Retail Food Group Limited

APPENDIX 4D (Rule 4.2A.3)
PRELIMINARY FINAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021
RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to the period ended 31 December 2020)

				1H22 A$'000	1H21 A$'000
Revenue and other income from continuing operations	*Down*	*(9.6%)*	*to*	54,669	60,495
Revenue and other income from discontinued operations				-	24,633
Total revenues and other income	***Down***	*(35.8%)*	*to*	**54,669**	**85,128**
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	***Down***	*(35.2%)*	*to*	**9,323**	**14,385**
Discontinued Operations and Disposal costs				400	(3,253)
AASB 15 & AASB 16				4,897	1,284
Business restructuring, impairment, provisioning and marketing expenses				(2,860)	(262)
Reported earnings before interest, tax, depreciation and amortisation (EBITDA)	***Down***	***(3.2%)***	***to***	**11,760**	**12,154**
Profit from continuing operations before income tax	***Down***	***(40.3%)***	***to***	**5,147**	**8,616**
Profit/(loss) from discontinued operations before income tax				**400**	**(4,752)**
Profit before income tax	***Up***	***43.6%***	***to***	**5,547**	**3,864**
Income tax expense from continuing operations				**(471)**	**-**
Income tax benefit from discontinued operations				**-**	**-**
Profit for the period attributable to members of the parent entity	***Up***	***31.4%***	***to***	**5,076**	**3,864**
				1H21	**FY21**
Net Tangible Assets/(Liabilities) per security				(2.2) cents	(2.5) cents

Dividends	Amount per security
Final dividend	
- Current year	- cents
- Previous corresponding period	- cents
Total dividend (interim and final):	
- Current year	- cents
- Previous corresponding period	- cents

For an explanation of the figures reported refer to commentary on the results.

Retail Food Group Limited
Consolidated Financial Report
Half-Year Ended 31 December 2021

INDEX

The Directors of Retail Food Group Limited (hereinafter referred to as RFG, the Company or Group) submit herewith the Financial Report of the Company for the period ended 31 December 2021, in accordance with the provisions of the *Corporations Act 2001*.

Directors

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

Name	Particulars
Mr Peter George	Executive Chairman
Mr David Grant	Independent Non-Executive Director
Ms Kerry Ryan	Independent Non-Executive Director

Corporate governance

The Company recognises the importance of good corporate governance to RFG's shareholders and broader stakeholder community, including franchisees, regulators and consumers. The Company's practice is to publish its Corporate Governance Statement on the ASX website (www.asx.com.au) and via its website at www.rfg.com.au when releasing its Annual Report. The Company's Corporate Governance Statement in respect of FY21 was published on these platforms on 22 October 2021.

Principal activities

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

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

The Group disposed of the Dairy Country manufacturing business on 19 October 2020 and the Hudson Pacific distribution business on 3 January 2020. These businesses were classified as a discontinued operations for the half-year ended 31 December 2020. To the extent post disposal adjustments have been booked in the current period they have been similarly classified as discontinued operations.

Important Information

This review contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events and future financial prospects. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. Forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements, and the outcomes are not all within the control of RFG. Statements about past performance are not necessarily indicative of future performance.

Neither RFG nor any of its subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (the 'Relevant Persons') makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statement or any outcomes expressed or implied in any forward-looking statement. The forward-looking statements in this review reflect views held only at the date hereof and except as required by applicable law or the ASX Listing Rules, the Relevant Persons disclaim any obligation or undertaking to publicly update any forward-looking statements, or discuss the Company's future financial prospects, whether as a result of new information or future events.

This review refers to RFG's financial results, including RFG's statutory performance and underlying performance. RFG's statutory performance contains a number of items that when excluded provide a different perspective on the financial and operational performance of the business. Consolidated Statement of Profit or Loss And Other Comprehensive Income amounts, presented on an underlying basis such as Underlying EBITDA, are non-IFRS financial measures, and exclude the impact of these items consistent with the manner in which senior management reviews the financial and operating performance of the Group's business. Each underlying measure disclosed has been adjusted to remove the impact of these items on a consistent basis. A reconciliation and description of the items that contribute to the difference between statutory performance and underlying performance is provided in the Group Operational Review within this report.

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

Impact of coronavirus (COVID-19)

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

Overview

Consistent with FY21 themes, the 1H22 has been a particularly challenging period for the Company given the continuing impact of the COVID-19 pandemic on all aspects of the Group's operations. 1H22 results also reflect the absence of $3.7 million in Government financial support in response to the pandemic (JobKeeper and other assistance) received during the previous corresponding period (PCP).

Despite these factors, there were a number of positive indicators evident in the Group's 1H22 performance, including:

- Strong network Average Transaction Value (ATV) growth of +7.4% on PCP, which mitigated franchise partners from the full impact of a COVID-19 influenced 1H22 network Customer Count decline of 9.2% and further validates the marketing and product strategies implemented by the Group as part of its 'franchisee first' turnaround strategy;
- The Company's QSR Division, which enjoyed strong Same Store Sales (SSS) growth of +6.8% on PCP as the new value models introduced during FY21 continued to resonate with consumers;
- Positive operational performances delivered by the Gloria Jean's Drive Thru network and Brumby's Bakery Brand System;
- Considerable momentum being generated across the Group's international franchise network; and
- Traction being observed across the various strategic initiatives being developed by the Company to complement traditional growth drivers.

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

Overview (continued)

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

Various indicators of a positive retail recovery were observed during the relatively brief interval between Delta lockdowns ending and the emergence of Omicron, during which network SSS grew +2.6% despite a moderated customer count decline of 2.6%. However, emergence of the Omicron wave and resulting close contact isolation requirements further influenced consumer shopping habits and operational effectiveness, including staff shortages and lost trading days or hours for many outlets.

COVID-19's impact was particularly acute across the Company's coffee based Brand Systems (Donut King, Gloria Jean's and Michel's Patisserie), which are predominantly situated in shopping centres and metro locations where customer traffic declines were most evident. This is best illustrated by the 1H22 Customer Count declines recorded across NSW by Donut King (-31.5%), Gloria Jean's (-26.1%) and Michel's Patisserie (-27.9%).

These conditions contributed to the permanent closure during the period of 48 domestic traditional outlets (including exit of sites that ceased trading prior to FY22) and 21 mobile vans.

The cumulative effect of these closures and the challenging trading conditions noted above also contributed to a c.7.1% reduction in 1H22 total network sales versus PCP to c.$227.0 million. Circa 68% of this reduction is attributable to reduced performance within NSW, VIC and the ACT where extended lockdowns were imposed during the 1Q22.

Removing the impact of closed or partially trading stores, SSS were down 2.5% versus PCP overall, reflecting the broader impact on trading of the Delta and Omicron strains of COVID-19, compared to 1H21.

Having regard to the challenging trading environment in which its franchise partners operated during the 1H22, the Group has continued to provide considerable financial, operational and other support in response to the evolving COVID-19 situation. A key element of the various measures implemented in support of domestic franchise partners has been the negotiation of rental relief for COVID-19 impacted outlets.

During the 1H22 the Group leveraged its leasing portfolio and engaged closely with landlords to negotiate additional abatements and deferrals in connection with franchised store leases. A number of landlords have provided formal notification of additional rental abatements and deferrals granted for the 1H22 period.

As at 2 July 2021, gross lease arrears reported by landlords in respect to franchised store leases where the Group is head on lease were c.$9.0 million. Whilst that arrears position was reduced during the course of 1Q22 as payments by franchise partners and the application of rental abatements were applied, the subsequent onset of extended Delta related Government trading restrictions (including lockdowns) contributed to an escalation of total arrears. That escalation was compounded by uncertainty in connection with Government financial support, particularly in Victoria where, despite the significant impact of Government imposed restrictions, Government support initiatives did not extend to many RFG Brand System outlets given eligibility criteria. Consequently, the lease arrears position with respect to franchised store leases where the Group is head on lease was c.$10.6 million as at 31 December 2021. The Group has retained a provision of c.$8.0 million against lease receivable balances from franchise partners with respect to this lease arrears position as at the end of 1H22.

Given the aforesaid provision, together with the ongoing impact of COVID-19 on a large proportion of the Group's domestic network population, the Company continues to prioritise engagement with relevant stakeholders to procure more favourable leasing outcomes (including additional relief in response to the ongoing impacts of COVID-19 and franchise partner payment of rental arrears), leveraging the Government mandated rules to regulate rental arrangements within heavily impacted COVID-19 environments recently extended in NSW and Victoria. Close engagement with franchise partners together with proactive credit management processes also provide confidence regarding continuing payment by franchise partners towards the current arrears, particularly where trading conditions improve. As at the date of this report landlords have reported circa $2.3 million in payments have been received against arrears subsequent to 31 December 2021.

Negotiations regarding relief arrangements have been and remain an ongoing priority, and the Group continues to anticipate a requirement for rent relief to prevail for the duration of the pandemic and a reasonable recovery period thereafter.

During the 1H22 the Company continued to invest in aggressive marketing activity, consumer engagement and menu innovation. More than 60 campaigns/product launches were conducted during the period, focused on:

- Driving additional network revenues for the Group's franchise partners;
- Showcasing 'hero' products, core brand competencies and strategic partnerships;
- Introducing new products, such as the QSR Division's plant-based protein range, to encourage trial;

Overview (continued)

- Leveraging Brand System milestones, including Donut King's 40th and Pizza Capers' 25th anniversaries; and
- Leveraging the new Loyalty Platforms introduced to all Brand Systems (save Mobile) during FY21.

As noted previously, these initiatives have contributed to a 7.4% increase in network ATV versus PCP.

Given the relatively low ATV and strong value proposition offered by each of RFG's Brand Systems, which affords scope and flexibility to effectively manage retail price points across the Group's portfolio, the products offered within each of the Company's Brand Systems remain eminently affordable for consumers.

This fact, together with the strong ATV demonstrated in 1H22 and prior periods, provides confidence regarding future network performance once less volatile trading conditions return.

Complementing the above activities has been a continuing focus on new outlet growth and the execution of various strategic growth drivers.

New outlet growth was frustrated by COVID-19's impact during 1H22, including travel restrictions and the postponement of recruitment events, resulting in the establishment of two new outlet and two new Donut King mobile vans. However, a strong new franchise partner candidate pipeline has been developed and will be supported by a number of initiatives to drive new outlet growth, including the February 2022 launch of Donut King's new 'mini' kiosk concept that incorporates a smaller footprint and reduced establishment cost to afford entry into non-traditional markets and broader appeal to existing and potential franchise partners.

More than 40 1H22 existing store franchise partner resales and renewals, which exceeded expectations, also demonstrated the continuing relevance and attraction of RFG's Brand Systems and franchise offer.

In terms of those strategic growth drivers being developed by the Company, further progress was achieved:

- The Donut King mobile van model was launched during 1Q22 and has generated strong interest. Three vans have been established and a further six are pending vehicle delivery from overseas;
- Design of the new Gloria Jean's Drive Thru model has been finalised and, pending Development Approval, is scheduled for 2022 establishment within South East Queensland. A further three additional sites are significantly advanced and are underpinned by a further pipeline of potential sites, albeit COVID-19 and or developer related delays have frustrated rollout; and
- The Crust intra-territory satellite store program will soon be trialled within three territories (following site identification and or lease finalisation) following commitments obtained from three franchise partners. An additional pipeline of 10 trial candidates has also been developed.

As well, trial of the new Gloria Jean's food menu was further advanced at the Wendouree concept store. Results to date continue to be positive, however, given the challenges associated with proper trial assessment during a COVID-19 influenced environment, the trial will be extended to additional store environments shortly. Testing in respect of virtual CMS activated digital menu boards to support day-part offers, and loyalty platform linked digital ordering and payment options, has also been implemented. Whilst further testing of the new menu remains necessary, it is intended that elements (including cookies and muffins) will be fast-tracked amongst the broader network.

At an international level, the majority of RFG's network welcomed improved trading conditions and post-COVID-19 recovery, contributing to a c.13.7% increase versus PCP in international revenues derived from that network.

Master Franchise Partners reported 36 new outlets (32 outlets and 4 vans) during the 1H22, offset by 56 closures (50 outlets and 6 vans). The majority of these closures are considered attributable to COVID-19, with 35.0% of them confined to the UAE territory which was substantially impacted by the pandemic, but has since stabilised.

Those international outlets which opened during the 1H22 included the first new Gloria Jean's outlet in the USA since 2018, together with establishment of the first two operational stores within the Gloria Jean's Vietnam territory.

Many of the Group's Master Franchise Partners are now actively planning new store growth, contributing to a 2H22 pipeline of more than 50 outlets across 16 countries. When coupled with the 1H22 establishment of a supply-chain solution for Donut King that will enable entry of that brand into the Middle East, North African and Central European markets, the Company is buoyed by the strong momentum being demonstrated by its International Division and retains considerable optimism regarding its potential contribution to RFG's future success.

Consistent with other aspects of the Group's business, the impact of the COVID-19 pandemic on Di Bella Coffee performance throughout 1H22 was acute. Reduced ordering volumes across franchise and independent foodservice customers, influenced by Government trading restrictions and work from home arrangements, was compounded by increased raw material costs which adversely impacted gross margin.

Overview (continued)

A combination of increased global freight costs and environmental factors contributed to a rapid increase in Arabica green bean prices during 2021, resulting in a circa 10-year high in November. In order to provide additional support to franchise partners experiencing extremely challenging trading conditions, RFG absorbed these additional costs for the majority of 1H22. Wholesale coffee prices were increased for both franchise and independent foodservice customers in December 2021, and the Company expects to see the positive impact of this during the 2H22.

Offsetting these factors has been the positive impact of additional restructuring activity undertaken in respect of the Coffee Division during FY21, which continued into the 1H22. The cessation of direct coffee roasting activities in the USA and New Zealand markets and establishment of a Dubai based contract roasting solution to more efficiently service the Group's international network implemented in FY21 were fully operational in 1H22. The non-renewal of low margin major supermarket supply contracts was also undertaken, resulting in a reduction in gross segment revenues of $2.0 million, with minimal impact on the overall profitability of the division. Further restructuring of Di Bella Coffee's domestic operations to extract further efficiency opportunities continues.

At a Group level:

- During the 1H22, the Group recorded a total of $0.3 million in profit before tax in COVID-19 related Government assistance relating to its international operations, which was significantly less than the PCP where the Group recognised $4.0 million in profit before tax under the Australian Government's JobKeeper program and similar international programs, with $3.8 million received in cash by 31 December 2020;
- The Company is pursuing a number of options regarding the refinance of its senior debt facility, which is now current and due to mature in November 2022, and will keep the market informed of developments; and
- RFG continues to actively engage with its trade and supply partners to best manage supply chains, respond to the various challenges COVID-19 has presented, and ultimately provide the Group and its franchise partners with a supply chain that remains responsive to the needs of the Group's business and network. Save for the green bean raw material pressures noted above, the Group has largely maintained existing service levels across its supply chain, with additional stock holdings and strong communications ensuring minimal disruption.

The ongoing impact of the COVID-19 pandemic demonstrates the ongoing uncertainty the Group considers is likely to prevail for the immediate future. Consequently, there exists increased risk in connection with potential store closures, which the Group is mitigating via investment in corporate outlet management capabilities and ongoing engagement with its landlord portfolio, where stronger relationships have been developed over the course of the pandemic, and franchise partners, including in relation to COVID-19 related rental relief. Whilst the litigation which the Group is currently involved (refer below) also creates a level of ongoing uncertainty, the Company is buoyed by the many positive indicators evident in RFG's FY21 and 1H22 performances, the resilience inherent in RFG's Brand Systems, and the unique attributes of the Group's multi-brand business model.

Having regard to the foregoing uncertainty, the Group maintains heightened monitoring of existing and further impacts attributable to the COVID-19 pandemic, and the potential for further franchised store closures as a consequence. The Group continues to work with its franchise partner community and other stakeholders to minimise these potential impacts where reasonably possible.

Notwithstanding the foregoing uncertainty, significant progress on RFG's turnaround journey was made during 1H22. Whilst there remains much work to do, including in respect of the rental arrears matters outlined above, and tempered by the ongoing distraction and litigation risk attributable to litigious action in connection with historical matters, your Directors continue to approach the future with cautious confidence.

1H22 Results

The following table summarises the Group's results for the half years ending 31 December 2021 and 31 December 2020:

Item	1H22	1H21	Change
Revenue (including discontinued operations)	$54.7m	$85.1m	($30.4m)
Revenue from continuing operations	$54.7m	$60.5m	($5.8m)
NPAT	$5.1m	$3.9m	$1.2m
NPAT (Underlying)(1)	$7.4m	$12.0m	($4.6m)
EBITDA	$11.8m	$12.2m	($0.4m)
EBITDA (Underlying)(1)	$9.3m	$14.4m	($5.1m)

(1) These figures are not subject to audit or review.

1H22 Results (continued)

1H22 Underlying EBITDA of $9.3 million, which excludes the contribution from discontinued operations and the impact of AASB 15 and AASB 16, was $5.1 million below PCP, including a reduction in EBITDA compared to PCP of $3.7 million in COVID-19 related Government assistance, and evidenced the significant impact of COVID-19 on the Group's performance.

Statutory revenue from continuing operations for 1H22 was $54.7 million, representing a decrease of $5.8 million on PCP.

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

- A $0.4 million increase in Brand System segment revenues, excluding AASB 15 and AASB 16:
  - A $2.4 million decrease in Brand System and marketing revenues, consistent with the impact of COVID-19 on Brand System network sales and the reduction in trading stores compared to PCP; offset by
  - A $2.8 million increase in revenues from the trading of corporate stores compared to PCP.
- A $5.2 million decrease in Di Bella Coffee revenue, attributable to the non-renewal of low margin major supermarket supply contracts ($2.0 million), and the balance attributable to the impact of COVID-19 on reduced order volumes and lost customers within the domestic café/independent foodservice sector; and
- A $1.0 million decrease on PCP attributable to AASB 15 and AASB 16 related revenues.

Cash inflows from operating activities for 1H22 were $5.6 million (1H21: $9.0 million).

Operationally, net cash inflows were attributable to a return to more normalised operations in 1H22. 1H21 benefited from a $3.8 million inflow from the proceeds of JobKeeper and other Government assistance payments received. Gross cash inflows and gross cash outflows reduced in 1H22 compared to PCP, due to the sale of the Dairy Country business on 19 October 2020.

Restructuring costs

Restructuring costs from continuing operations net of provisioning recognised in prior periods for the half-year were $3.3 million, comprising consulting costs associated with corporate restructure and regulatory response activities, software, salary and associated costs of functions and roles identified as redundant.

Contingent Liabilities

The proceedings commenced by the ACCC in 1H21 against certain members of the Group (ACCC Proceedings) have not, to date, been resolved or finally determined. The Company, along with two of its related entities, is also a respondent to representative proceedings brought in the Federal Court of Australia during 1H22 by a former Michel's Patisserie franchisee on behalf of herself and other Michel's Patisserie franchisees, former franchisees and their related parties (Michel's Patisserie Class Action). In addition, the Group may potentially be the subject of a shareholder class action claim, albeit no such claim has yet been commenced. Provisions for costs incurred but unpaid at balance date have been raised in line with the Group's accounting policy.

ACCC Proceedings

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

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

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

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

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

The Group is defending the Proceedings.

Contingent Liabilities (continued)

Michel's Patisserie Class Action:

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

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

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

The proceedings have been commenced by way of Originating Application and Concise Statement and not by way of a fully particularised Statement of Claim. The representative applicant has agreed to file a Statement of Claim in the proceedings following determination of an interlocutory application filed by the applicant seeking declarations from the Court that certain litigation funding arrangements relevant to the proceedings are not subject to the AFSL and related requirements imposed by the *Corporations Amendment (Litigation Funding) Regulations 2020 (Cth)*. The Company intends to oppose that application, a date for the hearing of which is yet to be set as at the date hereof.

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

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

Possible Class Action:

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

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

Senior Debt Facilities

As reported at 31 December 2021, the Group had $26.0 million in unrestricted cash, and senior debt, ancillary facilities and financial guarantees of $46.2 million, resulting in a sustainable net debt position of $20.2 million. The Group's senior debt facilities have been classified in current liabilities at reporting date, as these facilities mature in November 2022. The Group is actively engaged in exploring the options for refinancing or repaying the facilities, via debt refinancing, new equity raising and/or sale of assets, and has received preliminary expressions of interest from independent parties at the date of this report. Directors have confidence in successfully executing on one or a combination of the options referred to above by November 2022.

Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. The Group had a net current liability position of $33.3 million at 31 December 2021, which includes the classification of the Group's senior debt facilities in current liabilities.

The Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business, whilst remaining compliant with all current lending covenants for at least 12 months from the date of this report.

Divisional Operating Review

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

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

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

Franchise Operations - Domestic

Segment EBITDA for Franchise Operations in 1H22 was $14.0 million and included $5.1 million of EBITDA contribution from AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases).

EBITDA from domestic underlying operations (excluding AASB 15 and AASB 16) was $7.3 million, representing a decrease of $5.9 million on PCP attributable to the impact of COVID-19 on trading results, and the reduction of trading store numbers experienced in 2H21 and 1H22.

Factoring the impact of COVID-19, Same Store Sales (SSS) for 1H22 compared to PCP resulted in a 2.5% decline across the network.

The QSR Division, which demonstrated SSS growth of +6.8% on PCP, was a standout performer during the period. The Crust Gourmet Pizza Brand System in particular enjoyed SSS and Customer Count growth of +7.7%, without impacting ATV which remained flat versus PCP.

Brumby's Bakery, which continues to successfully engage with local communities via its 'local born and bread' positioning, also delivered positive SSS growth of +0.5%, aided by a 2.3% increase in ATV versus PCP.

The Gloria Jean's Drive Thru network also demonstrated its continuing relevance and appeal during a COVID-19 influenced environment, achieving SSS growth of +11.6% on PCP.

These respectable performances were offset by the considerable impact of significant customer count declines amongst those Brand Systems predominantly situated within shopping centre environments and most impacted by COVID-19 measures, particularly within NSW and Victoria. During 1H22, of those same stores suffering turnover declines of more than 25% nationally, c.73% of the decline has come from metro based locations.

1H22 outlet closures comprised 48 domestic traditional outlets, and 21 mobile vans, including exiting non-trading sites. As at 31 December 2021, domestic sites totalled 878 (including non-trading sites).

Two new outlets were established domestically during the half year, via the Group's Multi-Site Owner franchise partner complement, along with 2 new Donut King vans. In addition, the Group continued to progress further initiatives to support a return to enhanced new outlet growth in the future, including the development of best practice systemisation in connection with franchise partner life-cycle, focus on securing new sites for proliferation of the Gloria Jean's Drive Thru model, and enhancing focus, support and incentivisation measures in connection with the Company's multi-store franchise partner complement which has been identified as a key pillar upon which future network growth will be pursued.

Franchise operations - International

EBITDA from underlying operations (excluding AASB 15 and AASB 16) was $1.5 million, representing an increase of $1.1 million on PCP attributable to the benefits of restructuring activities completed in FY21 and to improving trading conditions within international licensed territories.

During 1H22, there was a net reduction of 2 international territory licences as non-performing arrangements, where development quotas had either not been achieved or it was considered that the relevant territory was not viable long-term, were brought to an end. Two existing Master Franchise Agreements were renewed during the period.

Master franchise partners reported 32 new stores, and 4 new vans, within licensed international territories, offsetting the reported closure of 50 stores and 6 vans, the majority of which were attributable to the impact of COVID-19.

As at 31 December 2021, international operations comprised 55 international territory licenses across 42 countries, and a network population of 570 outlets.

Di Bella Coffee

Underlying 1H22 segment EBITDA for Di Bella Coffee's wholesale coffee operations was $0.5 million, reflecting decreased earnings on independent coffee channel sales impacted by reduced trading attributable to local COVID-19 measures, and a customer decline in the independent contract roasting sector.

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

Di Bella Coffee (continued)

1H22 benefits were derived from additional restructuring activities commenced in FY21, focused on driving cost and operational efficiencies amongst Di Bella Coffee's domestic and international manufacturing operations. This activity included the closure of New Zealand and North American coffee roasting facilities, and outsourcing of wholesale coffee production in those countries, coupled with the reduction in scale and cost base of domestic coffee roasting facilities. Additional restructuring activity is being undertaken to further improve efficiencies within this division.

Subsequent Events

Subsequent to 31 December 2021, various State Governments implemented additional COVID-19 related measures undertaken to contain outbreaks of the Omicron variant of the virus. The extent of adverse financial effects arising from these recently imposed restrictions, many of which remain in place, remains uncertain as at the date of this report.

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

Dividend

The Directors have resolved that no dividend will be declared or paid with respect to the 1H22 period.

Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 13 of the half-year financial report.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This Directors' Report is signed in accordance with a resolution of Directors made pursuant to s.306 (3) of the *Corporations Act 2001*.

RETAIL FOOD GROUP LIMITED

Mr Peter George
Executive Chairman

Robina, 23 February 2022

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

To the Directors of Retail Food Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Retail Food Group Limited for the half-year ended 31 December 2021 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Stephen Board
Partner

Brisbane
23 February 2022

Independent Auditor's Review Report

To the shareholders of Retail Food Group Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Retail Food Group Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Retail Food Group Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2021;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Retail Food Group Limited (the Company) and the entities it controlled at the end of the half-year or from time to time during the half-year

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

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

Responsibilities of the Directors for the half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001; and*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

S Board

Stephen Board
Partner

Brisbane
23 February 2022

DIRECTORS' DECLARATION

In the opinion of the Directors of Retail Food Group Limited ("the Company"):

(1) the condensed consolidated financial statements and notes set out on pages 17 to 42, are in accordance with the Corporations Act 2001 including:

  (a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the six month period ended on that date, and
  (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001, and

(2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

RETAIL FOOD GROUP LIMITED

Mr Peter George
Executive Chairman

Robina, 23 February 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Consolidated	Notes	1H22 $'000	1H21 $'000
Continuing operations			
Revenue from contracts with customers	4	49,916	56,108
Cost of sales	5	(12,945)	(16,672)
Gross profit		36,971	39,436
Other revenue	4	4,753	4,387
Other gains and losses	5	63	1,153
Selling expenses	5	(5,062)	(1,333)
Marketing expenses		(6,465)	(6,323)
Occupancy expenses		(1,169)	(370)
Administration expenses		(9,561)	(9,313)
Operating expenses	5	(7,653)	(7,922)
Finance costs		(1,694)	(1,865)
Other expenses	5	(5,036)	(9,234)
Profit before income tax		5,147	8,616
Income tax (expense)/benefit		(471)	-
Profit for the period from continuing operations		4,676	8,616
Profit/(loss) from discontinued operations	12	400	(4,752)
Profit for the period		5,076	3,864
Other comprehensive profit/(loss), net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations		80	(120)
Other comprehensive profit/(loss) for the period, net of tax		80	(120)
Total comprehensive income for the period		5,156	3,744
Total comprehensive income is attributable to:			
Equity holders of the parent		5,156	3,744
Earnings per share			
From continuing operations:			
Basic (cents per share)	11	0.2	0.4
Diluted (cents per share)	11	0.2	0.4
Total:			
Basic (cents per share)	11	0.2	0.2
Diluted (cents per share)	11	0.2	0.2

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

Consolidated	Notes	1H22 $'000	FY21 $'000
Current assets			
Cash and cash equivalents	6	32,158	34,649
Trade and other receivables		8,030	7,148
Finance lease receivables	7	21,479	24,922
Other financial assets		1,477	1,541
Inventories		5,967	4,287
Other		3,177	4,361
Total current assets		72,288	76,908
Non-current assets			
Finance lease receivables	7	32,946	37,161
Other financial assets		652	576
Property, plant and equipment		22,533	20,972
Intangible assets	8	230,471	230,705
Other		3,086	3,443
Total non-current assets		289,688	292,857
Total assets		361,976	369,765
Current liabilities			
Trade and other payables		8,651	9,248
Borrowings		41,861	9,812
Lease liabilities	7	45,293	45,297
Current tax liabilities		-	708
Provisions		6,277	6,045
Unearned income		2,732	3,727
Other		784	647
Total current liabilities		105,598	75,484
Non-current liabilities			
Borrowings		-	34,592
Lease liabilities	7	56,093	63,682
Deferred tax liabilities		548	-
Provisions		5,703	6,479
Unearned income		10,607	11,508
Other		170	164
Total non-current liabilities		73,121	116,425
Total liabilities		178,719	191,909
Net assets		183,257	177,856
Equity			
Issued capital	9	615,541	615,145
Reserves		6,604	6,191
Retained earnings	10	(438,888)	(443,480)
Total equity		183,257	177,856

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Consolidated	Notes	Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
		$'000	$'000	$'000	$'000
Balance at 1 July 2020		614,935	6,863	(445,713)	176,085
Profit for the period		-	-	3,864	3,864
Transfer from retained earnings to marketing fund reserve		-	192	(192)	-
Other comprehensive loss		-	(120)	-	(120)
Total comprehensive income/(loss)		-	72	3,672	3,744
Recognition of share-based payments		-	147	-	147
Transfer from equity-settled employee benefits reserves		210	(210)	-	-
Balance at 31 December 2020		615,145	6,872	(442,041)	179,976
Balance as at 3 July 2021		615,145	6,191	(443,480)	177,856
Profit for the period	10	-	-	5,076	5,076
Transfer from retained earnings to marketing fund reserve		-	484	(484)	-
Other comprehensive income		-	80	-	80
Total comprehensive income/(loss)		-	564	4,592	5,156
Recognition of share-based payments		-	245	-	245
Transfer from equity-settled employee benefits reserves	9	396	(396)	-	-
Balance at 31 December 2021		615,541	6,604	(438,888)	183,257

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Consolidated	Notes	1H22 $'000	1H21 $'000
Cash flows from operating activities			
Receipts from customers		53,756	97,574
Payments to suppliers and employees		(46,964)	(85,969)
Interest and other costs of finance paid		(500)	(2,612)
Income taxes paid		(709)	-
Interest received		12	22
Net cash provided by operating activities		5,595	9,015
Cash flows from investing activities			
Repayment of advances to other entities		412	319
Payments for property, plant and equipment		(1,535)	(1,272)
Proceeds from sale of property, plant and equipment		99	69
Proceeds from sale of business	12	900	3,112
Net cash (used in)/provided by investing activities		(124)	2,228
Cash flows from financing activities			
Lease payments		(5,640)	(3,873)
Repayment of borrowings		(2,500)	(4,510)
Net cash used in financing activities		(8,140)	(8,383)
Net (decrease)/increase in cash and cash equivalents		(2,669)	2,860
Cash and cash equivalents at the beginning of the period		34,649	40,248
Effects of exchange rate changes on cash and cash equivalents		178	(50)
Cash and cash equivalents at end of period	6	32,158	43,058

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contents of the notes to the financial statements

1. Significant changes in the reporting period

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

Impact of coronavirus (COVID-19)

The COVID-19 pandemic and the measures undertaken to contain it have materially changed the global economic outlook, causing large-scale economic disruption in all markets the Group operates in. The economic disruption could lead to rising levels of unemployment, and elevated levels of credit losses from business insolvencies and ongoing disruption to trading conditions. In an attempt to mitigate the economic effect of the COVID-19 pandemic, governments, regulators and central banks have provided significant fiscal and regulatory support in the 2020 and 2021 years to allow businesses to remain liquid and solvent, and to support employees and the unemployed. Some residual government and industry support measures are continuing.

The Group has carefully considered the impacts of COVID-19 in preparing its financial statements for the period ended 31 December 2021. The severe disruption to the retail food and beverage sector caused by Government imposed COVID-19 restrictions, and the franchised store lease arrears position at 31 December 2021 discussed below, were deemed indicators of impairment, and therefore required that assets held by the Group be tested for impairment.

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

Receivables and other financial assets

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

The Group has recognised a provision for credit losses against greater than 95% of receivables and other financial assets that are over 30 days past due.

Lease assets and liabilities

As at 31 December 2021, landlords reported with respect to franchised store leases where the Group is head on lease (HOL) that there were lease arrears accrued over the COVID-19 period of $10.6 million (FY21: $9.0 million). This amount includes $0.5 million of amounts on deferral payment arrangements with landlords. The lease arrears balances reported to the Group by landlords are on a net basis, and include the application by landlords of COVID-19 rental relief in the form of rental abatements.

The Group has recognised a current lease liability, with respect of the arrears, at 31 December 2021 for the $10.6 million (FY21: $9.0 million), and a corresponding gross lease receivable of $10.6 million (FY21: $9.0 million) from the respective franchise partners occupying the stores to which these arrears apply. An expected credit loss provision (ECL) of $8.0 million (FY21: $6.4 million) was recognised against the lease receivable balance.

In addition, the Group assessed the underlying right-of-use (ROU) assets and lease receivable assets for indicators of impairment. The value of lease assets impaired reduced by $1.7 million, which is line with the reduction in the underlying lease liability due to the unwind over the lease period. Lease assets were impaired when the franchised outlets were considered a risk of becoming non-viable due to current trading performance and the uncertain duration of COVID-19 and its related impacts. Refer to Note 7.

Assessment of impairment of non-financial assets

The Group tested goodwill and indefinite life intangible assets for impairment, updating the assumptions, and cash flow forecasts, where relevant, to reflect the 1H22 actual and potential impacts of COVID-19, including referring to independent expert long-term forecasts for the markets in which the Group operates. The Group assessed that the carrying values of indefinite life intangible assets and goodwill were not further impaired as at 31 December 2021.

The actual results achieved by the Group's cash generating units for the half year were comparable to the forecasts used in the 2 July 2021 impairment models and the key assumptions made at 31 December 2021 are consistent with those made at 2 July 2021. Refer to the 2 July 2021 financial report for further details.

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

No other property, plant and equipment was assessed as impaired as at 31 December 2021.

1. *Significant changes in the reporting period (continued)*

Contingent Liabilities

The Group has disclosed contingent liabilities with respect of the current ACCC proceedings and Michel's Patisserie Class Action (the outcomes of which remain uncertain) and a possible shareholder class action. If the ACCC or lead applicant in the Michel's Class Action are successful in either proceeding, this could result in the imposition of potentially significant penalties, damages and or other adverse outcomes (as sought by the ACCC or Michel's Class Action applicant, respectively). It is currently not possible to determine whether a shareholder class action or any other proceedings will be commenced, and what the financial impact of such proceedings, if any, may be for the Group in the future. In the event legal proceedings are initiated, the Group intends to vigorously defend its position. Refer to Note 15.

Going concern

The financial statements have been prepared on the basis that the Group will continue as a going concern. As reported at 31 December 2021, the Group had $26.0 million in unrestricted cash, and senior debt, ancillary facilities and financial guarantees of $46.2 million, resulting in a sustainable net debt position of $20.2 million. The Group had a net current liability position of $33.3 million at 31 December 2021, which includes the classification of the Group's senior debt facilities in current liabilities as these facilities mature in November 2022, and net liabilities arising from recognition of lease assets and liabilities under AASB 16 - Leases of $23.8 million.

The Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business, whilst remaining compliant with all current lending covenants for at least 12 months from the date of this report.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. In assessing the reasonableness of cash flow projections Directors have had regard to the track record of underlying resilience of the business demonstrated during the circa 2 years of COVID-19 impact, as well as the observed propensity for trading to rapidly recover as circumstances normalise. These cash flow projections assume the Group can successfully refinance or repay its senior debt facility via debt refinancing, new equity raising and/or sale of assets by November 2022. In the event the effects of COVID-19 continue for an extended period and result in significant financial impacts to the Group, this may impact the Group's ability to execute on the options referenced above and or pay its debts as and when they fall due in the longer term. There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of its impact and the speed of economic recovery. In addition, as outlined above in Note 1 Contingent Liabilities, there remains uncertainty with respect to the current ACCC proceedings and possible Class Actions, which if unfavourable may impact the Group's ability to refinance.

The Group is actively engaged in exploring the options referred to above and has received preliminary expressions of interest from independent parties at date of this report. Directors have confidence in successfully executing on one or a combination of the options referred to above by November 2022.

For a detailed discussion about the Group's performance and financial position please refer to the 1H22 Results overview provided on pages 4 to 11 of this Report.

2. 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 predominantly in Australia, New Zealand and the United States. Retail Food Group Limited's registered office and its principal place of business are as follows:

Registered Office	Principal Administration Office
c/- KPMG, Level 11	Level 4
2 Corporate Court	35 Robina Town Centre Drive
Bundall QLD 4217	Robina QLD 4226

The principal activities of the Company and its subsidiaries (the Group) during the course of the half-year were the:

- Intellectual property ownership of the Donut King, Brumby's Bakery, Michel's Patisserie, Esquires Coffee Houses (Australia & New Zealand), Pizza Capers Gourmet Kitchen, Crust Gourmet Pizza Bar, The Coffee Guy, Café2U, Gloria Jean's Coffees and It's A Grind Brand Systems;

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

3. Segment information

3.1 Description of segments and principal activities

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

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

- Bakery/Café Division (incorporating the Michel's Patisserie, Donut King and Brumby's Bakery Brand Systems);
- QSR Division (incorporating the Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Coffee Retail Division (incorporating the Gloria Jean's Coffees, Esquires, It's A Grind, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating wholesale coffee operations); and
- Manufacturing and Distribution (discontinued operations) incorporating the Dairy Country business which was disposed of on 19 October 2020, and the Hudson Pacific business which was disposed of on 3 January 2020. The Manufacturing and Distribution segment is classified as discontinued operations in the 1H22 interim financial period, and the 1H21 comparative period.

3.2 Segment information provided to the Chief Operating Decision Makers

Segment Revenue

Revenue from external parties reported to the CODMs is measured in a manner consistent with that in the segment note. Sales between segments are carried out at arm's length and are eliminated on consolidation and identified as Inter-segment revenue as presented in Note 3.3.

Segment EBITDA

The CODMs assess the performance of the operating segments based on a measure of segment EBITDA.

Discontinued operations have been included for the purpose of presenting segment revenue and EBITDA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Segment information (continued)

3.3 Segment revenue

Information related to the Group's operating results per segment is presented in the following table.

Segment	Bakery Cafe		QSR Systems		Coffee Retail Systems [1]		Di Bella Coffee		Manufacturing and Distribution		Discontinued Operations [3]		Total Continuing Operations	
	1H22 $'000	1H21 $'000	1H22 $'000	1H21 $'000	1H22 $'000	1H21 $'000	1H22 $'000	1H21 $'000	1H22 $'000	1H21 $'000	1H22 $'000	1H21 $'000	1H22 $'000	1H21 $'000
External revenue	11,470	13,914	6,791	6,058	16,339	18,274	3,564	8,802	-	24,633	-	(24,633)	38,164	47,048
Impact of AASB 15 & AASB 16	2,399	2,417	226	508	2,047	2.786	112	45	-	-	-	-	4,784	5,756
External revenue - Marketing Funds	2,902	2,385	2,930	2,790	1,159	1,002	-	-	-	-	-	-	6,991	6,177
External revenue - Corporate stores	2,611	666	-	-	1,680	848	439	-	-	-	-	-	4,730	1,514
Inter-segment revenue	76	59	-	-	363	108	(439)	-	-	-	-	-	-	167
Segment revenue [2]	19,458	19,441	9,947	9,356	21,588	23,018	3,676	8,847	-	24,633	-	(24,633)	54,669	60,662
Operating EBITDA	2,626	6,212	3,233	3,331	2,976	4,142	488	825	-	961	-	(1,086)	9,323	14,385
Impact of AASB 15 & AASB 16	2,754	591	103	853	2,263	(442)	(223)	282	-	755	-	(755)	4,897	1,284
Underlying Segment EBITDA	5,380	6,803	3,336	4,184	5,239	3,700	265	1,107	-	1,716	-	(1,841)	14,220	15,669
Marketing Funds EBITDA													484	192
Restructuring and provisioning													(3,344)	(454)
Depreciation & amortisation													(4,519)	(4,926)
Finance costs													(1,694)	(1,865)
Profit before tax from continuing operations													5,147	8,616
Income tax (expense)/benefit													(471)	-
Profit/(loss) after tax for the period from continuing operations													4,676	8,616

(1) Coffee Retail System	Domestic		International Franchising	
	1H22 $'000	1H21 $'000	1H22 $'000	1H21 $'000
External revenue	11,802	14,285	4,537	3,989
Impact of AASB 15 & AASB 16	1,461	1,889	586	897
External revenue - Marketing Funds	1,159	1,002	-	-
External revenue - Corporate stores	1,680	848	-	-
Inter-segment revenue	363	108	-	-
Segment revenue	16,465	18,132	5,123	4,886
Operating EBITDA	1,501	3,712	1,475	430
Impact of AASB 15 & AASB 16	1,585	(1,564)	678	1,122
Underlying Segment EBITDA	3,086	2,148	2,153	1,552

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

	1H22 $'000	1H21 $'000
Revenue for the year – Statutory	54,669	60,495
Inter-segment revenue: eliminated on consolidation	-	167
Total segment revenue	54,669	60,662

(3) External revenue from discontinued operations represents external revenue from the Manufacturing and Distribution segment along with external revenue amounts that are also generated by the Manufacturing and Distribution business which are allocated to other segments of the Group. This allocation arises as the external customers are those of the relevant brand systems.

3. Segment information (continued)

3.4 Geographical information

An insignificant portion of the Group's activities in the period were located outside of Australia and hence, no geographical information has been disclosed.

4. Revenue and other revenue

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

Consolidated	1H22 $'000	1H21 $'000
Revenue from the sale of goods	21,375	25,462
Revenue from franchise agreements	25,693	27,486
Revenue from the sale of distribution rights	2,848	3,160
	49,916	56,108
Operating lease income	2,877	2,597
Other revenue	1,876	1,790
	4,753	4,387
	54,669	60,495

5. Profit for the period from continuing operations

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

Consolidated	1H22 $'000	1H21 $'000
Cost of sales	12,945	16,672
Other gains and losses:		
(Gain) on lease termination	(108)	(1,138)
Loss/(gain) on disposal of assets	45	(15)
Total other (gains) and losses	(63)	(1,153)
Selling expenses:		
Wages associated with operating corporate stores	2,815	802
Corporate store occupancy expenses	1,668	401
Corporate store operating expenses	579	130
Total selling expenses	5,062	1,333
Operating expenses:		
Wages	7,324	7,447
Franchise partner assistance	178	26
Repairs and maintenance	182	351
Other	(31)	98
Total operating expenses	7,653	7,922
Other expenses:		
Impairment loss on lease assets	1,168	6,709
Impairment loss/(gain) on trade and other receivables	(407)	(803)
Inventory related write-downs and provisioning	31	(61)
Provision increase/(decrease) & business restructuring	(102)	(1,937)
Depreciation of property, plant and equipment	4,348	4,704
Amortisation - other	171	222
Other	(173)	400
Total other expenses	5,036	9,234
Employee benefits expense:		
Equity settled share based payments	245	147
Government wage subsidies	(318)	(3,961)
Post-employment benefits (defined contribution plans)	1,073	973
Other employee benefits (wages and salaries)	13,768	14,277
Total employee benefits expense (1)	14,768	11,436

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

6. Cash and cash equivalents

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

6.1 Reconciliation of cash and cash equivalents

Consolidated	1H22 $'000	FY21 $'000
Cash and bank balances	32,158	34,649
Less: Restricted cash	(6,176)	(5,417)
	25,982	29,232

6.2 Restricted cash

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

7. Leases

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

7.1 Amounts recognised in the consolidated statement of financial position

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

Consolidated	Notes	1H22 $'000	FY21 $'000
Finance lease receivable			
Current			
Lease receivable		30,460	33,679
Allowance for expected credit loss		(9,592)	(9,344)
		20,868	24,335
Non-current			
Lease receivable		38,426	44,584
Allowance for expected credit loss		(5,486)	(7,454)
		32,940	37,130
Operating lease receivables (1)			
Current			
Lease receivable - ROU assets		3,370	2,564
Allowance for expected credit loss		(2,759)	(1,977)
		611	587
Non-current			
Lease receivable - ROU assets		22	84
Allowance for expected credit loss		(16)	(53)
		6	31
		54,425	62,083
Right-of-use (ROU) assets			
Land & buildings		17,267	16,652
Vehicles & equipment		76	103
		17,343	16,755
Lease liabilities			
Current		45,293	45,297
Non-current		56,093	63,682
		101,386	108,979

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

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

7. Leases (continued)

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

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

Consolidated	1H22 $'000	FY21 $'000
Balance at the beginning of the period	18,828	11,438
Reclassification from 'right-of-use assets'	136	3,128
Lease impairment recognised during the period	(2,530)	(1,158)
Reclassification to 'trade receivables - loss allowance' (2)	(1,403)	(942)
Expected credit loss on rental arrears & deferrals	2,822	6,362
Balance at the end of the period	17,853	18,828

(2) Allowance for expected credit loss is reclassified to trade receivables to cover allowance for unpaid rent on impaired leases at the time the rent is recharged to the franchise partner.

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

	1H22 $'000	FY21 $'000
Within 1 year	35,364	38,976
Between 1 and 2 years	17,858	21,160
Between 2 and 3 years	11,684	13,604
Between 3 and 4 years	6,713	7,814
Between 4 and 5 years	3,126	3,256
Later than 5 years	3,096	2,607
	77,841	87,417

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

	1H22 $'000	FY21 $'000
Within 1 year	10,452	9,612
Between 1 and 2 years	7,820	7,741
Between 2 and 3 years	5,123	5,190
Between 3 and 4 years	3,471	3,203
Between 4 and 5 years	2,115	1,790
Later than 5 years	904	2,517
	29,885	30,053

7. Leases (continued)

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

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

	1H22 $'000	1H21 $'000
Operating lease income	2,877	2,597
Finance lease interest income	1,316	2,018
Interest expense (finance lease)	(1,316)	(2,018)
Interest expense (operating leases)	(1,010)	(1,074)
Depreciation expense of ROU assets	(3,774)	(4,171)
Impairment charges of ROU assets	(1,942)	(1,935)
Expected credit loss - lease receivables	774	(4,774)
Gain on lease modification	108	1,138

The total cash outflow for leases during the half-year to 31 December 2021 was $5.6 million (1H21: $3.9 million)

7.3 Make-good provisions

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

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

8. Intangible assets

8.1 Intangible assets

			Indefinite Life		Finite Life	Total
		Goodwill	Brand Networks	Intellectual Property Rights	Other	
Consolidated	Notes	$'000	$'000	$'000	$'000	$'000
Gross carrying amount						
Balance as at 1 July 2020		273,057	429,487	5,337	16,550	724,431
Exchange differences		-	-	-	(10)	(10)
Disposals		-	-	-	(11,300)	(11,300)
Balance as at 2 July 2021		273,057	429,487	5,337	5,240	713,121
Exchange differences		-	-	-	(11)	(11)
Disposals		-	-	-	(3,000)	(3,000)
Balance as at 31 December 2021		273,057	429,487	5,337	2,229	710,110
Accumulated amortisation and impairment losses						
Balance as at 1 July 2020		(206,220)	(271,190)	-	(8,933)	(486,343)
Amortisation expense		-	-	-	(587)	(587)
Disposals		-	-	-	4,514	4,514
Balance as at 2 July 2021		(206,220)	(271,190)	-	(5,006)	(482,416)
Amortisation expense		-	-	-	(171)	(171)
Gain/(loss) on disposal		-	-	-	(52)	(52)
Disposals		-	-	-	3,000	3,000
Balance as at 31 December 2021		(206,220)	(271,190)	-	(2,229)	(479,639)
Net book value						
As at 2 July 2021		66,837	158,297	5,337	234	230,705
As at 31 December 2021		66,837	158,297	5,337	-	230,471

8. Intangible assets (continued)

8.2 Overview

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

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

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

In assessing the carrying value of RFG's intangible assets, the Directors have based their assessment and subsequent impairment position to reflect both the Group's expected CY22 sustainable earnings, including assumptions to reflect actual impacts of COVID-19 experienced by the Group to date, and future potential impacts of COVID-19 on the Group. The carrying value does not exceed the recoverable value of the assets and therefore no further impairment is recognised.

8.3 Useful Life

Brand Networks

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

8.4 Assessment of cash-generating units

Indefinite and finite life intangible assets

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

Goodwill

Goodwill is monitored by management at the level of the four operating segments identified in Note 3 and is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill.

8.5 Allocation of goodwill to cash-generating units

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

Goodwill allocation	1H22 $'000	FY21 $'000
Bakery/Café Systems	37,168	37,168
QSR Systems	12,431	12,431
Coffee Retail Systems	17,238	17,238
	66,837	66,837

8. Intangible assets (continued)

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

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

Indefinite life intangibles allocation	1H22 $'000	FY21 $'000
Donut King Brand System	36,037	36,037
Brumby's Bakery Brand System	20,552	20,552
Michel's Patisserie Brand System	5,010	5,010
Crust Gourmet Pizza Bars Brand System	41,932	41,932
Café2U Brand System	5,670	5,670
Gloria Jeans Brand System	44,783	44,783
Di Bella Coffee	9,650	9,650
	163,634	163,634

8.7 Key assumptions used for calculating recoverable amounts

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

The FVLCD used cash flow projections based on internal forecasts for the CY22 year extended over the subsequent 4 year period and applied a terminal value calculation using estimated growth rates approved by the Board. The expected costs of disposal for each segment are deducted from the recoverable amount to determine fair value less costs of disposal.

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

Impact of COVID-19 on key assumptions
There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In the 1H22 period as a result of COVID-19 the Group experienced reduced revenues in franchise and coffee operations, temporary and permanent closures of franchised stores, international territories and coffee customers, and incurred additional costs and experienced reduced cash inflows from the provision of franchise partner and customer support initiatives.

Year 1 cash-flows
The Group determined the recoverable amount of each CGU and operating segment based on a scenario that includes assumptions and cash flow forecasts to reflect actual impacts of COVID-19 experienced by the Group to date as discussed, and future potential impacts of COVID-19. CY22 year one cash flow projections are based on internal forecasts. The Group prepared a range of forecast scenarios for the CY22 year, and selected the lower case scenario for the purposes of impairment testing, which anticipates reduced revenues in franchise and coffee operations, temporary and permanent closures of franchised stores, international territories and coffee customers, and ongoing provision of franchise partner and customer support initiatives prevailing across the year.

Year 2 cash-flow growth
In preparing year two forecast scenario's, the Group utilised certain internal forecasting and referred to independent experts long-term forecasts (incorporating their COVID-19 assumptions), for the markets in which the Group operates, as a basis for selecting cash-flow growth rates in years two.

Year 3 to 5 cash-flow growth
In preparing forecast scenario's, the Group referred to independent experts long-term forecasts (incorporating their COVID-19 assumptions), for the markets in which the Group operates as a basis for selecting cash-flow growth rates in years three to five.

8. Intangible assets (continued)

8.7 Key assumptions used for calculating recoverable amounts (continued)

Terminal growth

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

The lower case scenario adopted for impairment testing incorporating the internal forecasting and growth rates nominated assumes the extent and duration of recovery to the FY21 EBITDA base by end FY26.

Discount Rates

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

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

Cash-generating unit	Average EBITDA growth rate years 3 - 5	Long term growth rate	1H22 Pre-tax discount rate	FY21 Pre-tax discount rate
Operating Segments for Goodwill testing				
Bakery/Café Systems	1.8%	1.2%	12.20%	12.20%
QSR Systems	2.0%	2.0%	12.10%	12.10%
Coffee Retail Systems	1.8%	1.3%	12.40%	12.40%
Di Bella Coffee	4.0%	2.0%	11.80%	11.80%
Brand Systems				
Donut King Brand System	2.5%	2.0%	12.00%	12.00%
Brumby's Bakery Brand System	1.0%	0.5%	12.70%	12.70%
Michel's Patisserie Brand System	2.0%	1.0%	11.90%	11.90%
Crust Gourmet Pizza Bars Brand System	2.0%	2.0%	12.10%	12.10%
Café 2U Brand System	1.6%	0.5%	12.80%	12.80%
Gloria Jeans Brand System	2.0%	2.0%	12.00%	12.00%
Di Bella Coffee Brand System	4.0%	2.0%	11.80%	11.80%

8. Intangible assets (continued)

8.7 Key assumptions used for calculating recoverable amounts (continued)

Significant estimate: Impact of reasonably possible change in key assumptions

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

In 2018 to 2020 years, the Group significantly reduced the carrying values of intangible assets, recognising $429.4 million impairment against the carrying value of the assets in those financial years. This significant reduction in carrying values prior to the 2021 year has lowered the sensitivity of the respective cash-generating units recoverable amounts to negative changes in earnings assumptions, and the quantum of potential intangible asset impairment in future periods.

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

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

Cash-generating unit	Headroom	Average growth rate years 2 – 5 to trigger impairment
Brand System		
Di Bella Coffee Brand System	$1.5m	1.5%

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

Sensitivity scenario	Cash-generating unit impaired	Impairment
1.25% reduction in growth rates - years 2 - 5 and terminal rate	Di Bella Coffee Brand System	$0.3m
1.25% increase in discount rate	Di Bella Coffee Brand System	$0.2m

9. Issued capital

Consolidated	1H22 $'000	FY21 $'000
2,124,055,198 fully paid ordinary shares (FY21: 2,120,095,198)	615,541	615,145
	615,541	615,145

Consolidated	1H22 No. '000	1H22 $'000
Fully paid ordinary shares [1]		
Balance at beginning of period	2,120,095	615,145
Transfer from equity-settled employee benefits reserve	3,960	396
Balance at end of period	2,124,055	615,541

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

10. Retained earnings

Consolidated	1H22 $'000	FY21 $'000
Balance at beginning of period	(443,480)	(445,713)
Net profit/(loss) attributable to members of the parent entity	5,076	1,461
Net profit/(loss) attributable to marketing funds reclassed to other reserves	(484)	772
Balance at end of period	(438,888)	(443,480)

11. Earnings per share

Consolidated	1H22 cents	1H21 cents
Basic earnings per share		
From continuing operations	0.2	0.4
From discontinued operations	-	(0.2)
Basic (cents per share)	0.2	0.2
Diluted earnings per share		
From continuing operations	0.2	0.4
From discontinued operations	-	(0.2)
Diluted (cents per share)	0.2	0.2

11.1 Basic earnings per share

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

Consolidated	1H22 $'000	1H21 $'000
Profit/(loss) for the period		
From continuing operations	4,676	8,616
From discontinued operations	400	(4,752)
Earnings used in the calculation of basic EPS from continuing and discontinuing operations	5,076	3,864

Consolidated	1H22 No. '000	1H21 No. '000
Weighted average number of ordinary shares for the purpose of basic EPS (1)	2,122,858	2,119,422

Calculation of weighted average number of fully paid ordinary shares		Fully paid ordinary shares issued	Weighted shares(1)
1H22	Date of issue	No. '000	No '000
Balance at beginning of period		2,120,095	2,120,095
Shares issued upon vesting of performance rights	26 August 2021	3,960	2,763
Total		2,124,055	2,122,858

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

11. Earnings per share (continued)

11.2 Diluted earnings per share

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

Consolidated	1H22 $'000	1H21 $'000
Profit/(loss) for the period		
From continuing operations	4,676	8,616
From discontinued operations	400	(4,752)
Earnings used in the calculation of basic EPS from continuing and discontinuing operations	5,076	3,864

Consolidated	1H22 No. '000	1H21 No. '000
Weighted average number of ordinary shares for the purpose of diluted EPS [1]	2,122,858	2,119,422
Adjustments for calculation of diluted EPS - Performance rights	18,788	12,000
Weighted average number of ordinary shares for the purpose of diluted EPS	2,141,646	2,131,422

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

12. Discontinued operations

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

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

Consolidated	1H22 $'000	1H21 $'000
Revenue	-	24,633
Expenses	(500)	(25,439)
Other gains/(losses)	900	-
Profit/(loss) before income tax from operations	400	(806)
Loss on disposal of business	-	(3,946)
Attributable tax benefit	-	-
Net loss attributable to discontinued operations	400	(4,752)

	1H22 cents	1H21 cents
Earnings per share		
From discontinuing operations:		
Basic (cents per share)	-	(0.2)
Diluted (cents per share)	-	(0.2)

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

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

13. Events after the reporting period

Subsequent to 31 December 2021, various State Governments implemented additional COVID-19 related measures undertaken to contain outbreaks of the Omicron variant of the virus. The extent of adverse financial effects arising from these recently imposed restrictions, many of which remain in place, remains uncertain as at the date of this report.

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

Interim Dividend

The Directors have resolved that no dividend will be declared or paid with respect to the 1H22 period.

14. Summary of significant accounting policies

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

14.1 Basis of preparation

These financial statements have been prepared on the basis that RFG is a going concern, able to realise assets in the ordinary course of business and settle liabilities as and when they are due.

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This consolidated interim financial report for the half-year reporting period ended 31 December 2021 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 2 July 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

15. Contingent Liabilities

The proceedings commenced by the ACCC in 1H21 against certain members of the Group (ACCC Proceedings) have not, to date, been resolved or finally determined. The Company, along with two of its related entities, is also a respondent to representative proceedings brought in the Federal Court of Australia during 1H22 by a former Michel's Patisserie franchisee on behalf of herself and other Michel's Patisserie franchisees, former franchisees and their related parties (Michel's Patisserie Class Action). In addition, the Group may potentially be the subject of a shareholder class action claim, albeit no such claim has yet been commenced. Provisions for costs incurred but unpaid at balance date have been raised in line with the Group's accounting policy.

ACCC Proceedings

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

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

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

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

15. Contingent Liabilities (continued)

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

The Group is defending the Proceedings.

Michel's Patisserie Class Action:

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

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

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

The proceedings have been commenced by way of Originating Application and Concise Statement and not by way of a fully particularised Statement of Claim. The representative applicant has agreed to file a Statement of Claim in the proceedings following determination of an interlocutory application filed by the applicant seeking declarations from the Court that certain litigation funding arrangements relevant to the proceedings are not subject to the AFSL and related requirements imposed by the *Corporations Amendment (Litigation Funding) Regulations 2020 (Cth)*. The Company intends to oppose that application, a date for the hearing of which is yet to be set as at the date hereof.

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

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

Possible Class Action:

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

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

Company Secretary	Registered Office	Principal Administration Office	Share Registry
Mr Anthony Mark Connors			Computershare Investor Services
Level 4	c/- KPMG, Level 11	Level 4	Level 1
35 Robina Town Centre Drive	2 Corporate Court	35 Robina Town Centre Drive	200 Mary Street
Robina QLD 4226	Bundall QLD 4217	Robina QLD 4226	Brisbane QLD 4000