least half of the Board must be non-executive Directors at least two of whom must also be independent.

Directors' Independence

The Board has adopted specific principles in relation to Directors' independence. These state that when determining independence, a Director must be a non-executive and the Board should consider whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company, and there has not been a period of at least three (3) years between ceasing such employment and serving on the Board;
- has within the last three (3) years been a principal of a professional advisor or a material consultant to the Group, or an employee materially associated with the service provided except in circumstances where the advisor might be considered to be independent notwithstanding their position as a professional advisor due to the fact that fees payable by the Group to the advisor's firm represent an insignificant component of its overall revenue;
- is a significant supplier or customer of the Group, or an officer of or otherwise associated directly or indirectly with a significant supplier or customer of the Group;

CORPORATE GOVERNANCE STATEMENT

- has a material contractual relationship with the Group other than as a Director;
- is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group; and
- has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group.

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment.

Board Members

The names, skills and experience of the Directors in office at the date of this Statement, and the period of office of each Director, are set out in the Directors' Report. At the date of signing the Directors' Report, the Board comprised two executive Directors and three non-executive Directors (including the Chairman). The three non-executive Directors have no relationships adversely affecting independence and so are deemed independent under the principles set out above.

Mr Anthony (Tony) Alford is a substantial shareholder of the Company and accordingly he is not considered to be independent of the Group based on the ASX guidelines. Mr Alford has a long association with Retail Food Group and the Board considers that it is in the best interests of all shareholders to have a Director with Mr Alford's industry, business expertise and Group history as a member of the Board.

Mr Nigel Nixon is a substantial shareholder of the Company and accordingly he is not considered to be independent of the Group based on the ASX guidelines. Mr Nixon previously held the position of joint master franchisee of the Donut King franchise system and the Board considers that it is in the best interests of all shareholders to have a Director with Mr Nixon's industry, business expertise and Group history as a member of the Board.

Term Of Office

The Company's Constitution requires that one third (or the nearest number thereto but not less than one third) of the Directors, other than the Managing Director, must retire from office at each Annual General Meeting of the Company. The Director/s who must retire is that Director/s who has been in office longest since last being elected. Director/s retiring by rotation are eligible for re-election.

Chairman and Chief Executive Officer

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Group's senior management. In accepting the position, the Chairman has acknowledged that it will require significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of the Chairman.

The Chief Executive Officer is responsible for implementing Group strategies and policies. The Board charter specifies that these (the role of the Chairman and Chief Executive Officer) are separate roles to be undertaken by separate people.

Induction

The induction provided to new Directors enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of the Group's financial position, strategies, operations and risk management policies. It also explains the respective rights, duties, responsibilities and roles of the Board.

Commitment

The Board held ten board meetings during FY09.

Non-executive Directors are expected to spend at least 20 days a year preparing for and attending Board and Committee meetings and associated activities.

The number of meetings of the Company's Board of Directors and each Board Committee held during the year ended 30 June 2009, and the number of meetings attended by each Director is disclosed on page 11.

The commitments of non-executive Directors are considered by the Nominations Committee prior to the Director's appointment to the Board and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive Director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required, but this will not be unreasonably withheld. The advice obtained must be made available to all Board members in due course, where appropriate.

Board Performance

The Board undertakes an annual self assessment of the performance of the Board as a whole, its Committees, the Chairman, individual Directors and governance processes that support Board work.

Performance of individual Directors is assessed against a range of dimensions including the ability of the Director to consistently create shareholder value, to contribute to the development of strategies and risk identification, to provide clarity of direction to senior management, to listen to the views of fellow Directors and members of management and key third party stakeholders and to provide the time commitment to ensure the discharge of duties and obligations to the Group.

Board Committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Nomination, Remuneration and Audit & Risk Management Committees. The Nomination and Remuneration Committees are majority comprised of non-executive Directors. The Audit & risk Management Committee is entirely comprised of non-executive Directors.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (CONT.)

Each Committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by the committees are submitted to the Board as recommendations for Board consideration.

Minutes of committee meetings are tabled at the subsequent Board meeting.

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. The Nominations Committee consists of the following Directors:

- Mr John Cowley (Chairman)
- Mr Colin Archer
- Mr Nigel Nixon
- Mr Bruce Hancox (appointed to Committee on 29 September 2008).

Details of these Directors' attendance at Nomination Committee meetings are set out in the Directors' Report on page 11.

Functions performed by the Committee include the following:

- developing of suitable criteria (as regards experience, expertise, skills, qualifications, contacts or other qualities) for Board candidates;
- identifying individuals who, by virtue of their experience, expertise, skills, qualifications, contacts or other qualities, are suitable candidates for appointment to the Board or to any relevant management position;
- recommending individuals accordingly for consideration by the Board;
- establishing procedures, for recommendation to the Chairman, for the proper oversight of the Board and senior management; and
- ensuring that the performance of each Director, and of all members of senior management, is reviewed and assessed each year in accordance with procedures adopted by the Board.

When a new Director is to be appointed, the Committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice may be sought from independent search consultants. The Board then appoints the most suitable candidate who must submit themselves to shareholders for election at the first Annual General Meeting following their appointment.

New Directors are provided with a letter of appointment setting out the Company's expectations including involvement with committee work, their responsibilities, remuneration, including superannuation and expenses, requirement to disclose their interests and any matters which affect the Director's independence.

New Directors are also provided with all relevant policies including the Company's share trading policy, a copy of the Company's Constitution, organisational chart and details of indemnity and insurance arrangements. A formal induction program which covers the operation of the Board and its Committees and financial, strategic, operations and risk management issues is also provided to ensure that Directors have significant knowledge about the Group and the industry within which it operates.

New Directors are advised of the time commitment required of them in order to appropriately discharge their responsibilities as a Director of the Company. Directors are required to confirm that they have sufficient time to meet this requirement.

The Committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

The Committee has an advisory role, consistent with its purpose of assisting the Board in relation to the matters with which it is charged with responsibility, and does not have any power to commit the Board to any recommendation or decision made by it but may nevertheless consult independent external expert advisers as it may consider appropriate for the proper performance of its function and charge the costs to the Group. The Nominations Committee Charter is available on the Group's corporate website.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Code of Conduct

The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all Directors and employees. The Code is regularly reviewed and updated as necessary. The Code draws together all of the Group's practices and policies. The Code reflects the Group's values of:

- respect for others;
- honesty, integrity and accountability;
- leadership and teamwork;
- diligence and care in the performance of duties; and,
- an acknowledgement of the service orientated nature of the Group's core franchising business.

It reinforces the need for Directors, employees, consultants and all other representatives of the Group to always act in good faith, in the Group's best interests and in accordance with all applicable policies, procedures, laws and regulations relevant to the regions in which the Group operates.

A copy of the main provisions of the Code of Conduct is available on the Group's corporate website.

Trading In Company Securities By Directors, Senior Management And Employees

The Company has a detailed Trading Policy which regulates dealings by Directors, senior management and employees in shares, options and other securities issued in the Company.

The Code of Conduct for Transactions in Securities 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.

A copy of the Code of Conduct for Transactions in Securities is available on the Group's corporate website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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. The Audit and Risk Management Committee consists of the following Directors:

- Mr Colin Archer (Committee Chairman)
- Mr John Cowley
- Mr Bruce Hancox (appointed to Committee on 29 September 2008)
- Mr Anthony (Tony) Alford (resigned from Committee on 29 September 2008).

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, 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.

Details of these Directors' qualifications and attendance at Audit and Risk Management Committee meetings are set out in the Directors' Report on pages 10 and 11, respectively.

All members of the Audit and Risk Management Committee are financially literate and have an appropriate understanding of the Group's businesses.

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 Committee has responsibility for the following:

- ensuring an appropriate Board and Committee structure is in place so as to facilitate a proper review function by the Board;
- monitoring the establishment of an appropriate internal control framework, including information systems, and its operation and considering enhancements;
- monitoring corporate risk assessment and compliance with internal controls;
- overseeing business continuity planning and risk mitigation arrangements;
- assessing the objectivity and performance and of the internal audit function and considering enhancements;
- reviewing reports on any material defalcations, frauds and thefts from the Group;
- reviewing reports on the adequacy of insurance coverage;
- monitoring compliance with relevant legislative and regulatory requirements (including continuous disclosure obligations) and declarations by the Company Secretary in relation to those requirements;
- reviewing significant transactions which are not a normal part of the Group's business;
- reviewing the nomination, performance and independence of the external auditors, including recommendations to the Board for the appointment or removal of any external auditor;
- liaising with the external auditor and ensuring that the annual audit is conducted in an effective manner that is consistent with Committee members' information and knowledge and is adequate for shareholder needs;
- reviewing management processes supporting external reporting;
- reviewing financial statements and other financial information distributed externally;
- preparing and recommending for approval by the Board the corporate governance statement for inclusion in the annual report or any other public document;
- reviewing external audit reports to ensure that, where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management; and
- reviewing and monitoring compliance with the Code of Ethics.

In fulfilling its responsibilities, the Audit and Risk Management Committee:

- receives regular reports from management and the external auditor;
- meets with the external auditor at least twice a year, or more frequently if necessary;
- reviews any significant disagreements between the external auditor and management irrespective of whether they have been resolved; and
- meets separately with the external auditor at least twice a year without the presence of management.

The Audit and Risk Management Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Audit and Risk Management Committee charter is available on the Group's corporate website.

The Audit and Risk Management Committee reports to, and makes recommendations to the Board in relation to each of its functions.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING (CONT.)

External Auditor

The Company and Audit and Risk Management Committee policy is to appoint an external auditor who clearly demonstrates quality and independence. The performance of the external auditor is reviewed annually. Deloitte Touche Tohmatsu (Deloitte) was appointed as the external auditor in 2003. It is Deloitte's policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner was introduced for the year ended 30 June 2007.

An analysis of fees paid to the external auditor, including a break-down of fees for non-audit services, is provided in the Directors' Report and in the notes to the financial statements. It is the policy of the external auditor to provide an annual declaration of their independence to the Audit and Risk Management Committee.

The external auditor is requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURES

The Group has an established policy and procedure for timely disclosure of material information concerning the Group. This includes internal reporting procedures to ensure that any required market announcements are reported to the Company Secretary in a timely manner.

The Company Secretary has been nominated as the person responsible for communication with the Australian Securities Exchange (ASX). This role includes co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Following confirmation from the ASX that such information has been released by it.

All information disclosed to the ASX is posted on the Group's corporate website as soon as it is disclosed to the ASX. When analysts are briefed following half year and full year results announcements, the material used in the presentations is released to the ASX prior to the commencement of the briefing. This information is also posted on the Group's corporate website.

Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market. The Group is committed to ensuring that all stakeholders and the market are provided with relevant and accurate information regarding its activities in a timely manner.

A copy of the Continuous Disclosure Policy is available on the Group's corporate website.

PRINCIPLE 6: SHAREHOLDER COMMUNICATION

The Group aims to keep shareholders informed of the Group's performance and all major developments in an ongoing manner.

Information is communicated to shareholders through:

- the Annual Report and Financial Reports (including the Full Year Financial Report, the Preliminary Final Report, and the Half-Year Financial Report) which are published on the Group's corporate website and distributed to shareholders where nominated;
- the Annual General Meeting, and any other formally convened Company meetings; and
- all other information released to the ASX is posted to the Group's corporate website.

The Group's corporate website maintains, at a minimum, information about the last three years' press releases or announcements.

A copy of the Shareholder Communications Policy is available on the Group's corporate website.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Board, through the Audit and Risk Management Committee, is responsible for ensuring the adequacy of the Group's risk management and compliance framework and system of internal controls and for regularly reviewing its effectiveness.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. The Board actively promotes a culture of quality and integrity.

The Group has implemented a risk management system based on ASX Corporate Governance Principles and Recommendations.

The framework is based around the following risk activities:

- risk identification: identify all significant foreseeable risks associated with business activities in a timely and consistent manner;
- risk evaluation: evaluate risks using an agreed risk assessment criteria;
- risk treatment / mitigation: develop mitigation plans for risk areas where the residual risk is greater than tolerable risk levels; and
- risk monitoring and reporting: report risk management activities and risk specific information to appropriate levels of management in a timely manner.

The Chief Executive Officer and Chief Financial Officer, and other senior management are responsible for identifying, evaluating and monitoring risk in accordance with the risk management framework. Senior management are responsible for the accuracy and validity of risk information reported to the Board and also for ensuring clear communication of the Board and senior management's position on risk throughout the Group.

In particular, at the Board and senior management strategy planning sessions held throughout the year, the Chief Executive Officer and senior management review and identify key business and financial risks which could prevent the Group from achieving its objectives.

Additionally a formal risk assessment process is part of each major capital acquisition with ongoing reviews undertaken of major business acquisitions, major capital expenditures or significant business initiatives.

Certification Of Financial Reports

The Chief Executive Officer and Chief Financial Officer state in writing to the Board each reporting period that:

- 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.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

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
- Mr Bruce Hancox (appointed to Committee on 29 September 2008).

Details of these Directors' attendance at Remuneration Committee meetings are set out in the Directors' Report on page 11.

The Committee has responsibility for the following:

- reviewing and evaluating market practices and trends in relation to remuneration relevant to the Group;
- reviewing and making recommendations to the Board in relation to the Group's remuneration policies;
- reviewing and making recommendations to the Board in relation to the Group's remuneration practices;
- overseeing the performance of the Chief Executive Officer and Chief Financial Officer and other members of senior management and non-executive Directors;
- reviewing and making recommendations to the Board in relation to the remuneration of the Chief Executive Officer and Chief Financial Officer and other members of senior management and of non-executive Directors; and
- preparing for the Board any report that may be required under applicable legal or regulatory requirements in relation to remuneration matters.

In each case in the context of general market and industry practice (so far as directly relevant benchmarks can be identified for comparative purposes) and the need to attract and retain high calibre personnel. The Committee reviews and sets key performance indicators (KPI's) relating to financial and non-financial targets for senior management at the commencement of each financial year.

The Remuneration Committee reports to, and makes recommendations to the Board in relation to each of its functions.

Further information of Directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration Report".

The Remuneration Committee charter is available on the Group's corporate website.

DIRECTORS' 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 financial year ended 30 June 2009. 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 non-executive Chairman, joined the Board on 13 October 2005. Mr Cowley is a member of the Audit and Risk Management Committee, and Chairman of the Nomination and Remuneration Committees. Mr Cowley is a former Director of News Limited and a current non-executive Director 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 is a member of the Order of Australia (General Division). 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 October 2003. He has been an accountant in public practice for in excess of 20 years. Mr Alford commenced his involvement with Retail Food Group in 1994 in an advisory role, thereafter becoming the Group 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 November 2003. Mr Nixon is a former joint master franchisee of the Donut King South East Queensland and Northern New South Wales franchise territory, having acquired the master franchise in August 1995. He also has experience in the operation of other franchise systems. Mr Nixon joined Retail Food Group in August 2002 and is a member of the Nomination and Remuneration Committees. Mr Nixon was re-elected to the Board at the Company's AGM held on 27 November 2008 following retirement by rotation.
Mr Colin Archer	Independent non-executive Director, Bachelor of Economics, CA, joined the Board on 12 April 2006. Has been an accountant in public practice for in excess of 25 years. Mr Archer is a Chartered Accountant, registered auditor and tax agent. He specialises in management and letting rights, property trusts, mergers and acquisitions and corporate governance. Mr Archer is 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 27 November 2008 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 Chief Executive Officer and Chairman of the Board. He is a member of the Company's Nomination, Remuneration and Audit and Risk Management Committees. Mr Hancox was elected to the Board at the Company's AGM held on 27 November 2008.

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	Since 2 November 2005
Mr Colin Archer	Oaks Hotels and Resorts Limited	Since 24 April 2005

DIRECTORS' SHAREHOLDINGS

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

Directors	Fully Paid Ordinary Shares No.	Executive Share Options No.
Mr John Cowley	57,330	176,100
Mr Anthony (Tony) Alford	24,145,476	126,667
Mr Nigel Nixon	5,649,083	110,332
Mr Colin Archer	221,397	136,100
Mr Bruce Hancox	–	–

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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 275,004 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	15,000	Retail Food Group Limited	15,000
Mr Anthony (Tony) Alford	30,000	Retail Food Group Limited	30,000
Mr Nigel Nixon	30,000	Retail Food Group Limited	30,000
Mr Colin Archer	15,000	Retail Food Group Limited	15,000
Mr Anthony Mark Connors	30,000	Retail Food Group Limited	30,000
Mr Gary Best	30,000	Retail Food Group Limited	30,000
Mr Damien Peters	35,004	Retail Food Group Limited	35,004
Ms Nicole Dodd	30,000	Retail Food Group Limited	30,000
Mr Gary Alford	30,000	Retail Food Group Limited	30,000
Mr Gavin Nixon	30,000	Retail Food Group Limited	30,000

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, 10 Board meetings, 4 Audit and Risk Management Committee meetings, 3 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	10	10	4	3	3	3	2	2
Mr Anthony (Tony) Alford (1)	10	10	1	1	–	–	–	–
Mr Nigel Nixon	10	10	–	–	3	3	2	2
Mr Colin Archer	10	10	4	4	3	3	2	2
Mr Bruce Hancox (2)	10	10	3	3	2	2	2	2

(1) Resigned from Audit and Risk Management Committee on 29 September 2008.
(2) Appointed to Audit and Risk Management Committee, Remuneration Committee and Nomination Committee on 29 September 2008.

DIRECTORS' REPORT

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 Donut King licensor in China; and
- development and management of the Central Manufacturing Facility (disposed on 12 January 2009), Coffee Roasting Facility (as part of a joint venture until 1 June 2009) 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 disposal of the Central Manufacturing Facility, being a facility dedicated to the manufacture and wholesale supply to franchisees of donut and bakery products, on 12 January 2009, and the activation of a long-term supply agreement with the facility's acquirer;
- the acquisition of the remaining 50% interest in Caffe Coffee Pty Ltd, being the joint venture entity responsible for the operation of the Yatala (Queensland) Coffee Roasting Facility and the rationalisation of the Group's coffee operations (Yatala and South Granville) to one; and
- the continuing structural enhancement of the Michel's Patisserie franchise system from a wholesale margin model to a traditional royalty based model.

REVIEW OF OPERATIONS AND FINANCIAL CONDITION

Group Overview

In a year of unprecedented economic volatility, the Group demonstrated its resilience, delivering sustained growth, increased earnings per share and greater shareholder value.

Net Profit After Tax (NPAT) of $23.5 million was up 33.4% (or $5.9 million) on the prior year, reflecting the continuing positive contribution of the Group's existing franchise systems, Donut King, bb's café, Brumby's Bakeries and Michel's Patisserie.

Net Profit After Tax from Core Operations of $23.4 million was up 51.9% (or $8.0 million) on the prior year.

Total network sales across the Group's four franchise systems for FY09 was $632.0 million, an increase of $40.0 million over the previous year.

Network sales increased as a consequence of:

- increases in average weekly sales (AWS) and average transaction values (ATV) across all four brands;
- maintenance of customer counts across the respective systems;
- 59 new outlet openings; and
- the full year contribution of the Michel's Patisserie franchise system (10 months in FY08).

Earnings per share (EPS) for the year increased 19.1% (or 3.8 cents) to 23.7 cents.

The Directors declared a fully franked final ordinary dividend of 4.75 cents a share, taking the full year dividend to 9.25 cents per share, an increase of 8.8% on the prior year.

Businesses Acquired

Caffe Coffee (Coffee Roasting Facility)

During FY07, the Group established a bulk Coffee Roasting Facility (CRF) with Koffee-Tek Pty Ltd, an Australian domiciled coffee blender and roaster. On 1 June 2009, the Group exercised its right under the CRF Joint Venture Agreement to acquire Koffee-Tek's 50% interest in Caffe Coffee Pty Ltd, being the joint venture entity responsible for the operation of the CRF.

The acquisition allowed the Group to rationalise its coffee operations, having previously acquired a coffee roasting facility situated at South Granville (New South Wales) as part of the Michel's Patisserie business acquisition completed in FY08.

Businesses Disposed

Central Manufacturing Facility

On 9 December 2008, the Company announced that it had reached an agreement with Allied Mills Pty Ltd (Allied Mills) pursuant to which the Company would dispose of its Central Manufacturing Facility (CMF).

The CMF, being a facility dedicated to the manufacture and wholesale supply to franchisees of donut and bakery products, was established by the Group during FY07 at Yatala within the Gold Coast-Brisbane corridor. RFG commissioned the CMF given the manufacturing processes relevant to the large scale production of its proprietary Donut King products were unique within Australia. The manufacturing business associated with the CMF therefore constituted a departure from RFG's core business of developing and managing retail franchise systems.

The disposal contemplated:

- the sale of RFG's interest in the CMF operations, land, building, plant and equipment; together with
- a long term supply agreement, having an initial 10 year term and guaranteeing continuity of supply of product to Donut King franchisees, whilst generating initial and ongoing license fee income for the Group.

The transactions represent a realisation of the CMF divestment strategy disclosed during the Company's 2008 AGM and provides a vertical integration opportunity for Allied Mills whilst allowing RFG to concentrate on its core competency of franchise intellectual property development, enhancement and management. The business disposition and supply agreement also eliminates RFG's exposure to product procurement, staffing and other supply side risks normally associated with the operation of a manufacturing facility.

The transaction was settled on 12 January 2009 at which time the Company effected the disposition of the CMF and activated the long term supply agreement with Allied Mills.

Operating Results For The Year

Total revenue for FY09 was $143.1 million, exceeding FY08 revenue by $18.6 million or 15.0%.

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 FY09 was $56.3 million (FY08: $46.8 million), representing growth of $9.5 million (or 20.3%), and was driven by new outlet openings, growth in average weekly sales (of which the Group earns a royalty), and the additional business attributable to the full year contribution by the Michel's Patisserie franchise system (10 month contribution in FY08 following acquisition in September 2007).

Segment revenue includes revenues derived from marketing activities of $12.6 million (FY08: $10.3 million).

Wholesale / Retail Operations

Wholesale / Retail Operations incorporates the development and management of the Group's Procurement & Distribution division, Wholesale & Manufacturing division and Non-Voluntary Company Store division. These divisions are managed and reported separately to the Franchising Operations segment, and involve 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 (CMF disposed on 12 January 2009);
- the manufacture and sale of roasted coffee and related products to franchisees and external customers;
- the interim operation of non-voluntary company owned or company managed stores across each of the four franchise systems; and
- the sale of turn-key and company owned stores.

Segment revenue for FY09 was $86.2 million (FY08: $76.9 million), representing growth of $9.3 million, which is principally the result of wholesale and manufacturing activities attributable to the full-year inclusion of the Michel's Patisserie franchise system (10 month contribution in FY08 following acquisition in September 2007).

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

	Segment Revenues		Segment Result	
Segment	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Franchise operations	56,250	46,806	26,098	15,802
Wholesale / retail operations	86,209	76,916	17,082	13,871
	142,459	123,722	43,180	29,673
Eliminations	–	–	–	–
Unallocated	477	94	(11,262)	(5,299)
	142,936	123,816	31,918	24,374
Income tax expense			(8,399)	(6,741)
Profit for the year			23,519	17,633

DIRECTORS' REPORT

REVIEW OF OPERATIONS AND FINANCIAL CONDITION (CONT.)

Consolidated Result

Net Profit After Tax (NPAT) of $23.5 million was up 33.4% (or $5.9 million) on the prior year.

Ignoring the impacts of derivative financial instruments (interest rate swaps) (FY09: $1.0 million loss; FY08: $1.5 million gain) and non-recurring gains (FY09: $1.1 million gain, FY08: $0.8 million gain), NPAT from Core Operations of $23.4 million represents a 51.9% increase on underlying NPAT achieved in FY08.

Balance Sheet, Cashflow and Debt Structure

Net current assets of $9.0 million have increased by $2.4 million from FY08, largely reflecting the Group's improved cash position (increase of 32.0%) and the reduction in non-core debt facilities to nil (was $1.6 million in FY08).

Cash inflows from operating activities for FY09 were $23.2 million, an increase of 74.8% on FY08 ($13.3 million).

As at 30 June 2009, the Group's total debt was $96.0 million (excluding deferred borrowing costs), following further voluntary repayments of $23.1 million in FY09, which were funded from free operating cash flows, as well as proceeds from the disposal of the CMF in January 2009.

The Group's net debt at 30 June 2009 was $90.6 million, a reduction of $23.2 million from FY08.

The Group holds interest rate swaps to manage interest rate exposure. These swaps have a notional principal of $91.6 million and a weighted average interest rate of 6.8%. In July 2008, the Group designated the interest rate swaps as hedges, reducing the ongoing volatility in the income statement. From the date of designation, any changes in the fair value of the interest rate swaps have been recognised directly in equity (FY09: $7.0 million unfavourable). Prior to the designation, any changes in the fair value of the interest rate swaps were recognised in the income statement (FY09: $1.0 million unfavourable; FY08: $1.5 million favourable). The aggregate fair value of the Group's interest rate swaps at 30 June 2009 was $5.6 million payable (FY08: $2.3 million receivable) and is disclosed as a non-current liability, consistent with the maturity dates of the interest rate swaps.

The Group's net debt to equity ratio of 45.7% sits comfortably within its preferred range of 40% – 60%.

Performance Indicators

Outlet Commissionings

New outlet commissionings for FY09 were 59.

New Outlet Growth

Franchise System	Details
Donut King	24 new outlet commissionings (FY08: 25) and 6 outlet closures (FY08: 7) resulting in Donut King net system growth during FY09 of 18 (or 5.9%). As at 30 June 2009 there were 321 Donut King outlets operating in Australia with net outlet growth being experienced in Queensland, Victoria and New South Wales. As at 30 June 2009 there were 4 Donut King outlets located in China.
Brumby's Bakeries	19 new outlet commissionings (FY08: 16) and 17 outlet closures (FY08: 8) resulting in Brumby's Bakeries net system growth during FY09 of 2 (or 0.6%). As at 30 June 2009 there were 311 Brumby's Bakeries outlets operating in Australia with outlet commissionings growth being experienced primarily in Queensland, Victoria, South Australia and Western Australia. As at 30 June 2009 there were 20 Brumby's Bakeries outlets located in New Zealand.
Michel's Patisserie	13 new outlets commissionings (FY08: 16) and16 outlet closures (FY08: 10) resulting in Michel's Patisserie net system reduction during FY09 of 3 (or 0.9%). As at 30 June 2009 there were 340 Michel's Patisserie outlets operating in Australia with outlet commissionings growth being experienced primarily in Victoria, South Australia and Western Australia. In New South Wales, outlet numbers declined. As at 30 June 2009 there were 5 Michel's Patisserie outlets located in New Zealand.
bb's café	3 new commissionings (FY08: 4) and 9 outlet closures (FY08: 7) resulting in bb's café net system reduction during FY08 of 6 (or 8.8%). As at 30 June 2009 there were 62 bb's café outlets (FY08: 68), 22 of which are located in New Zealand (FY08: 24).

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

Franchise System	Average Weekly Sales (AWS)			Average Transaction Value (ATV)		
	2007 ($)	2008 ($)	2009 ($)	2007 ($)	2008 ($)	2009 ($)
Donut King	8,978	9,183	9,256	4.38	4.59	4.93
Growth	*0.0%*	*2.3%*	*0.8%*	*5.8%*	*4.8%*	*7.4%*
bb's café	9,814	10,274	11,242	6.44	6.75	7.16
Growth	*5.7%*	*4.7%*	*9.4%*	*7.9%*	*5.6%*	*7.9%*
Brumby's Bakeries		12,630	13,410		5.35	5.65
Growth		*7.8%*	*6.2%*		*8.9%*	*5.6%*
Michel's Patisserie		11,394	11,868		5.93	6.08
Growth		*1.4%*	*4.2%*		*3.3%*	*2.5%*

The Group's four franchise systems exhibited positive growth in both outlet average weekly sales (AWS) and average transaction values (ATV) for FY09.

Donut King outlet average weekly sales growth of 0.8% was assisted by a 7.4% increase in average transaction values reflecting several key promotions and improved merchandising emphasising yeast raised as opposed to cake donuts.

The bb's café FY09 outlet average weekly sales growth for Australian outlets was 9.4% on FY08 reflecting customer recognition of broad offers and focus on lunch time value offers.

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 5.6% 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

FY10 Outlets Forecast	Donut King	bb's café	Brumby's Bakeries	Michel's Patisserie	Total
Beginning Stores	325	62	331	345	1,063
Commissionings	22	2	16	15	55
Closures	(9)	(3)	(11)	(12)	(35)
Net Growth Anticipated	13	(1)	5	3	20
Closing Stores	338	61	336	348	1,083

Total outlets for the Group as at 30 June 2010 are forecast to be 1,083, a net increase of 20 stores based on forecast organic new store growth of 55 outlets, and 35 forecast closures.

Donut King and Brumby's Bakeries new outlet growth is anticipated to occur across all states in FY10, with 22 and 16 forecast new outlets respectively.

Outlet population within bb's café is anticipated to remain static, with 2 forecast new openings, offset by 3 forecast closures.

Net new outlet growth in the Michel's Patisserie system is forecast to be 3, resulting from 15 new outlets, offset by 12 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 enhancing franchisee average weekly sales (AWS), and
- increasing average transaction value (ATV).

Positive AWS growth was achieved by all systems in Australia. The growth supports the proposition that the Group's four franchise systems were largely resilient to significant changes in economic conditions during FY09.

ATV increased across all systems in Australia. 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.

Operational and Financial Targets

After the full integration of two significant franchise systems in FY09, management's focus will continue to be on structural enhancement in FY10 to achieve further economies and drive earnings, while attending to the transition of Michel's Patisserie franchises to a royalty-based system. Notably, over 40% of the Michel's Patisserie franchises have converted from the acquired "wholesale-distribution" based system to a traditional "royalty-based" system similar to the other franchise systems under RFG's stewardship.

Growth strategies continue to be directed toward:

- leveraging existing intellectual property in RFG's franchise systems;
- brand management and franchising expertise;
- development of new products and menu innovations;
- expansion of coffee domestically and internationally;
- supply-chain efficiencies across all systems';
- reinvigoration of the Brumby's GO concept; and
- organic growth in non-traditional sites

for the benefit of all concerned stakeholders.

Other initiatives such as the restructure of the Michel's Patisserie manufacture and logistics systems are progressing. Such initiatives are designed to achieve further overhead rationalisations and greater operational efficiencies from the Group's increased scale.

DIRECTORS' REPORT

FUTURE DEVELOPMENTS (CONT.)

The Group continues to investigate and evaluate potential retail food franchise system acquisitions. These acquisition targets include both competitor and complementary systems which provide system growth opportunities, synergies, intellectual property enhancement, and are value accretive. In this pursuit, the Company fully intends to keep the market and its shareholders informed in accordance with its reporting obligations.

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:

Final Dividend

On 6 August 2009, the Board of Directors declared a final dividend for the financial year ended 30 June 2009, as set out in the Dividends section of this report.

ENVIRONMENTAL REGULATIONS

The Group, due to the nature of its operations is not required to be environmentally licensed nor is it subject to any 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 2008 dividend	4.500	4,431	100% Franked	28 October 2008
Interim 2009 dividend	4.500	4,480	100% Franked	9 April 2009
		8,911		
Declared after the end of the financial year				
Final 2009 dividend	4.750	4,764	100% Franked	9 October 20089

In respect of the financial year ended 30 June 2008, as detailed in the Directors' report for that financial year, 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 was paid on 28 October 2008. The final dividend was approved by the Directors following the conclusion of the 30 June 2008 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 2009, an interim dividend of 4.5 cents per share (based on 99,560,612 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 9 April 2009. The interim dividend was approved by the Directors on 16 February 2009 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 2009, a final dividend of 4.75 cents per share (based on 100,289,698 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 9 October 2009. The final dividend was approved by the Directors on 6 August 2009 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.

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	375,998	Ordinary	$1.00	31 July 2010
Retail Food Group Limited	395,999	Ordinary	$1.00	31 July 2011
Retail Food Group Limited	591,668	Ordinary	$1.00	31 July 2012
Retail Food Group Limited	212,395	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	255,005	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	373,001	Ordinary	$382,501.10	$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 27 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.

DIRECTORS' REPORT

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 2009. 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.

(1) 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.

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 Anthony Mark Connors (Company Secretary and Legal Counsel)
- Mr Gary Best (Chief Operating Officer) *
- Mr Damien Peters (Chief Financial Officer)
- Ms Nicole Dodd (Chief Marketing Officer)
- Mr Gary Alford (Director of Strategy – Franchise) *
- Mr Gavin Nixon (Property Director) *
- Mr Andre Nell (Commercial Manager).

* 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 Group 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.

(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.

REMUNERATION REPORT (CONT.)

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 2009:

	Proforma FY05 (1)	FY06	FY07	FY08	FY09
Total Revenue (2)	$18.3m	$20.5m	$23.6m	$114.1m	$130.5m
EBIT	$8.9m	$9.8m	$12.2m	$34.4m	$40.3m
NPAT		$5.9m	$7.5m	$17.6m	$23.5m
Total Revenue Growth	11.6%	12.0%	15.1%	383.5%	14.4%
EBIT Growth	7.2%	10.1%	24.5%	182.0%	17.2%
NPAT Growth			27.1%	134.7%	33.4%

(1) Results are proforma adjusted as per the Company's Prospectus dated 9 May 2006.
(2) Excludes revenue derived from marketing activities (FY05: $5.8m; FY06: $6.4m; FY07: $6.2m; FY08: $10.3m; FY09: $12.6m).

	Proforma FY05 (1) (2)	FY06 (2)	FY07	FY08	FY09
Share price at start of financial year			$0.85	$1.49	$1.27
Share price at end of financial year		$0.85	$1.49	$1.27	$1.60
Interim dividend		2.9 cps	3.125 cps	4.0 cps	4.5 cps
Final dividend		nil	3.125 cps	4.5 cps	4.75 cps
Basic EPS	4.9 cps	8.6 cps	10.5 cps	19.9 cps	23.7 cps
Diluted EPS	4.9 cps	8.6 cps	10.4 cps	19.8 cps	23.6 cps

(1) Results are proforma adjusted as per the Company's Prospectus dated 9 May 2006.
(2) 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 has been presented for FY05 due to the nature of the capital structure that existed prior to listing.

(4) Remuneration Of Directors And Senior Management

30 June 2009	Short-term Employment Benefits			Post Employment Benefits	Share-based Payments	Total	Consisting of Options
	Salary & Fees $	Bonus $	Other $	Super-annuation $	Options $	$	%
Non-executive Directors							
Mr John Cowley	67,538	–	–	6,078	9,502	83,118	11.4%
Mr Colin Archer	55,928	–	–	5,034	8,581	69,543	12.3%
Mr Bruce Hancox	60,961	–	–	–	–	60,961	0%
Executive Directors and senior management							
Mr Anthony (Tony) Alford *	450,000	–	–	22,777	16,994	489,711	3.5%
Mr Nigel Nixon *	332,692	–	15,911	–	15,867	364,470	4.4%
Mr Anthony Mark Connors (Company Secretary & Legal Counsel)	175,723	–	–	15,815	14,877	206,415	7.2%
Mr Gary Best (Chief Operating Officer) *	209,597	–	–	18,864	16,304	244,765	6.7%
Mr Damien Peters (Chief Financial Officer)	157,374	10,000	1,800	14,164	8,335	191,673	4.3%
Ms Nicole Dodd (Chief Marketing Officer)	128,699	–	–	11,583	14,463	154,745	9.3%
Mr Gary Alford (Head of Strategy – Franchise) *	208,309	–	6,460	18,748	16,534	250,051	6.6%
Mr Gavin Nixon (Property Director) *	196,346	–	4,200	–	15,407	215,953	7.1%
Mr Andre Nell (Commercial Manager)	170,000	–	–	19,800	–	189,800	0%

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

30 June 2008	Short-term Employment Benefits			Post Employment Benefits	Share-based Payments	Total	Consisting of Options
	Salary & Fees $	Bonus $	Other $	Super-annuation $	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	31,769	–	–	–	–	31,769	–
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 Anthony Mark Connors (Company Secretary)	152,350	–	–	9,897	19,381	181,628	10.7%
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%
Ms Nicole Dodd (Chief Marketing Officer)	83,839	–	–	6,941	18,421	109,201	16.9%
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%
Mr Andre Nell (Commercial Manager) *	211,415	–	14,999	18,441	–	244,855	–

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

REMUNERATION REPORT (CONT.)

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	
	FY09	FY08	FY09	FY08	FY09	FY08
Non–executive Directors						
Mr John Cowley	88.6%	82.3%	–	–	11.4%	17.7%
Mr Colin Archer	87.7%	81.9%	–	–	12.3%	18.1%
Mr Bruce Hancox	100.0%	100.0%	–	–	–	–
Executive Directors and senior management						
Mr Anthony (Tony) Alford	96.5%	93.8%	–	–	3.5%	6.2%
Mr Nigel Nixon	95.6%	92.3%	–	–	4.4%	7.7%
Mr Anthony Mark Connors	92.8%	89.3%	–	–	7.2%	10.7%
Mr Gary Best	93.3%	89.3%	–	–	6.7%	10.7%
Mr Damien Peters	90.4%	96.0%	5.2%	–	4.3%	4.0%
Ms Nicole Dodd	90.7%	83.1%	–	–	9.3%	16.9%
Mr Gary Alford	93.4%	88.3%	–	–	6.6%	11.7%
Mr Gavin Nixon	92.9%	75.8%	–	15.2%	7.1%	9.0%
Mr Andre Nell	100.0%	100.0%	–	–	–	–

Bonuses

Mr Damien Peters was granted a cash bonus of $10 thousand on 1 November 2008 for his performance during FY08, including the finalisation of the financial integration of the Michel's Patisserie and Brumby's Bakeries businesses (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 FY09.

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
Tier 3A	1 August 2008	31 July 2012	$0.2768	$1.32	1 August 2009
Tier 3B	1 August 2008	31 July 2013	$0.3068	$1.32	1 August 2010
Tier 3C	1 August 2008	31 July 2014	$0.3250	$1.32	1 August 2011
Senior Management Share Option Plan					
Tier 1A	1 August 2006	31 July 2010	$0.1480	$1.00	1 August 2007

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.

DIRECTORS' REPORT

REMUNERATION REPORT (CONT.)

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

Name	Option Series	During The Financial Year			
		No. Granted	No. Vested	% Of Grant Vested	% Of Grant Forfeited
Mr John Cowley	Tier 1B	–	46,667	100%	–
	Tier 2A	–	7,033	100%	–
	Tier 3A,B,C	15,000	–	–	–
Mr Anthony (Tony) Alford	Tier 1B	–	70,000	100%	–
	Tier 2A	–	13,333	100%	–
	Tier 3A,B,C	30,000	–	–	–
Mr Nigel Nixon	Tier 1B	–	53,667	100%	–
	Tier 2A	–	13,333	100%	–
	Tier 3A,B,C	30,000	–	–	–
Mr Colin Archer	Tier 1B	–	33,333	100%	–
	Tier 2A	–	7,033	100%	–
	Tier 3A,B,C	15,000	–	–	–
Mr Anthony Mark Connors	Tier 1B	–	39,333	100%	–
	Tier 2A	–	13,333	100%	–
	Tier 3A,B,C	30,000	–	–	–
Mr Gary Best	Tier 1B	–	60,000	100%	–
	Tier 2A	–	13,333	100%	–
	Tier 3A,B,C	30,000	–	–	–
Mr Damien Peters	Tier 5A	–	15,000	100%	–
	Tier 3A,B,C	35,004	–	100%	–
Ms Nicole Dodd	Tier 1B	–	33,333	–	–
	Tier 2A	–	13,333	100%	–
	Tier 3A,B,C	30,000	–	100%	–
Mr Gary Alford	Tier 1B	–	63,333	–	–
	Tier 2A	–	13,333	100%	–
	Tier 3A,B,C	30,000	–	100%	–
Mr Gavin Nixon	Tier 1B	–	47,000	–	–
	Tier 2A	–	13,333	100%	–
	Tier 3A,B,C	30,000	–	100%	–

During the financial year, the following Directors and senior management 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	83,333	83,333	$85,333	$nil
Mr Nigel Nixon	120,668	120,668	$122,668	$nil
Mr Gavin Nixon	107,334	107,334	$109,334	$nil

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	4,543	nil	nil
Mr Anthony (Tony) Alford	9,086	19,682	nil
Mr Nigel Nixon	9,086	24,839	nil
Mr Colin Archer	4,543	nil	nil
Mr Anthony Mark Connors	9,086	nil	nil
Mr Gary Best	9,086	nil	nil
Mr Damien Peters	10,471	nil	nil
Ms Nicole Dodd	9,086	nil	nil
Mr Gary Alford	9,086	nil	nil
Mr Gavin Nixon	9,086	22,716	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 and Gary Best have expired employment contracts. The renewal of these employment contracts is pending. Andre Nell has entered into an executive employment contract with the Group. The agreement 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 former contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) required the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd could 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 former contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) required the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd could terminate the employee by giving at least six (6) months notice or payment of the equivalent salary of the required notice in lieu.
Mr Anthony Mark Connors	No written employment contract has been entered into with the Company.
Mr Gary Best	The former contract of employment entered into with RFGA Management Pty Ltd (subsidiary of the Company) required the employee to give a minimum of three (3) months notice to the employer. RFGA Management Pty Ltd could 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.
Ms Nicole Dodd	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.
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.

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.

DIRECTORS' REPORT

REMUNERATION REPORT (CONT.)

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.

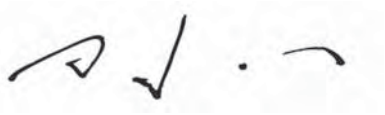
Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. Non-executive Director remuneration takes the form of a set fee plus superannuation entitlements, 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



A J (TONY) ALFORD
Managing Director and CEO
Southport, 16th September 2009

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Level 25
123 Eagle Street
Brisbane QLD 4000
GPO Box 1463
Brisbane QLD 4001 Australia

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Fax: +61 (0) 7 3308 7001
www.deloitte.com.au

16 September 2009

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 2009, 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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RETAIL FOOD GROUP LIMITED

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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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 2009, 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 30 to 85.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RETAIL FOOD GROUP LIMITED

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 2009 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 26 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Sheerin

M G Sheerin
Partner
Chartered Accountants
Brisbane, 16 September 2009

DIRECTORS' DECLARATION

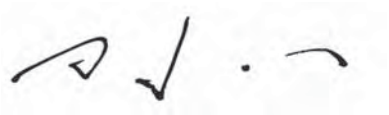
The Directors declare that:

(i) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
(ii) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the 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



A J (TONY) ALFORD
Managing Director and CEO
Southport, 16th September 2009

INDEX TO FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Company	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Continuing operations					
Revenue from sale of goods	5	86,209	76,916	–	–
Cost of sales	7	(55,800)	(45,955)	–	–
Gross profit		30,409	30,961	–	–
Other revenue	5	57,978	48,286	23,000	13,110
Change in fair value of derivative financial instruments		(953)	1,482	(953)	908
Share of profits of jointly controlled entity accounted for using the equity method		–	27	–	–
Selling expenses		(6,252)	(2,928)	–	–
Marketing expenses		(11,998)	(11,538)	–	–
Occupancy expenses		(2,325)	(2,321)	–	–
Administration expenses		(8,194)	(12,517)	(33)	–
Operating expenses		(13,341)	(12,017)	–	–
Finance costs	6	(8,974)	(10,597)	(8,571)	(8,659)
Other expenses		(4,432)	(4,464)	–	(9)
Profit before tax	7	31,918	24,374	13,443	5,350
Income tax expense	8	(8,399)	(6,741)	(438)	(1,605)
Profit for the year from continuing operations		23,519	17,633	13,005	3,745
Discontinued operations					
Profit for the year from discontinued operations		–	–	–	–
Profit for the year		23,519	17,633	13,005	3,745
Attributable to:					
Equity holders of the parent		23,519	17,633	13,005	3,745
		23,519	17,633	13,005	3,745
Earnings per share					
From continuing and discontinued operations:					
Basic (cents per share)	23	23.7	19.9		
Diluted (cents per share)	23	23.6	19.8		
From continuing operations:					
Basic (cents per share)	23	23.7	19.9		
Diluted (cents per share)	23	23.6	19.8		

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

BALANCE SHEET

AS AT 30 JUNE 2009

	Note	Consolidated		Company	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets					
Cash and cash equivalents	30a	5,414	4,102	1	6
Trade and other receivables	9	14,975	14,971	–	–
Other financial assets	10	831	4,945	25,000	14,317
Inventories	11	1,888	1,445	–	–
Current tax assets		–	136	–	–
Other	14	69	124	–	–
Total current assets		23,177	25,723	25,001	14,323
Non–current assets					
Other financial assets	10	–	50	158,594	181,557
Property, plant and equipment	12	3,330	9,237	–	–
Deferred tax assets	8	3,159	1,530	2,010	261
Intangible assets	13	192,808	192,500	–	–
Total non-current assets		199,297	203,317	160,604	181,818
Total assets		222,474	229,040	185,605	196,141
Current liabilities					
Trade and other payables	16	7,681	8,811	–	918
Borrowings	17	–	1,598	–	–
Current tax liabilities		2,825	2,736	2,825	2,736
Provisions	18	2,552	4,383	–	–
Other	19	1,110	1,590	–	–
Total current liabilities		14,168	19,118	2,825	3,654
Non-current liabilities					
Borrowings	17	95,480	115,190	95,480	112,639
Provisions	18	221	93	–	–
Other (fair value derivative financial instruments)	19	5,589	–	5,589	–
Total non-current liabilities		101,290	115,283	101,069	112,639
Total liabilities		115,458	134,401	103,894	116,293
Net assets		107,016	94,639	81,711	79,848
Equity					
Issued capital	20	80,959	78,453	80,959	78,453
Reserves	21	(4,261)	476	(4,261)	476
Retained earnings	22	30,318	15,710	5,013	919
Total equity		107,016	94,639	81,711	79,848

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Consolidated	Fully Paid Ordinary Shares	Equity Settled Employee Benefits Reserve	Hedging Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000
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
Balance as at 1 July 2008	78,453	476	–	15,710	94,639
Gain / (loss) on cash flow hedges	–	–	(6,953)	–	(6,953)
Related income tax	–	–	2,086	–	2,086
Net income recognised directly in equity	–	–	(4,867)	–	(4,867)
Profit for the year	–	–	–	23,519	23,519
Total recognised income and expense	–	–	(4,867)	23,519	18,652
Issue of ordinary shares under DRP	2,075	–	–	–	2,075
Recognition of share-based payments	–	207	–	–	207
Issue of shares under executive share option plan	354	–	–	–	354
Transfer from equity-settled employee benefits reserve	77	(77)	–	–	–
Payment of dividends	–	–	–	(8,911)	(8,911)
Balance as at 30 June 2009	80,959	606	(4,867)	30,318	107,016

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Company	Fully Paid Ordinary Shares	Equity Settled Employee Benefits Reserve	Hedging Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000
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
Balance as at 1 July 2008	78,453	476	–	919	79,848
Gain / (loss) on cash flow hedges	–	–	(6,953)	–	(6,953)
Related income tax	–	–	2,086	–	2,086
Net income recognised directly in equity	–	–	(4,867)	–	(4,867)
Profit for the year	–	–	–	13,005	13,005
Total recognised income and expense	–	–	(4,867)	13,005	8,138
Issue of ordinary shares under DRP	2,075	–	–	–	2,075
Recognition of share-based payments	–	207	–	–	207
Issue of shares under executive share option plan	354	–	–	–	354
Transfer from equity-settled employee benefits reserve	77	(77)	–	–	–
Payment of dividends	–	–	–	(8,911)	(8,911)
Balance as at 30 June 2009	80,959	606	(4,867)	5,013	81,711

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

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Company	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash flows from operating activities					
Receipts from customers		157,439	130,102	–	19
Payments to suppliers and employees		(116,809)	(102,782)	(33)	(182)
Interest and other costs of finance paid		(9,603)	(9,901)	(8,884)	(7,165)
Income taxes paid		(7,853)	(4,163)	(7,853)	(3,074)
Net cash provided by / (used in) operating activities	30e	23,174	13,256	(16,770)	(10,402)
Cash flows from investing activities					
Interest received		457	632	8	435
Amounts advanced to related parties		(2,283)	(1,664)	–	(54,436)
Proceeds from repayment of related party loans		2,207	1,683	40,939	21,113
Amounts received from / (advanced to) other entities		648	(273)	–	–
Payments for property, plant and equipment		(1,847)	(878)	–	–
Proceeds from sale of property, plant and equipment		6,486	670	–	–
Proceeds from sale of business		1,100	–	–	–
Payment for business	29	(299)	(82,552)	–	(83,444)
Net cash provided by / (used in) investing activities		6,469	(82,382)	40,947	(116,332)
Cash flows from financing activities					
Proceeds from issues of equity securities	20	354	44,620	354	44,620
Payment for share issue costs	20	–	(1,095)	–	(1,095)
Proceeds from borrowings		1,284	158,207	–	158,207
Payment for debt issue costs		–	(1,637)	–	(1,637)
Repayment of borrowings		(23,133)	(124,496)	(17,700)	(69,595)
Dividends paid		(6,836)	(3,919)	(6,836)	(3,919)
Net cash provided by / (used in) financing activities		(28,331)	71,680	(24,182)	126,581
Net increase / (decrease) in cash and cash equivalents		1,312	2,554	(5)	(153)
Cash and cash equivalents at the beginning of the year	30a	4,102	1,548	6	159
Cash and cash equivalents at the end of the year	30a	5,414	4,102	1	6

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 Donut King licensor in China; and
- development and management of the Central Manufacturing Facility (disposed on 12 January 2009), Coffee Roasting Facility (as part of a joint venture until 1 June 2009) 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 16 September 2009.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010
AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'	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 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010
AASB 3 Business Combinations' (revised), AASB 127 Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	Business combinations occurring after 1 July 2009	30 June 2010
AASB 2008-1 'Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
AASB 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation'	1 January 2009	30 June 2010
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'	1 July 2009	30 June 2010
AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvement Process'	1 July 2009	30 June 2010
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvement Process'	1 January 2010	30 June 2011
AASB 2009-6 'Amendments to Australian Accounting Standards'	1 January 2009	30 June 2010
AASB 2009-7 'Amendments to Australian Accounting Standards'	1 July 2009	30 June 2010
AASB 1 'First-time Adoption of Australian Accounting Standards'	1 July 2009	30 June 2010
AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010
AASB Interpretation 17 'Distributions of Non-cash Assets to Owners', AASB 2008-13 'Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distribution of Non-cash Assets to Owners'	1 July 2009	30 June 2010
AASB Interpretation 18 'Transfer of Assets from Customers'	1 July 2009	30 June 2010

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 interest rate swaps 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.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign entities.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedge instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(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.

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.

(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 are classified as 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;
- 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 Non-Voluntary Company Store division. These divisions are managed and reported separate to the Franchising Operations segment, and involve 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 (CMF disposed on 12 January 2009); • the manufacture and sale of roasted coffee and related products to franchisees and external customers; • the interim operation of non-voluntary company owned or company managed stores across each of the four franchise systems; and • the sale of turn-key and company owned stores.

	Sale Of Goods		Franchisor Income		Inter-Segment Revenue		Total	
Segment Revenues	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Franchising Operations	–	–	56,250	46,806	–	–	56,250	46,806
Wholesale / Retail Operations	86,209	76,916	–	–	–	–	86,209	76,916
Total of all segments							142,459	123,722
Eliminations							–	–
Unallocated							477	94
Consolidated revenue (excluding interest)							142,936	123,816

Segment Result	2009 $'000	2008 $'000
Franchising Operations	26,098	15,802
Wholesale / Retail Operations	17,082	13,871
	43,180	29,673
Eliminations	–	–
Unallocated	(11,262)	(5,299)
Profit before tax	31,918	24,374
Income tax expense	(8,399)	(6,741)
Profit for the year	23,519	17,633

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

5. REVENUE

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

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Continuing operations				
Revenue from the sale of goods	86,209	76,916	–	–
Revenue from the rendering of services	56,250	46,806	–	–
	142,459	123,722	–	–
Interest revenue:				
Bank deposits	139	630	8	435
Other loans and receivables	12	2	8,600	8,245
	151	632	8,608	8,680
Rental revenue – operating lease rental revenue	477	94	–	–
Dividends – subsidiaries	–	–	13,392	–
Management fee – subsidiaries	–	–	1,000	4,430
	143,087	124,448	23,000	13,110

6. FINANCE COSTS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Interest on bank overdrafts and loans	7,987	9,741	7,966	8,083
Interest on obligations under finance leases	382	280	–	–
Total interest expense	8,369	10,021	7,966	8,083
Other finance costs	605	576	605	576
	8,974	10,597	8,571	8,659

NOTES TO THE FINANCIAL STATEMENTS

7. PROFIT FOR THE YEAR

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Gains and losses				
Gain on disposal of property, plant and equipment	67	10	–	–
Gain on acquisition of business (Brumby's Bakeries)	–	754	–	–
Gain on disposal of business (Central Manufacturing Facility)	1,100	–	–	–
	1,167	764	–	–
(b) Other expenses				
Cost of sales	(55,800)	(45,955)	–	–
Inventory – write-down of inventory to net realisable value	–	(44)	–	–
Impairment of trade receivables	(2,778)	(1,217)	–	–
Depreciation of non-current assets	(1,335)	(1,343)	–	–
Operating lease rental expense – minimum lease payments	(4,944)	(2,099)	–	–
Employee benefits expense:				
– Post employment benefits (defined contribution plans)	(1,417)	(1,298)	–	–
– Share-based payments (equity-settled share-based payments)	(207)	(317)	–	–
– Termination benefits	(162)	(252)	–	–
– Other employee benefits	(18,485)	(17,855)	–	–
	(20,271)	(19,722)	–	–

8. INCOME TAXES

Income tax recognised in profit or loss

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Tax expense comprises:				
Current tax expense	9,187	5,730	101	1,084
Adjustments recognised in the current year in relation to the current tax of prior years	(997)	–	–	–
Benefits arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce current tax expense	(248)	–	–	–
	7,942	5,730	101	1,084
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	457	1,011	337	521
	8,399	6,741	438	1,605
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	31,918	24,374	13,443	5,350
Income tax expense calculated at 30%	9,575	7,312	4,033	1,605
Effect on revenue that is exempt from taxation	(248)	(361)	–	–
Effect of expenses that are not deductible in determining taxable profit	66	99	–	–
Effect of tax concessions (research and development and other allowances)	(248)	(309)	–	–
Other	251	–	423	–
Effect of rebatable dividends	–	–	(4,018)	–
	9,396	6,741	438	1,605
Adjustments recognised in the current year in relation to the current tax of prior years	(997)	–	–	–
	8,399	6,741	438	1,605

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.

8. INCOME TAXES (CONT.)

Deferred tax balances

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

2009	Consolidated				
	Opening Balance $'000	Charged To Income $'000	Credited To Equity $'000	Other $'000	Closing Balance $'000
Temporary differences					
Property, plant and equipment	(117)	117	–	–	–
Intangible assets	(376)	–	–	–	(376)
Employee benefits	429	36	–	–	465
Provisions	1,046	(661)	–	–	385
Doubtful debts	282	275	–	–	557
IPO listing costs	270	(134)	–	–	136
Share issue costs	263	(66)	–	–	197
Interest rate swap	(445)	36	2,086	–	1,677
Other	178	(60)	–	–	118
	1,530	(457)	2,086	–	3,159
Present in the balance sheet as:					
Deferred tax (liability)	–				–
Deferred tax asset	1,530				3,159
	1,530				3,159

2009	Company				
	Opening Balance $'000	Charged To Income $'000	Credited To Equity $'000	Other $'000	Closing Balance $'000
Temporary differences					
IPO listing costs	270	(134)	–	–	136
Share issue costs	263	(66)	–	–	197
Interest rate swap	(272)	(137)	2,086	–	1,677
	261	(337)	2,086	–	2,010
Present in the balance sheet as:					
Deferred tax (liability)	–				–
Deferred tax asset	261				2,010
	261				2,010

2008	Consolidated				
	Opening Balance $'000	Charged To Income $'000	Credited To Equity $'000	Other[1] $'000	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 FY08.

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

8. INCOME TAXES (CONT.)

Unrecognised deferred tax assets

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
The following deferred tax assets have not been brought to account as assets:				
– Tax losses – capital	–	248	–	248
	–	248	–	248

Tax consolidation

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade receivables [1]	12,758	13,461	–	–
Allowance for doubtful debts	(1,856)	(939)	–	–
	10,902	12,522	–	–
Goods and services tax recoverable	–	103	–	–
Accrued income	3,957	1,785	–	–
Sundry debtors	116	561	–	–
	14,975	14,971	–	–

(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 $7,484 thousand (FY08: $7,270 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 agreement.

Ageing of past due but not impaired

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
31 – 60 days	1,187	1,587	–	–
61 – 90 days	755	1,467	–	–
91+ days	5,542	4,216	–	–
	7,484	7,270	–	–

Movement in the allowance for doubtful debts

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at the beginning of the year	939	–	–	–
Impairment losses recognised on receivables	2,778	1,217	–	–
Amounts written off as uncollectible	(1,861)	(278)	–	–
Amounts recovered during the year	–	–	–	–
Impairment losses reversed	–	–	–	–
Balance at the end of the year	1,856	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 $1,856 thousand (FY08: $939 thousand) 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
1 – 30 days	15	–	–	–
31 – 60 days	55	–	–	–
61 – 90 days	69	75	–	–
91+ days	1,717	864	–	–
	1,856	939	–	–

NOTES TO THE FINANCIAL STATEMENTS

10. OTHER FINANCIAL ASSETS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Investments carried at cost:				
Non–current				
Investments in subsidiaries	–	–	130,998	134,278
	–	–	130,998	134,278
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 (1)	–	–	25,000	12,000
Loans to other related parties	54	1,233	–	–
Loans to other entities (2)	777	1,395	–	–
Non–current				
Loans to subsidiaries (1)	–	–	27,596	47,279
Loans to other entities (2)	–	50	–	–
	831	2,678	52,596	59,279
	831	4,995	183,594	195,874
Disclosed in the financial statements as:				
Current other financial assets	831	4,945	25,000	14,317
Non–current other financial assets	–	50	158,594	181,557
	831	4,995	183,594	195,874

(1) 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%.

(2) 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.

11. INVENTORIES

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Raw materials	787	958	–	–
Equipment held for resale	59	–	–	–
Stores held for resale	1,042	487	–	–
	1,888	1,445	–	–

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 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 1 July 2008	2,585	2,030	6,497	214	11,326
Additions	–	59	1,788	–	1,847
Disposals	(2,585)	(1,693)	(2,925)	(79)	(7,282)
Transfers	–	–	(112)	112	–
Balance as at 30 June 2009	–	396	5,248	247	5,891
Accumulated depreciation and impairment losses					
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 1 July 2008	–	(170)	(1,823)	(96)	(2,089)
Disposals	–	136	681	46	863
Transfers	–	–	61	(61)	–
Depreciation expense	–	(108)	(1,189)	(38)	(1,335)
Balance as at 30 June 2009	–	(142)	(2,270)	(149)	(2,561)
Net book value					
As at 30 June 2008	2,585	1,860	4,674	118	9,237
As at 30 June 2009	–	254	2,978	98	3,330

For additions by the Group during the year, an amount of $nil (FY08: $297 thousand), was in relation to assets under finance lease.

There was no depreciation during the year that was capitalised as part of the cost of other assets.

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 2007	–	38,334	3,695	21	42,050
Acquisitions through business combinations	23,438	127,033	–	–	150,471
Balance as at 1 July 2008	23,438	165,367	3,695	21	192,521
Acquisitions through business combinations	308	–	–	–	308
Balance as at 30 June 2009	23,746	165,367	3,695	21	192,829
Accumulated amortisation / impairment losses					
Balance as at 1 July 2007	–	–	–	(21)	(21)
Balance as at 1 July 2008	–	–	–	(21)	(21)
Balance as at 30 June 2009	–	–	–	(21)	(21)
Net book value					
As at 30 June 2008	23,438	165,367	3,695	–	192,500
As at 30 June 2009	23,746	165,367	3,695	–	192,808

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.

Allocation of goodwill for impairment tests

During the financial year, $308 thousand of goodwill was realised in respect of the Company's acquisition of Caffe Coffee Pty Ltd. Accordingly the goodwill recognised as at 30 June 2009 has been allocated for impairment testing purposes to the following cash-generating unit:

Goodwill	Consolidated	
	2009 $'000	2008 $'000
Donut King franchise system	246	–
bb's café franchise system	62	–
Michel's Patisserie franchise system	23,438	23,438
	23,746	23,438

Allocation of indefinite useful life assets for impairment tests

Indefinite Life Intangibles	Consolidated	
	2009 $'000	2008 $'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	44,833
Michel's Patisserie franchise system	82,200	82,200
	169,062	169,062

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 FY10 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 – 1.5%; Brumby's Bakeries – 3%; Michel's Patisserie – 3%) for the individual brand. The growth rates applied are based on management's estimate of forecast cash flow by franchise system after considering FY09 with the FY10 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 (Brumby's Bakeries and Michel's Patisserie). 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 1.5% 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 FY10 and beyond.

NOTES TO THE FINANCIAL STATEMENTS

14. OTHER ASSETS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Prepayments	69	124	–	–
	69	124	–	–

15. ASSETS PLEDGED AS SECURITY

In accordance with the security arrangements of liabilities, as disclosed in note 17 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.

16. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade payables (1)	6,094	4,731	–	–
Accruals and other creditors	1,353	3,599	–	918
Goods and services tax (GST) payable	234	481	–	–
	7,681	8,811	–	918

(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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Secured – at amortised cost:				
Current				
Finance lease liabilities (1)	–	1,598	–	–
Non–current				
Bank loans (2)	95,480	112,639	95,480	112,639
Finance lease liabilities (1)	–	2,551	–	–
	95,480	116,788	95,480	112,639
Disclosed in the financial statements as:				
Current borrowings	–	1,598	–	–
Non–current borrowings	95,480	115,190	95,480	112,639
	95,480	116,788	95,480	112,639

(1) Secured by the assets leased.
(2) Interest-only variable interest rate senior facilities agreement with Commonwealth Bank of Australia (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.

18. PROVISIONS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Employee benefits [1]	1,362	1,336	–	–
Onerous leases and make–good [2]	450	640	–	–
Contract termination costs [3]	140	1,333	–	–
Legal claims [4]	600	1,000	–	–
Other	–	74	–	–
	2,552	4,383		
Non–current				
Employee benefits [1]	221	93	–	–
	221	93	–	–
	2,773	4,476	–	–

	Consolidated		
	Onerous Leases and Make–Good $'000	Contract Termination Costs $'000	Legal Claims $'000
Balance at 1 July 2008	640	1,333	1,000
Additional provisions recognised	–	–	–
Payments made	(190)	(840)	(100)
Reductions resulting from remeasurement or settlement without cost	–	(353)	(300)
	450	140	600

(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.

(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 (during FY08), 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.

NOTES TO THE FINANCIAL STATEMENTS

19. OTHER LIABILITIES

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Retention bonds and deposits	459	410	–	–
Unearned income	651	1,180	–	–
	1,110	1,590	–	–
Non–current				
Fair value of derivate financial instruments (interest rate swaps)	5,589	–	5,589	–

20. ISSUED CAPITAL

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
100,263,032 fully paid ordinary shares (FY08: 98,350,360)	80,959	78,453	80,959	78,453
Nil converting performance shares (FY08: 500,002)	–	–	–	–
	80,959	78,453	80,959	78,453

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.

	2009		2008	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares (1)				
Balance at beginning of financial year	98,350	78,453	72,672	32,301
Issue of ordinary shares	–	–	24,000	44,400
Issue of ordinary shares under DRP	1,567	2,075	1,458	2,265
Share issue costs	–	–	–	(1,095)
Related income tax	–	–	–	329
Issue of shares under executive share option plan	346	354	220	220
Transfer from equity–settled employee benefits reserve	–	77	–	33
Balance at end of financial year	100,263	80,959	98,350	78,453
Converting performance shares (2)				
Balance at beginning of financial year	500	–	–	–
Issue of converting performance shares	–	–	500	–
Conversion to ordinary shares	(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) On 19 August 2008 the Company announced that the 500,002 converting performance shares on issue had converted to nil ordinary shares in the Company.

Share options granted under the executive share option plan

In accordance with the provisions of the executive share option plan, as at 30 June 2009, Directors, executives and senior employees have options over 2,445,868 ordinary shares (of which 1,394,810 are unvested), in aggregate, with 389,331 of those options expiring on 31 July 2010, 25,000 expiring on 31 March 2011, 621,727 expiring on 31 July 2011, 15,000 expiring on 31 March 2012, 997,403 expiring on 31 July 2012, 274,073 expiring on 31 July 2013 and the remainder expiring on 31 July 2014. 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.

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

	2009		2008	
	No. '000	$'000	No. '000	$'000
Equity–settled employee benefits	606	476	606	476
Hedging reserve	(4,867)	–	(4,867)	–
	(4,261)	476	(4,261)	476
Equity–settled employee benefits [1]				
Balance at beginning of financial year	476	192	476	192
Share–based payment	207	317	207	317
Transfer to share capital	(77)	(33)	(77)	(33)
Balance at end of financial year	606	476	606	476
Hedging reserve [2]				
Balance at beginning of financial year	–	–	–	–
Loss recognised on cash flow hedges (interest rate swaps)	(6,953)	–	(6,953)	–
Income tax related to losses recognised in equity	2,086	–	2,086	–
Balance at end of financial year	(4,867)	–	(4,867)	–

(1) The equity-settled employee benefits reserve arises on the grant of share options to Directors, executives and senior management in accordance with the provisions of RFG's Executive Share Option Plan (ESOP). 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.

(2) The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. In July 2008, the Group designated the interest rate swaps as hedges, reducing the ongoing volatility in the income statement. From the date of designation, any changes in the fair value of the interest rate swaps, to the extent the swap was effective, have been recognised directly in equity (FY09: $7.0 million unfavourable pre related tax impact). Prior to the designation, any changes in the fair value of the interest rate swaps were recognised in the income statement.

22. RETAINED EARNINGS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at the beginning of the financial year	15,710	4,261	919	3,358
Net profit attributable to members of the parent entity	23,519	17,633	13,005	3,745
Dividends provided for or paid (note 24)	(8,911)	(6,184)	(8,911)	(6,184)
Balance at the end of the financial year	30,318	15,710	5,013	919

NOTES TO THE FINANCIAL STATEMENTS

23. EARNINGS PER SHARE

	Consolidated	
	2009 Cents per share	2008 Cents per share
Basic earnings per share		
From continuing operations	23.7	19.9
From discontinued operations	–	–
Total basic earnings per share	23.7	19.9
Diluted earnings per share		
From continuing operations	23.6	19.8
From discontinued operations	–	–
Total diluted earnings per share	23.6	19.8

Basic earnings per share	2009 $'000	2008 $'000
Net profit	23,519	17,633
Earnings used in the calculation of basic EPS	23,519	17,633
Adjustments to exclude profit for the period from discontinued operations	–	–
Earnings used in the calculation of basic EPS from continuing operations	23,519	17,633

	2009 No. '000	2008 No. '000
Weighted average number of ordinary shares for the purposes of basic EPS	99,236	88,608

Diluted earnings per share	2009 $'000	2008 $'000
Net profit	23,519	17,633
Earnings used in the calculation of diluted EPS	23,519	17,633
Adjustments to exclude profit for the period from discontinued operations	–	–
Earnings used in the calculation of diluted EPS from continuing operations	23,519	17,633

	2009 No. '000	2008 No. '000
Weighted average number of ordinary shares for the purposes of basic EPS	99,236	88,608
Shares deemed to be issued for no consideration in respect of executive options	374	646
Weighted average number of ordinary shares for the purposes of diluted EPS	99,610	89,254

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:

	2009 No. '000	2008 No. '000
Executive options	692	191

24. DIVIDENDS

	2009		2008	
	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]	4.500	4,431	3.125	2,276
Interim dividend – fully franked at 30% tax rate [2]	4.500	4,480	4.000	3,908
	9.000	8,911	7.125	6,184
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend – fully franked at 30% tax rate [3]	4.750	4,764	4.500	4,430

(1) In respect of the financial year ended 30 June 2008, as detailed in the Directors' report for that financial year, 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 was paid on 28 October 2008. The final dividend was approved by the Directors following the conclusion of the 30 June 2008 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 2009, an interim dividend of 4.5 cents per share (based on 99,560,612 shares on issue), franked to 100% at 30% corporate income tax rate was paid on 9 April 2009. The interim dividend was approved by the Directors on 16 February 2009 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 2009, a final dividend of 4.75 cents per share (based on 100,289,698 shares on issue), franked to 100% at 30% corporate income tax rate will be paid on 9 October 2009. The final dividend was approved by the Directors on 6 August 2009 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	
	2009 $'000	2008 $'000
Adjusted franking account balance	18,063	12,695

25. COMMITMENTS FOR EXPENDITURE

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Capital expenditure and commitments				
Plant and equipment				
Not longer than 1 year	147	15	–	–
Longer than 1 year and not longer than 5 years	–	–	–	–
Longer than 5 years	–	–	–	–
	147	15	–	–

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Contingent liabilities				
Financial guarantees on franchisee loans	–	814	–	–
Rental guarantees	891	877	–	–
	891	1,691	–	–

Financial Guarantees

During FY08, RFGA Management Pty Ltd, a subsidiary of Retail Food Group Limited, 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 had been given as security in respect of loans made by the ANZ Bank to enable certain franchisees to commission their outlets. During FY09, the loans were repaid and accordingly, RFGA Management Pty Ltd's guarantee was cancelled.

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

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

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 30 June 2009, three (3) former franchisees have commenced separate litigation actions against subsidiaries of TMGA, among others, in connection with these disputes. A small number of other franchisees have served Notices of Dispute activating the mediation process under the Franchising Code of Conduct. Mediations have been concluded in connection with two (2) of those Notices, neither of which were successfully resolved. As a consequence of the foregoing disputation, as part of acquisition accounting completed in respect of TMGA, a provision of $1.0 million was recognised at the acquisition date. At 30 June 2009, this amount stands at $0.6 million and is included in the current provision balance. The litigation is being vigorously defended, and any litigious proceedings arising from the Notices of Dispute will be vigorously defended.

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
No later than 1 year	–	1,912	–	1,598
Later than 1 year and not later than 5 years	–	2,840	–	2,551
Later than five years	–	–	–	–
Minimum future lease payments*	–	4,752	–	4,149
Less future finance charges	–	(603)	–	–
Present value of minimum lease payments	–	4,149	–	4,149
Included in the financial statements as: (note 17)				
Current borrowings			–	1,598
Non–current borrowings			–	2,551
			–	4,149

* 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Not longer than 1 year	3,171	3,762	–	–
Longer than 1 year and not longer than 5 years	4,246	7,893	–	–
Longer than 5 years	1,170	831	–	–
	8,587	12,486	–	–

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

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Onerous lease contracts – current (note 18)	450	640	–	–
Onerous lease contracts – non–current (note 18)	–	–	–	–
	450	640	–	–

NOTES TO THE FINANCIAL STATEMENTS

28. SUBSIDIARIES

Name Of Entity	Country Of Incorporation	Ownership Interest	
		2009 (%)	2008 (%)
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
BB System Lease Pty Ltd [2]	Australia	100	–
BBH System Lease Pty Ltd [2]	Australia	100	–
Biloela Coffee Pty Ltd [2]	Australia	100	100
Booming Pty Ltd [2]	Australia	100	100
Breadsmith Pty Ltd [2]	Australia	100	100
Bruffin Pty Ltd [2]	Australia	100	100
Brumby's Bakeries Holdings Pty Ltd [2]	Australia	100	100
Brumby's Bakeries Pty Ltd [2]	Australia	100	100
Brumby's Cafe Pty Ltd	Australia	–	100
Brumby's Quick Pty Ltd	Australia	–	100
Caffe Coffee Pty Ltd [2]	Australia	100	50
Cappuccino Frappe Pty Ltd [2]	Australia	100	100
Chatslease Pty Ltd [2]	Australia	100	100
Cheddarmite Pty Ltd [2]	Australia	100	100
Choppa Loaf Pty Ltd [2]	Australia	100	100
Coleville Enterprises Pty Ltd [2]	Australia	100	100
DK China Pty Ltd [2]	Australia	100	–
DK Franchisor Pty Ltd [2]	Australia	100	–
DK System Lease Pty Ltd [2]	Australia	100	–
Donquay Pty Ltd [2]	Australia	100	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	Australia	–	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
International Franchisor Pty Ltd [2]	Australia	100	–
Jonamill Pty Ltd [2]	Australia	100	100
Michel's Leasing Pty Ltd [2]	Australia	100	100
Michel's Leasing QLD Pty Ltd [2]	Australia	100	–
Michel's Leasing Regional Pty Ltd [2]	Australia	100	–
Michel's Patisserie (SA) Pty Ltd [2]	Australia	100	100
Michel's Patisserie (VQ) Pty Ltd [2]	Australia	100	100

Name Of Entity	Country Of Incorporation	Ownership Interest	
		2009 (%)	2008 (%)
Subsidiaries (cont.)			
Michel's Patisserie (VQL) Pty Ltd [2]	Australia	100	100
Michel's Patisserie (WA) Pty Ltd [2]	Australia	100	100
Michel's Patisserie Management Pty Ltd [2]	Australia	100	100
Michel's Patisserie Operations Pty Ltd [2]	Australia	100	–
Michel's Patisserie System Pty Ltd [2]	Australia	100	–
MP System Lease Pty Ltd [2]	Australia	100	–
Mule Enterprises Pty Ltd [2]	Australia	100	100
Regional Franchising Systems Pty Ltd [2]	Australia	100	100
Regional Franchisor Pty Ltd [2]	Australia	100	–
RFG Finance Pty Ltd [2]	Australia	100	100
RFG Investments Pty Ltd [2]	Australia	100	100
RFGA Assets Management Pty Ltd	Australia	–	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	Australia	–	100
Roasted Beans Pty Ltd [2]	Australia	100	100
Rouse Hill Leasing Pty Ltd [2]	Australia	100	100
Snowycold No 1 Pty Ltd [2]	Australia	100	100
Snowycold No 2 Pty Ltd	Australia	–	100
Snowycold Pty Ltd [2]	Australia	100	100
Strawberry Cushion Pty Ltd [2]	Australia	100	100
Systems Franchisor Pty Ltd [2]	Australia	100	–
Tear'n'Share Pty Ltd [2]	Australia	100	100
The Big Mule Trust [2]	Australia	100	100
The Bread Centre Securities Trust [2]	Australia	100	100
The Donquay Trust [2]	Australia	100	100
The Michel's Group Australia Pty Ltd [2]	Australia	100	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	100
Michel's Patisserie Systems (NZ) Limited	New Zealand	100	–
MP (NZ) Leasing Limited	New Zealand	100	–
RFG (NZ) Holdings Limited	New Zealand	100	100
RFG (NZ) Limited	New Zealand	100	100

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

NOTES TO THE FINANCIAL STATEMENTS

29. ACQUISITION OF BUSINESSES

FY09 Acquisitions

Name Of Businesses Acquired	Principal Activity	Date Of Acquisition	Proportion Of Shares Acquired (%)	Cost Of Acquisition $'000
Caffe Coffee Pty Ltd [formerly 50% owned joint venture entity]	Operator of the Coffee Roasting Facility (CRF) (bulk coffee roasting facility)	01/06/2009	100%	300

During FY07, RFG established a bulk coffee roasting facility (CRF) with Koffee–Tek Pty Ltd, an Australian domiciled coffee blender and roaster. On 1 June 2009, the Group exercised its right under the CRF Joint Venture Agreement to acquire Koffee–Tek's 50% interest in Caffe Coffee Pty Ltd (Caffe Coffee), being the joint venture entity responsible for the operation of the CRF.

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:

Net Assets Acquired	Book Value	Fair Value Adjustment	Fair Value On Acquisition
	$'000	$'000	$'000
Current assets			
Cash and other cash equivalents	1	–	1
Trade and other receivables	210	–	210
Inventories	118	–	118
Other	18	–	18
Current liabilities			
Trade and other payables	(355)	–	(355)
	(8)	–	(8)
Goodwill on acquisition of business			308
			300

Net Cash Flow On Acquisition	Consolidated
	2009 $'000
Total purchase consideration	300
Less: non–cash consideration for Caffe Coffee	–
Consideration paid in cash	300
Less: cash and cash equivalent balances acquired	(1)
	299

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Caffe Coffee. 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 Caffe Coffee. 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 $0.02 million attributable to the additional business generated by Caffe Coffee.

FY08 Acquisitions

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	Fair Value Adjustment	Fair Value On Acquisition
	$'000	$'000	$'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

29. ACQUISITION OF BUSINESSES (CONT.)

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 FY08 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:

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 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 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 FY08 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 FY08 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 FY08 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash and cash equivalents	5,414	4,102	1	6

(b) Business acquired

During the financial year, the Group completed one acquisition (FY08: two acquisitions), namely, the acquisition of Caffe Coffee, the operator of a bulk coffee roasting facility. Refer to note 29 for details.

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

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Net cash outflow in connection with Caffe Coffee acquisition	299	–	–	–
Net cash outflow in connection with Brumby's acquisition	–	35,942	–	37,376
Net cash outflow in connection with Michel's acquisition	–	46,610	–	46,068
	299	82,552	–	83,444

(c) Non–cash financing and investing activities

During the financial year, the Group acquired $nil (FY08: $297 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.

(d) Financing facilities

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Secured bank overdraft facility, reviewed annually and payable at call:				
amount used	–	–	–	–
amount unused	100	5,807	–	5,000
	100	5,807	–	5,000
Lease finance facility, reviewed annually:				
amount used	–	4,149	–	–
amount unused	–	6,692	–	6,000
	–	10,841	–	6,000
Secured bank loan facility:				
amount used (before deducting debt issue costs)	96,000	113,700	96,000	113,700
amount unused	24,000	6,300	24,000	6,300
	120,000	120,000	120,000	120,000

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.

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

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit for the year	23,519	17,633	13,005	3,745
Gain on disposal of property, plant and equipment	(67)	(10)	–	–
Gain on disposal of business (Central Manufacturing Facility)	(1,100)	–	–	–
Gain on acquisition of business (Brumby's Bakeries)	–	(754)		
Share of jointly controlled entities' profit	–	(27)	–	–
Depreciation and amortisation	1,335	1,343	–	–
Impairment of non current assets	–	11	–	–
Equity–settled share–based payment	207	317	–	–
Interest income received and receivable	(452)	(632)	(8,608)	(8,680)
Dividends received and receivable	–	–	(13,392)	–
Amortisation of borrowing costs	605	576	605	576
Fair value loss / (gain) on derivatives	953	(1,482)	953	(908)
Increase / (decrease) in current tax liability	89	2,161	89	2,161
Increase / (decrease) in deferred tax balances	457	511	337	521
Increase / (decrease) in amounts due under the tax–funding arrangement	–	–	(7,841)	(4,148)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase) / decrease in assets:				
Trade and other receivables	(4)	(1,302)	–	19
Inventories	(443)	275	–	–
Other assets	1,388	(167)	(1,000)	(4,430)
Increase / (decrease) in liabilities:				
Trade and other payables	(1,130)	(4,482)	(918)	742
Provisions	(1,703)	(715)	–	–
Other liabilities	(480)	–	–	–
Net cash from operating activities	23,174	13,256	(16,770)	(10,402)

NOTES TO THE FINANCIAL STATEMENTS

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 FY08.

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Debt [1]	95,480	116,788	95,480	112,639
Cash and cash equivalents	(5,414)	(4,102)	(1)	(6)
Net debt	90,066	112,686	95,479	112,633
Equity	107,016	94,639	81,711	79,848
Net debt to equity ratio	45.7%	54.4%	53.9%	58.5%

(1) Debt is defined as long- and short-term borrowings, as detailed in note 17.

(b) Categories of financial instruments

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial assets:				
Fair value through profit or loss assets				
Interest rate swap	–	2,317	–	2,317
Loans and receivables:				
Trade and other receivables	14,975	14,971	–	–
Loans and receivables	831	2,678	52,596	59,279
Cash and cash equivalents	5,414	4,102	1	6
Financial liabilities:				
Derivative instruments in designated hedge accounting relationships	5,589	–	5,589	–
At amortised cost:				
Bank loan	95,480	112,639	95,480	112,639
Finance lease liabilities	–	4,149	–	–

(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 Chief Financial Officer 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 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.

In July 2008, the Group designated the interest rate swaps as hedges, reducing the ongoing volatility in the income statement. From the date of designation, any changes in the fair value of the interest rate swaps have been recognised directly in equity (FY09: $7.0 million unfavourable). Prior to the designation, any changes in the fair value of the interest rate swaps were recognised in the income statement (FY09: $1.0 million unfavourable; FY08: $1.5 million favourable).

The terms and conditions in relation to the derivative instruments are similar to the terms and conditions of the underlying hedged items. The hedging relationship was effective at reporting date. For further details refer to note 2(e).

(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 decrease by $104 thousand (FY08: $653 thousand) and increase by $130 thousand (FY08: $445 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.
- hedge reserve would decrease (favourable) by $1,730 thousand and increase (unfavourable) by $1,528 thousand. No comparative hedge reserve impact in FY08 as hedge accounting was adopted in July 2008.

31. FINANCIAL INSTRUMENTS (CONT.)

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.

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

Interest Rate Swap Contracts

	Average Contracted Fixed Interest Rate		Notional Principal Amount		Fair Value	
Outstanding floating for fixed contracts	2009 %	2008 %	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Consolidated						
1 to 2 years	6.13	–	34,800	–	(1,149)	–
2 to 3 years	7.27	6.13	22,647	39,000	(1,388)	1,452
3 to 4 years	7.47	7.27	34,153	24,927	(3,073)	350
4 to 5 years	–	7.47	–	27,223	–	281
			91,600	91,150	(5,610)	2,083
Company						
1 to 2 years	6.13	–	34,800	–	(1,149)	–
2 to 3 years	7.27	6.13	22,647	39,000	(1,388)	1,452
3 to 4 years	7.47	7.27	34,153	24,927	(3,073)	350
4 to 5 years	–	7.47	–	27,223	–	281
			91,600	91,150	(5,610)	2,083

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss.

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.

Interest Rate Cap Contracts

	Average Contracted Fixed Interest Rate		Notional Principal Amount		Fair Value	
Interest rate cap at 7.27%	2009 %	2008 %	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Consolidated						
2 to 3 years	7.27	–	8,400	–	21	–
3 to 4years	–	7.27	–	8,850	–	234
			8,400	8,850	21	234
Company						
2 to 3 years	7.27	–	8,400	–	21	–
3 to 4years	–	7.27	–	8,850	–	234
			8,400	8,850	21	234

(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	
	2009 $'000	2008 $'000
Consolidated		
Financial guarantees on franchisee loans	–	814
Rental guarantees on franchise stores	891	877
	891	1,691

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.

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
2009:						
Trade payables	6,094	–	–	–	–	–
Other payables	1,587	–	–	–	–	–
Retention bonds and deposits	459	–	–	–	–	–
Bank loan	7,589	99,522	–	7,589	99,522	–
	15,729	99,522	–	7,589	99,522	–
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	–

31. FINANCIAL INSTRUMENTS (CONT.)

(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
Tier 3A	283,339	01/08/08	31/07/12	01/08/09	$1.32	$0.2768
Tier 3B	123,333	01/08/08	31/07/13	01/08/10	$1.32	$0.3068
Tier 3C	123,334	01/08/08	31/07/14	01/08/11	$1.32	$0.3250
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 $0.2950 (FY08: $0.5617). 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).

Inputs Into The Model	Option Series										
	Tier 1A	Tier 1B	Tier 1C	Tier 2A	Tier 2B	Tier 2C	Tier 4A	Tier 5A	Tier 3A	Tier 3B	Tier 3C
Grant date share price	$0.84	$0.84	$0.84	$1.65	$1.65	$1.65	$1.39	$1.39	$1.275	$1.275	$1.275
Exercise price	$1.00	$1.00	$1.00	$1.15	$1.15	$1.15	$1.67	$1.92	$1.32	$1.32	$1.32
Expected volatility	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	42.0%	42.0%	44.0%	44.0%	44.0%
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	2.5 years	3.5 years	4.5 years
Dividend yield	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	5.50%	5.50%	6.50%	6.50%	6.50%
Risk–free interest rate	5.17%	5.17%	5.17%	6.39%	6.39%	6.39%	6.09%	6.09%	6.03%	6.03%	6.03%

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

	2009		2008	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance at beginning of the financial year	2,342,197	$1.05	2,066,664	$1.00
Granted during the financial year	530,006	$1.32	645,532	$1.19
Forfeited during the financial year	(80,000)	$1.17	(150,000)	$1.00
Exercised during the financial year [1]	(346,335)	$1.02	(219,999)	$1.00
Expired during the financial year	–	–	–	–
Balance at end of the financial year [2]	2,445,868	$1.11	2,342,197	$1.05
Exercisable at end of the financial year	1,051,058	$1.06	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:

2009 Option Series	Number Exercised	Exercise Date	Share Price At Exercise Date
Tier 1A – Issued 1 August 2006	100,667	02/04/2009	$1.43
Tier 1B – Issued 1 August 2006	70,000	08/08/2008	$1.28
Tier 1B – Issued 1 August 2006	25,000	26/09/2008	$1.36
Tier 1B – Issued 1 August 2006	100,667	02/04/2009	$1.43
Tier 2A – Issued 1 August 2007	10,000	26/09/2008	$1.36
Tier 2A – Issued 1 August 2007	40,001	02/04/2009	$1.43
	346,335		

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		

32. SHARE-BASED PAYMENTS (CONT.)

(2) Balance at the end of the financial year

2009 Option Series	Number Outstanding	Remaining Life (in days)
Tier 1A – Issued 1 August 2006	389,331	396
Tier 1B – Issued 1 August 2006	395,999	761
Tier 1C – Issued 1 August 2006	591,668	1,127
Tier 2A – Issued 1 August 2007	225,728	761
Tier 2B – Issued 1 August 2007	150,730	1,127
Tier 2C – Issued 1 August 2007	150,740	1,492
Tier 4A – Issued 1 April 2008	25,000	638
Tier 5A – Issued 1 April 2008	15,000	1,004
Tier 3A – Issued 1 August 2008	255,005	1,127
Tier 3B – Issued 1 August 2008	123,333	1,492
Tier 3C – Issued 1 August 2008	123,334	1,857
	2,445,868	

2008 Option Series	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	

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	
	2009 $	2008 $	2009 $	2008 $
Short–term employee benefits	2,251,538	1,909,644	–	–
Post–employment benefits	132,863	69,348	–	–
Other long–term benefits	–	–	–	–
Termination benefits	–	–	–	–
Share–based payment	136,864	182,056	–	–
	2,521,265	2,161,048	–	–

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 (FY08: $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:

30 June 2009	Balance 1 July 2008 No.	Granted As Compensation No.	Received On Exercise Of Options No.	Net Other Change No.	Balance 30 June 2009 No.	Balance Held Nominally No.
Mr John Cowley	53,633	–	–	3,697	57,330	–
Mr Anthony (Tony) Alford	23,362,795	–	83,333	699,348	24,145,476	957,396
Mr Nigel Nixon	5,355,600	–	120,668	172,815	5,649,083	2,698,201
Mr Colin Archer	217,760	–	–	3,637	221,397	–
Mr Bruce Hancox	–	–	–	–	–	–
Mr Anthony Mark Connors	9,900	–	–	–	9,900	–
Mr Gary Best	1,437,800	–	–	7,292	1,445,092	–
Mr Damien Peters	–	–	–	–	–	–
Ms Nicole Dodd	2,039	–	–	141	2,180	–
Mr Gary Alford	1,486,512	–	–	38,022	1,524,534	–
Mr Gavin Nixon	5,355,600	–	107,334	172,395	5,635,329	2,812,666
Mr Andre Nell	–	–	–	–	–	–
	37,281,639	–	311,335	1,097,347	38,690,321	6,468,263

30 June 2008	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.
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 Anthony Mark Connors	10,000	–	–	(100)	9,900	–
Mr Gary Best	1,348,765	–	60,000	29,035	1,437,800	–
Mr Damien Peters	–	–	–	–	–	–
Ms Nicole Dodd	1,945	–	33,333	(33,239)	2,039	–
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
Mr Andre Nell	–	–	–	–	–	–
	35,993,667	–	163,333	1,124,639	37,281,639	6,299,312

Executive share options of Retail Food Group Limited:

30 June 2009	Balance 1 July 2008	Granted As Compensation	Exercised	Net Other Change	Balance 30 June 2009	Balance Vested 30 June 2009	Vested But Not Exercisable	Vested And Exercisable	Options Vested During The Year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr John Cowley	161,100	15,000	–	–	176,100	100,367	–	100,367	53,700
Mr Anthony (Tony) Alford	180,000	30,000	(83,333)	–	126,667	–	–	–	83,333
Mr Nigel Nixon	201,000	30,000	(120,668)	–	110,332	–	–	–	60,334
Mr Colin Archer	121,100	15,000	–	–	136,100	73,699	–	73,699	40,366
Mr Bruce Hancox	–	–	–	–	–	–	–	–	–
Mr Anthony Mark Connors	158,000	30,000	–	–	188,000	91,999	–	91,999	52,666
Mr Gary Best	160,000	30,000	–	–	190,000	73,333	–	73,333	73,333
Mr Damien Peters	40,000	35,004	–	–	75,004	40,000	–	40,000	15,000
Ms Nicole Dodd	40,000	30,000	–	–	70,000	46,666	–	46,666	46,666
Mr Gary Alford	230,000	30,000	–	–	260,000	139,999	–	139,999	76,666
Mr Gavin Nixon	181,000	30,000	(107,334)	–	103,666	–	–	–	60,334
Mr Andre Nell	–	–	–	–	–	–	–	–	–
	1,472,200	275,004	(311,335)	–	1,435,869	566,063	–	566,063	562,398

30 June 2008	Balance 1 July 2007	Granted As Compensation	Exercised	Net Other Change	Balance 30 June 2008	Balance Vested 30 June 2008	Vested But Not Exercisable	Vested And Exercisable	Options Vested During The Year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
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 Anthony Mark Connors	118,000	40,000	–	–	158,000	39,333	–	39,333	39,333
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
Ms Nicole Dodd	33,333	40,000	(33,333)	–	40,000	–	–	–	33,333
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
Mr Andre Nell	–	–	–	–	–	–	–	–	–
	1,273,333	362,200	(163,333)	–	1,472,200	308,333	–	308,333	471,666

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, 311,335 options (FY08: 163,333) were exercised by key management personnel at an exercise price of $1.00 per option for 271,334 ordinary shares (FY08: 163,333), and $1.15 per option for 40,001 (FY08: nil) ordinary shares in Retail Food Group Limited. 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 FY09 and FY08 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	
	2009 $	2008 $
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group and their related parties:		
Franchise revenue	70,494	127,567
	70,494	127,567
Consolidated profit includes the following expenses arising from transactions with key management personnel of the Group and their related parties:		
Rental expense	25,601	49,435
Other administration services	38,894	4,591
	64,495	54,026
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	–	–
Non–current	–	–
	–	–

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 received dividends of $16,879 thousand (FY08: $nil) from its subsidiaries.
- the Company provided various services including but not limited to administration and financing totaling $9,600 thousand (FY08: $12,675 thousand).

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

- Loans receivables totaling $52,596 thousand are receivable from subsidiaries (FY08: $59,279 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 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 $25,601.15 (excluding GST) was paid or payable during the year. (FY08: $19,995 excluding GST).

Bureau Services Pty Ltd is a company associated with Mr Antony (Tony) Alford. It was reimbursed $38,894.09 (excluding GST) for business related expenditure during the financial year. (FY08: $4,591 excluding GST).

Donut Holdings Pty Ltd is a related party 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 $70,494.31 (excluding GST) earned by the Group in respect of royalties and product sales (from the CMF) to this store. (FY08: $127,567).

During FY08, the Group leased a warehouse facility 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 in respect of rental during the year. The lease arrangement ended during FY08 and accordingly no amount has been paid or is payable in respect of FY09.

Parent entities

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

35. REMUNERATION OF AUDITORS

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Auditor of the parent entity				
Audit or review of the financial report	248,000	355,000	–	–
Other non–audit services :				
– Due diligence services	–	72,444	–	–
– Tax consolidation advice	–	30,000	–	–
	248,000	457,444	–	–

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

36. SUBSEQUENT EVENTS

Final Dividend

On 6 August 2009, the Board of Directors declared a final dividend for the financial year ended 30 June 2009, as set out in the Dividends section of this report.

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 31 AUGUST 2009

Number Of Holders Of Equity Securities

Ordinary share capital

- 100,289,698 fully paid ordinary shares are held by 1,793 individual shareholders.

All issued ordinary shares carry one vote per share.

Converting performance shares

- Nil converting performance shares.

As disclosed in note 20 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

- 1,363,665 options granted on 1 August 2006 are held by 18 individual option holders.
- 513,865 options granted on 1 August 2007 are held by 20 individual option holders.
- 40,000 options granted on 1 April 2008 are held by 1 individual option holder.
- 501,672 options granted on 1 August 2008 are held by 22 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	417	272,714	0.27	–	–
1,001 – 5,000	737	2,041,377	2.03	–	–
5,001 – 10,000	293	2,276,590	2.27	–	–
10,001 – 100,000	287	7,628,033	7.61	10	461,670
100,001 and over	59	88,070,984	87.82	12	1,957,532
	1,793	100,289,698	100.00	22	2,419,202
Holding less than a marketable parcel	27	1,288			

Substantial Shareholders

	Fully Paid		Partly Paid	
Ordinary Shareholders	Number	Percentage	Number	Percentage
Mr Anthony (Tony) Alford [1]	24,145,476	24.1%	–	–
Thorney Holdings Pty Ltd / Thorney Pty Ltd	9,747,172	9.7%	–	–
K2 Asset Management Pty Ltd	9,397,367	9.4%	–	–
Gotham City Limited	7,000,000	7.0%	–	–
Acorn Capital Limited	6,123,034	6.1%	–	–
Brecot Pty Ltd	5,510,867	5.5%	–	–

(1) Shareholding includes interests or control in the shareholdings and interests held by CGFH C2 Pty Ltd, Alfords Holdings (Qld) Pty Ltd and others as disclosed in latest Appendix 3Y.

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 31 AUGUST 2009

Twenty Largest Holders Of Quoted Equity Instruments

	Fully Paid		Partly Paid	
Ordinary Shareholders	Number	Percentage	Number	Percentage
1. National Nominees Limited	13,125,736	13.1%	–	–
2. ANZ Nominees Limited	11,020,204	11.0%	–	–
3. HSBC Custody Nominees (Australia) Limited	10,564,750	10.5%	–	–
4. CGFH C2 Pty Ltd	9,001,959	9.0%	–	–
5. Alfords Holdings (Qld) Pty Ltd	8,752,589	8.7%	–	–
6. Gotham City Limited	7,000,000	7.0%	–	–
7. Brecot Pty Ltd	5,510,867	5.5%	–	–
8. JP Morgan Nominees Australia Limited	4,682,925	4.7%	–	–
9. Anttra Pty Ltd	3,960,698	3.9%	–	–
10. Risby Investments Pty Ltd	1,182,008	1.2%	–	–
11. AMA Holdings (Qld) Pty Ltd	1,151,372	1.1%	–	–
12. WSS Holdings (Aust) Pty Ltd	1,149,687	1.1%	–	–
13. Absolute Investments Australia Pty Ltd	1,000,000	1.0%	–	–
14. Saga Investments Pty Ltd	920,513	0.9%	–	–
15. FTT Holdings Pty Ltd	860,118	0.9%	–	–
16. Citicorp Nominees Pty Ltd	784,765	0.8%	–	–
17. BHM Enterprises Pty Ltd	750,770	0.7%	–	–
18. Bexlie Holdings (Qld) Pty Ltd	665,385	0.7%	–	–
19. C G F H Holdings Pty Ltd	650,004	0.6%	–	–
20. Rastus Investments Pty Ltd	564,126	0.6%	–	–
Total	83,298,476	83.1%	–	–

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


DONUT KING


Michel's
patisserie


Brumby's
BAKERY


cafe
bb's
BREWED FRESH
BAKED FRESH

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