



# Retail Food Group Limited

## Appendix 4D

### Interim Financial Report

### Half-Year Ended 31 December 2018

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.

#### CONTENTS

2	SUMMARY FINANCIAL INFORMATION
	<u>SECTION A</u>
3	RESULTS FOR ANNOUNCEMENT TO THE MARKET
	<u>SECTION B</u>
3	COMMENTARY ON THE RESULTS
	<u>SECTION C</u>
4	HALF YEAR CONSOLIDATED FINANCIAL REPORT

## SUMMARY FINANCIAL INFORMATION

Item	REPORTED		UNDERLYING OPERATIONS <sup>(1)</sup>	
	1HY18 <sup>(2)</sup>	1HY19 <sup>(2)</sup>	1HY18 <sup>(4)</sup>	1HY19 <sup>(4)</sup>
<b>Financial</b>				
Revenue	\$195.5	\$192.0m		
EBITDA*	(\$100.8m)	(\$112.5m)	\$45.7m	\$23.9m
EBIT*	(\$106.9m)	(\$119.1m)	\$40.3m	\$18.1m
NPAT/(Loss)	(\$87.8m)	(\$111.1m)	\$24.7m	\$6.6m
Basic EPS	(49.0 cps)	(60.8 cps)	13.8 cps	3.6 cps
Dividend	-	-	-	-
<b>Operating Performance</b>				
Revenue Growth	20.8%	(1.8%)		
EBITDA Growth/(Decline)*		(11.6%)	(24.5%)	(47.7%)
EBIT Growth/(Decline)*		(11.4%)	(28.7%)	(55.2%)
NPAT Growth/(Decline)		(26.5%)	(31.8%)	(73.4%)
Basic EPS Growth/(Decline)		(24.2%)	(34.9%)	(73.9%)

\* EBITDA, EBIT, Underlying EBITDA, Underlying EBIT & Underlying NPAT/(Loss) are non-IFRS profit measures used by Directors and Management to assess the underlying performance of the Group.

(1) EBITDA and EBIT results from 'Underlying Operations' exclude the pre-tax impact of the following amounts recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	1HY18	1HY19
EBIT - REPORTED	(106.9m)	(\$119.1m)
Business restructuring costs	\$9.2m	\$13.5m
Impairment and provisions	\$138.0m	\$123.7m <sup>(3)</sup>
EBIT - UNDERLYING OPERATIONS	\$40.3m	\$18.1m
NPAT/(Loss) results from 'Underlying Operations'		
NPAT/(Loss) - REPORTED	(\$87.8m)	(\$111.1m)
Post-tax impact of non-underlying EBIT adjustments	\$112.5m	\$117.7m
NPAT/(Loss) - UNDERLYING OPERATIONS	\$24.7m	\$6.6m

(2) Operating Performance measures in this table include the results of continuing and discontinued operations, to assist comparison of results to prior periods. The statutory financial statements and Note 3.3 *Segment Information* present separately the results from continuing and discontinued operations.

(3) Refer to Note 6.

(4) Underlying performance measures noted in this report include the results of continuing and discontinued operations, to assist comparison of results to prior periods. The statutory financial statements and Note 3.3 *Segment Information* present separately the results from continuing and discontinued operations.

## APPENDIX 4D - SECTION A RESULTS FOR ANNOUNCEMENT TO THE MARKET

### Reporting period

Current reporting period:

Half-Year Ended 31 December 2018

Previous corresponding period:

Half-Year Ended 31 December 2017

### Revenue and net profit

Details		Compared to PCP %		1H19 \$'000
Revenue from operations (including discontinued operations)	down	1.8%	to	191,971
Profit from ordinary activities after tax attributable to members	down	26.5%	to	(111,134)
Net profit attributable to members	down	26.5%	to	(111,134)

### Dividends

Details	Cents Per Share	Total Amount \$'000	Franked/ Unfranked	Payment Date
Declared and paid during the half-year				
NIL 1H19 dividend	-	-	-	-

### Net tangible assets per security

Details	31 December 2018	30 June 2018
Net tangible (liabilities)/assets per security <sup>(1)</sup>	(83.6) cents <sup>(2)</sup>	(112.7) cents <sup>(3)</sup>

(1) Net tangible assets defined as net assets less intangible assets.

(2) 31 December 2018 calculation based on 182,745,510 shares.

(3) 30 June 2018 calculation based on 182,745,510 shares.

## APPENDIX 4D - SECTION B COMMENTARY ON THE RESULTS

For comments on trading performance during the half-year, refer to the 1H19 media release, 1H19 Results Presentation and the Directors' Report.

The Board of Directors has resolved that no interim dividend will be paid in respect of 1H19.

# Retail Food Group Limited Consolidated Financial Report Half-Year Ended 31 December 2018

## INDEX

5	DIRECTORS' REPORT
14	AUDITOR'S INDEPENDENCE DECLARATION
15	INDEPENDENT AUDITOR'S REVIEW REPORT
17	DIRECTORS' DECLARATION
18	CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
19	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
20	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
21	CONSOLIDATED STATEMENT OF CASH FLOWS
22	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# DIRECTORS' REPORT

## Overview

The Directors of Retail Food Group Limited (referred to hereafter as the Company or Group) submit herewith the Financial Report of the Company for the period ended 31 December 2018 in accordance with the provisions of the *Corporations Act 2001*.

## Information about the 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 - Appointed 25 September 2018
Ms Jessica Buchanan	Independent Non-Executive Director
Ms Kerry Ryan	Independent Non-Executive Director
Mr David Grant	Independent Non-Executive Director - Appointed 25 September 2018
Mr Colin Archer	Chairman and Independent Non-Executive Director - Resigned 25 September 2018
Mr Stephen Lonie	Independent Non-Executive Director - Resigned 25 October 2018
Mr Russell Shields	Independent Non-Executive Director - Resigned 26 October 2018

## Principal activities

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

- Intellectual property ownership of the Donut King, bb's café, 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, bb's café, 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 throughout the world, whether directly managed and/or as licensor for all Brand Systems;
- 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 brand; and
- Development and management of procurement, warehousing, manufacturing and distribution businesses under the Hudson Pacific Food Service, Dairy Country, Bakery Fresh and Associated Food Service brands.

# DIRECTORS' REPORT

## Review of operations and financial condition

### 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 discussion of 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. Income Statement amounts, presented on an underlying basis such as Underlying NPAT, 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 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 Summary of Financial Information attached to 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 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's presentation.

### Group overview

The following table summarises the Group's results for the financial periods ending 31 December 2018 and 31 December 2017:

#### 1H 2019 Results

Item	1H19	1H18	Change
Revenue (including discontinued operations)	\$192.0m	\$195.5m	(\$3.5m)
NPAT	(\$111.1m)	(\$87.8m)	(\$23.3m)
NPAT (Underlying) <sup>(1)</sup>	\$6.6m	\$24.7m	(\$18.1m)
EBITDA	(\$112.5m)	(\$100.8m)	(\$11.7m)
EBITDA (Underlying) <sup>(1)</sup>	\$23.9m	\$45.7m	(\$21.8m)
EPS	(60.8 cps)	(49.0 cps)	(11.8 cps)
EPS (Underlying) <sup>(1)</sup>	3.6 cps	13.8 cps	(10.2 cps)
Interim Dividend per Share (DPS)	-	-	-

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

# DIRECTORS' REPORT

## Review of operations and financial condition (continued)

### *Review of the interim period to 31 December 2018*

RFG commenced the period 1H19 implementing a turnaround process to stabilise the business. A Board renewal process was commenced in September, with the retirement of former Chairman Colin Archer, appointment of Stephen Lonie as Chairman, and the appointment of new directors Peter George and David Grant. Mr Grant was appointed Chairman of RFG's Audit & Risk Management Committee.

As part of the planned renewal process, directors Stephen Lonie and Russell Shields subsequently resigned, with Peter George being appointed as Chairman, and assuming the role of Executive Chairman of the Group on 7 November 2018.

Mr George was recruited to the Board as a turnaround specialist, having previously led the restructuring and merger of PMP Limited as Managing Director from 2012-2017, and was Executive Chairman of Nylex Limited from 2004-2008. Former non-executive directorships include Asciano Limited and Optus Communications.

Mr Grant is an experienced public company Director, currently holding directorships at Event Hospitality and Entertainment Limited, and Murray Goulburn Cooperative Limited. Former directorships include iiNet Limited and Consolidated Rutile Limited. Mr Grant's executive career included extensive food industry experience through finance and commercial roles with Goodman Fielder Limited.

Richard Hinson resigned as Group Chief Executive Officer on 3 December 2018, as part of a major restructuring foreshadowed at the Company's AGM on 29 November 2018, with Mr George assuming CEO responsibilities for the Group for the time being.

There remains much work to be done at RFG, and it is important to acknowledge the enormity of the restructuring being actioned. The Group is in a position where reducing bank borrowings and refocussing on its customers are top priorities. To reduce bank borrowings, it is likely that RFG will need to sell assets, recapitalise the balance sheet and reduce its cost base by a large amount. All of this needs to be done whilst at the same time ensuring that the remaining business is positioned for success in the future.

The Board and senior management are acutely aware that the Group has not performed as it should. While there has been some encouragement from franchise customers about improvements in the network, the Group's current financial position is unsustainable.

From RFG's shareholder's perspective, improvement in the share price will come only from the successful implementation of the Group's restructuring and refocussing programs. This will not happen quickly and will not be easy to achieve, however the Board and management team are committed to using best endeavours to make this happen as soon as possible.

### *Group Priorities*

In order to structure the Group for renewed success, Directors are focussed on providing as many options as possible for debt reduction and the strengthening of the Group's balance sheet. The Directors continue to look at a range of options, including potential asset sales and the potential for alternative funding, with significant work having been undertaken to date.

The interim financial statements for 1H19 present as *Discontinued Operations* and *Assets Held for Sale*, the Donut King and QSR Division Brand Systems, which are in the process of negotiation for potential sale.

A significant aspect of repairing the Group's financial position will involve implementing major restructuring and cost reduction initiatives across the Group, as an immediate priority. Cash flow and working capital management also remain a high priority.

The restructuring and cost reduction program undertaken in 1H19 was accelerated following an initial review undertaken by the Executive Chairman as evidenced by the significant restructuring expenses incurred in the period, which includes staff redundancies, asset disposals and write downs, and the closure or exit of certain non-core businesses and premises. Management renewal also commenced in the Di Bella Coffee and Manufacturing & Distribution divisions in the 1H19 period.

Subsequent to 31 December 2018, Directors have resolved to close the bakery operations within the Manufacturing and Distribution division.

With the Group involved in a major turnaround process, and its well-publicised requirement for debt reduction to strengthen the balance sheet, most divisions have experienced a decline in sales and debtor collections, as the ability to attract and retain customers is diminished. In the short term, the Group's trading results will remain subdued until the full impact of restructuring, cost and debt reduction initiatives are completed.

Despite the immediate challenges, the Board and management team believe RFG can aspire to a positive future once the restructuring phase is complete.

# DIRECTORS' REPORT

## Review of operations and financial condition (continued)

Business improvement will be driven by successful implementation of a Six Point Plan that focuses on business stabilisation, debt reduction and operational improvement amongst the Company's business units:

- (1) Re-focusing the Group on its core retail food franchise and coffee supply operations, and divesting or discontinuing non-core underperforming business units;
- (2) Strengthen the Company's balance sheet to improve financial stability;
- (3) 'Right size' shared services resourcing, align resources closer to customers/franchisees, and implement initiatives to consolidate supply chains for a more agile and efficient business;
- (4) Improve the health of the domestic franchise network through significant increase in product category extensions and new product campaigns delivered to drive traffic and revenue over the next twelve months.
- (5) Leverage Di Bella Coffee's competencies and sales team to diversify and grow coffee revenue in external markets while continuing to support RFG's franchise partners;
- (6) Drive growth in the franchise business by leveraging a healthy network as a platform for new store sales and increased renewals, and capitalising on existing international opportunities (particularly in the USA market) where RFG already has a platform for growth.

## *Financial position*

In assessing RFG's financial position as at 31 December 2018, and the carrying value of assets, the Directors have based the assessment and subsequent impairment position to reflect the Group's expected present sustainable earnings, the current risk profile of the Group, and the planned restructuring program to be completed.

The outcome of this assessment was an impairment charge of \$123.7 million for the period, which reduces shareholder funds to \$18.5 million (excluding marketing reserves). RFG's current market capitalisation at 22 February 2019 was approximately \$50 million.

RFG's core debt remains current as at 31 December 2018, with the present facilities expiring in October 2019. The Group's syndicated lenders, NAB and Westpac, waived the requirement for financial covenant testing as at 31 December 2018, and there has otherwise been no changes to the loan facility or lending covenants as at date of this report.

## *Going concern*

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. During the half-year ended 31 December 2018, the Group incurred a loss before income tax from continuing operations of \$112.0 million, and a total loss after income tax of \$111.1 million.

The Group has a net current liability position of \$182.3 million at balance date. Despite these challenges, the Group generated a positive cash-flow from operating activities of \$7.6 million and a positive Underlying EBITDA of \$23.9 million.

As referred to in Note 12 of the Financial Statements, the Group's secured syndicated loans totalling \$258.8 million are classified as current liabilities at the balance date with the tenor of the syndicated loans being 31 October 2019.

The results have included further impairment losses and provisions of \$123.7 million, as the Board and management of the Group have intensified their strategy of transforming the activities of the business, including closing unprofitable franchise stores and commercial operations, rationalising centralised functions, staff redundancies and instituting an asset sales program.

These actions taken are in line with announcements made by the Chairman at the Group's Annual General Meeting in November 2018.

In line with the announced asset sales program, the Group continues to work with a potential purchaser to negotiate the terms of a possible sale of the Group's Donut King and QSR Division Brand System assets and operations. All proceeds from the disposals of those assets, if those negotiations are successful, must be directed toward the repayment of the syndicated debt.

As disclosed in the 30 June 2018 annual report, the Group's restructuring program was subject to a potential review process with its lenders after 31 December 2018. On 21 December 2018, as disclosed to the ASX, the Group received a waiver from its lenders to extend the date of this review event from 31 December 2018 to 28 February 2019. The lenders also agreed on 21 December 2018 to suspend the testing of the Financial Covenants for the period ending 31 December 2018. The lenders have the right to initiate a review process at some point after the review trigger date of 28 February 2019. While the outcome of any potential review process is unknown at the date of this report, the Directors are confident that the lenders will continue to support the Group in its restructuring of operations and financing.



# DIRECTORS' REPORT

## Review of operations and financial condition (continued)

Despite the program to sell assets and restructure the businesses, there remains significant risk that the Group may breach its existing financial covenant requirements at 31 March 2019, 30 June 2019, and 30 September 2019. A breach of one or more of the financial covenants may result in all the syndicated debt becoming due and payable.

The continuing viability of the Group and its ability to continue as a going concern is dependent upon the Group maintaining the support of the syndicated lenders, including managing the covenants and the terms of the facility in the immediate term. In addition, prior to the expiry of the existing syndicated debt facilities on 31 October 2019, the Group will need to secure an extension of the facilities, or sufficient levels of alternative funding to replace the current lending facility on terms and conditions that secure its financing viability for the foreseeable future.

Achieving this outcome is dependent on:

- (1) The Group negotiating with the lenders to extend the review process from 28 February 2019 to a later date to allow for the completion of asset sales or alternative fund raising program (discussed in (3) and (4) below); and
- (2) The Group negotiating waivers of Financial Covenant testing at 31 March 2019, and where required 30 June 2019 and 30 September 2019, to allow for the completion of asset sales or alternative fund raising (discussed in (3) and (4) below); and
- (3) The Group successfully completing negotiations to sell a number of business assets. Should a binding sale of the assets be formalised, the proceeds from the sale will be utilised to pay down a portion of the syndicated debt. Accordingly, the amount of financing to be raised through alternative debt and or equity raisings will be dependent upon the proceeds realised in any asset sales; and/or
- (4) The Group successfully securing the required levels of alternative debt and/or equity funding within the period to 31 October 2019 in order to finance the operations. The Group is currently negotiating with a number of interested parties in relation to the introduction of debt and or equity into the Group.

As a result, there is a material uncertainty that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. However, the Directors, after taking into account all relevant factors, have concluded that there are reasonable grounds to believe both that the secured syndicate debt lenders will continue to support the Group in the immediate term, and that the Group will be successful in securing a comprehensive financing structure prior to 31 October 2019 that will ensure that the Group will remain a going concern for at least the next twelve months, from the date of this report.

The auditor's review report includes an emphasis of matter paragraph also highlighting the material uncertainty.

Accordingly, the Directors have prepared the financial report on a going concern basis. As a consequence, no further adjustments have been made to the financial report relating to the recoverability and classification of the assets carrying amounts or the amounts and classifications of liabilities that might be necessary should the Group not continue as a going concern.

## Review of Operations

The adoption of the new AASB 15 *Revenue from Contracts with Customers* standard (AASB 15), and presentation of discontinued operations in the 1H19 period are reflected in the presentation of statutory revenue and loss from continuing operations for 1H19. The reader should refer to Note 3.3 *Segment Revenue* and Note 4 *Revenue and other revenue* in the notes to the financial statements for a reconciliation of these items.

Underlying EBITDA, underlying EBIT and underlying NPAT discussed in this financial report includes continuing and discontinued operations.

Statutory revenue from continuing operations for 1H19 was \$171.2 million, representing a decrease of \$6.9 million on the prior corresponding period (PCP).

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

- A \$5.2m decrease in Brand System segment revenues:
  - o A \$15.0 million decrease in underlying Brand System segment revenues, consistent with the reduction in stores under the planned store closure program, and lower transactional revenues from new outlet sales and franchisee renewals compared to PCP; offset by
  - o A \$9.4 million increase in revenues from the first time adoption of AASB 15 and eliminating revenues from the Donut King and QSR Brand Systems classified as discontinued operations;
- A \$10.2 million decrease in Di Bella Coffee revenue, primarily attributable to exit of the capsule business in FY18, and a loss of key customers in the competitive contract roasting sector, particularly in Victoria; offset by
- An \$8.0 million increase in Manufacturing & Distribution revenues.

# DIRECTORS' REPORT

## Review of operations and financial condition (continued)

Underlying EBITDA of \$23.9 million reduced by \$21.8 million on PCP, further discussed in the Operating Segment review following. 1H19 Underlying EBITDA includes \$3.3 million from the first time adoption of AASB 15, and \$11.5 million from Brand Systems classified as discontinued operations.

The reported EBITDA loss of \$112.5 million and reported NPAT loss of \$111.1 million was primarily attributable to the \$123.7 million (pre-tax) non-cash provisioning and impairment as discussed previously. Underlying EBITDA of \$23.9 million and Underlying NPAT of \$6.6 million for 1H19 excludes \$9.8 million (pre-tax) in restructuring costs, \$2.9 million of costs from non-core operations, \$0.8 million amortisation of acquired intangible assets, and \$1.2 million of finance costs arising from the reduction in tenor on debt facilities to October 2019.

## Financial Position and Cash Flows

Net Assets of \$19.5 million have decreased by \$138.5 million from 30 June 2018, primarily as a result of non-cash provisioning and impairment of assets, and restructuring costs incurred in the period. Further details on these adjustments are included in Note 6 of the financial statements as at 31 December 2018.

Cash inflows from operating activities for 1H19 were \$7.6 million (1H18: \$3.4 million), with the increase in net operating cash inflow attributable to a \$7.3m Income tax refund on FY18 year received in the period.

## Debt Structure

As at 31 December 2018, the Group's borrowings (refer to Note 12 Borrowings) decreased to \$258.9 million, predominantly due to repayment via the proceeds of property and minor asset sales completed in the period.

On 21 December 2018 the Group received a waiver from its lenders to extend the date of the potential review event from 31 December 2018 to 28 February 2019. The lenders also agreed on 21 December 2018 to suspend the testing of Financial Covenants for the period ending 31 December 2018.

## Operating Segment Review

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

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

All Brand System segments, with the exception of Di Bella Coffee, and Manufacturing & Distribution, are referred to collectively by management as Franchise Operations.

## Franchise Operations

Underlying Franchise Operations EBITDA for 1H19 was \$24.3 million (including discontinuing operations), representing a decline of \$8.8 million on PCP.

### Franchise Operations - Domestic

Operationally, weighted Same Store Sales (SSS) were -3.3% on PCP, impacted by the performance of those Brand Systems with significant shopping centre exposure, more pronounced within the Gloria Jean's and Michel's Patisserie networks. The prevailing negative sentiment surrounding the franchise industry and RFG, also contributing to the decline in SSS reported. SSS metrics for 1H19 exclude the contribution from stores closed pursuant to the comprehensive domestic outlet network analysis.

1H19 outlet closures comprised 83 domestic traditional outlets, and 10 mobile vans, consistent with the domestic outlet network closure program. 1 new outlet was established domestically during the period.

The Group continues to progress the closure of outlets identified in the July 2018 domestic outlet network analysis, with no material change to the number of expected closures by 30 June 2019. RFG is seeking to renegotiate improved rental outcomes, where possible, to minimise closures, and will work constructively with impacted stakeholders.

A renewed focus on product innovation and brand refreshing in RFG's franchise systems is targeted at delivering better outcomes for franchise partners and making Brand Systems more attractive to potential new franchise partners.

### Franchise operations - International

During 1H19, the Group granted 2 new international master licenses, with prevailing negative sentiment surrounding the franchise industry and RFG limiting new master licence candidate interest.

# DIRECTORS' REPORT

## Review of operations and financial condition (continued)

In 1H19 there were 11 new outlets established, offset by 126 outlet and 13 mobile van closures reported by master franchise partners across the 83 international territories.

### Di Bella Coffee

Underlying Di Bella Coffee Operations EBITDA for 1H19 was \$1.9 million, representing a decrease of \$3.6 million on PCP (or a decrease of \$0.7m on 2H18). The decrease in EBITDA on PCP was primarily due to \$2.2 million loss attributable to the loss of key customers in the independent contract roasting sector, particularly in Victoria. Decreased earnings on international roasting operations, exit of the capsule business announced in FY18, and increased overhead costs contributed to the remaining decrease in EBITDA on PCP.

The Group's coffee business is considered a key driver of RFG's future success, domestically and internationally.

Following 1H19 management renewal, Di Bella Coffee will focus on capturing additional sales opportunities within the corporate and independent foodservice channels, complemented by restructuring activity to streamline the cost base of the business.

### Manufacturing & Distribution

Underlying Manufacturing & Distribution Division EBITDA for 1H19 was a loss of \$2.3 million, representing a decrease of \$9.5 million on PCP (or a decrease of \$5.1million on 2H18). The decrease in Underlying EBITDA on PCP is comprised of Hudson Pacific/Associated Food Services distribution (\$5.8 million), Dairy Country (\$2.5 million), and Bakery Fresh (\$1.2 million).

Hudson Pacific (HFS) and Associated Food Services (AFS) distribution businesses incurred operating losses of \$4.0 million for 1H19, due to significant operational issues that have impacted the distribution business subsequent to the 2H18 integration of AFS into the HFS facilities. The operational issues have resulted in a loss of customers and reduction in 1H19 sales revenue of \$10.9 million, and increased operating costs on PCP. A remedial restructuring and integration program including management renewal was commenced in 1H19 to rectify the operational issues, which is expected to complete in late 2H19, and is to be complemented by streamlining the cost base of the business as the Group's ongoing restructuring activity is undertaken.

The Dairy Country business increased revenues by \$20.0 million on PCP on a 23% increase in processing volumes, however, margin erosion and additional overhead costs contributed to a c.\$2.5 million reduction in underlying EBITDA of \$1.7 million versus PCP. Dairy Country continues to tender for additional production volumes with existing and new customers to drive enhanced economic returns from RFG's investment in a second processing facility.

Ongoing margin erosion and future CAPEX demands have led to the Bakery Fresh wholesale bakery business being classified as non-core and excluded from the underlying performance assessment of the Group. The impact of excluding Bakery Fresh from 1H19 Underlying earnings has resulted in a \$1.3 million reduction in Underlying EBITDA compared to PCP. Subsequent to 31 December 2018, the Company has resolved to close these operations in CY19 when existing contractual commitments are completed.

### Subsequent events

Subsequent to 31 December 2018, the Company has resolved to close the Bakery Fresh wholesale bakery business. The business will cease operations in the 2019 calendar year, when existing contractual commitments are completed.

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

Under its current arrangements with its relationship banks, NAB and Westpac, and given its underlying trading results, there will be no dividend for RFG as at 31 December 2018, nor is a dividend payment likely in the foreseeable 12 month outlook, until RFG's turnaround strategy returns the business to an acceptable financial position.

# DIRECTORS' REPORT

## Review of operations and financial condition (continued)

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

Company	1H19		1H18	
	Cents Per Share	Total \$'000	Cents Per Share	Total \$'000
<b>Declared and paid during the half-year</b>				
Fully paid ordinary shares				
Final FY17 dividend - fully franked at 30% tax rate <sup>(1)</sup>	-	-	15.00	26,510

(1) The Directors has resolved that no interim dividend will be paid in respect of 1H19.

## Looking forward

A number of measures have been implemented to support the Six Point Plan and stabilise RFG's performance, however, the Company anticipates that future results will remain subdued whilst retail market conditions remain challenging and the Company executes on its restructuring program. The Company therefore currently anticipates FY19 underlying EBITDA to be in the range of \$43m-\$48m, assuming full year contributions from all business units.

# DIRECTORS' REPORT

## Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 14 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

A handwritten signature in black ink, consisting of a large, stylized 'P' followed by a horizontal line and a small flourish.

Mr Peter George  
Executive Chairman

Southport, 28 February 2019



### *Auditor's Independence Declaration*

As lead auditor for the review of Retail Food Group Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Retail Food Group Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Steven Bosiljevac', with a long horizontal stroke extending to the right.

Steven Bosiljevac  
Partner  
PricewaterhouseCoopers

Brisbane  
28 February 2019

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



## **Independent auditor's review report to the members of Retail Food Group Limited**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Retail Food Group Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Retail Food Group Limited. The Group comprises the Company and the entities it controlled during the half-year.

### ***Directors' responsibility 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 for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Retail Food Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

### ***Independence***

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

### ***Conclusion***

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 is not in accordance with the *Corporations Act 2001* including:

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

***Material uncertainty related to going concern***

We draw attention to Note 2.2 in the half-year financial report, which indicates that the Group incurred a loss before income tax from continuing operations of \$112.0m for the half year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by \$182.3m, inclusive of syndicated secured borrowings of \$258.8m.

The Group's ability to continue as a going concern is dependent maintaining the continuing support of the syndicated lenders and prior to the expiry of the existing syndicated debt facilities on 31 October 2019, realising potential sales of business assets to pay down portions of the syndicated debt and either securing extensions of the existing facilities or raising sufficient levels of alternative funding via debt and or equity with appropriate terms and conditions. These conditions set forth in Note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

*PricewaterhouseCoopers*

PricewaterhouseCoopers



Steven Bosiljevac  
Partner

Brisbane  
28 February 2019



# DIRECTORS' DECLARATION

The Directors' declare that:

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

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

**RETAIL FOOD GROUP LIMITED**

A handwritten signature in black ink, consisting of a large, stylized 'P' followed by a horizontal line and a small flourish.

Mr Peter George  
Executive Chairman

Southport, 28 February 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Consolidated	Notes	1H19 \$'000	Restated <sup>(1)</sup> 1H18 \$'000
<b>Continuing operations</b>			
Revenue	4	170,701	176,782
Cost of sales	5	(115,065)	(108,879)
<b>Gross profit</b>		<u>55,636</u>	<u>67,903</u>
Other revenue	4	505	1,339
Other gains and losses	5	(841)	(1,549)
Selling expenses		(2,178)	(6,430)
Marketing expenses		(10,175)	(2,305)
Occupancy expenses	5	(10,183)	(16,468)
Administration expenses	5	(16,078)	(13,619)
Operating expenses		(22,988)	(17,539)
Finance costs		(9,708)	(5,247)
Other expenses	5	(96,000)	(113,355)
<b>(Loss)/profit before income tax</b>		<u>(112,010)</u>	<u>(107,270)</u>
Income tax benefit		19,314	22,974
<b>(Loss)/profit for the period from continuing operations</b>	5	<u>(92,696)</u>	<u>(84,296)</u>
(Loss)/profit from discontinued operations	18	(18,438)	(3,464)
<b>(Loss)/profit for the period</b>		<u>(111,134)</u>	<u>(87,760)</u>
<b>Other comprehensive (loss)/income, net of tax</b>			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations		350	(669)
Changes in the fair value of cashflow hedges		(129)	197
Income tax relating to these items		39	(59)
<b>Other comprehensive (loss)/income for the period, net of tax</b>		<u>260</u>	<u>(531)</u>
<b>Total comprehensive (loss)/income for the period</b>		<u>(110,874)</u>	<u>(88,291)</u>
<b>Total comprehensive (loss)/income is attributable to:</b>			
Equity holders of the parent		<u>(110,874)</u>	<u>(88,291)</u>
<b>Earnings per share</b>			
From continuing operations:			
Basic (cents per share)		(50.7)	(47.0)
Diluted (cents per share)		(50.7)	(47.0)
Total:			
Basic (cents per share)		(60.8)	(49.0)
Diluted (cents per share)		(60.8)	(49.0)

(1) Restated to remove discontinued operations from continuing operations revenue and expenses.

*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 2018

Consolidated	Notes	1H19 \$'000	Restated FY18 \$'000
<b>Current assets</b>			
Cash and cash equivalents	7	20,467	18,979
Trade and other receivables	6	36,841	52,113
Other financial assets	6	6,923	15,512
Inventories		15,347	24,568
Current tax assets		-	7,337
Other		4,232	6,719
Assets classified as held for sale	8	133,132	9,362
<b>Total current assets</b>		<b>216,942</b>	<b>134,590</b>
<b>Non-current assets</b>			
Trade and other receivables	6	29	785
Other financial assets	6	2,858	8,334
Property, plant and equipment	9	43,185	64,626
Intangible assets	10	172,298	364,063
Deferred tax assets	11	52,155	32,255
<b>Total non-current assets</b>		<b>270,525</b>	<b>470,063</b>
<b>Total assets</b>		<b>487,467</b>	<b>604,653</b>
<b>Current liabilities</b>			
Trade and other payables		67,285	70,126
Borrowings	12	258,840	264,247
Current tax liabilities		240	-
Provisions	6	17,074	18,443
Other		8,304	9,414
Derivative financial instruments	17	1,677	-
Liabilities classified as held for sale	8	45,792	3,769
<b>Total current liabilities</b>		<b>399,212</b>	<b>365,999</b>
<b>Non-current liabilities</b>			
Borrowings	12	38	49
Derivative financial instruments	17	-	1,547
Deferred tax liabilities	11	37,240	64,187
Provisions	6	7,858	13,245
Other		23,642	1,587
<b>Total non-current liabilities</b>		<b>68,778</b>	<b>80,615</b>
<b>Total liabilities</b>		<b>467,990</b>	<b>446,614</b>
<b>Net assets</b>		<b>19,477</b>	<b>158,039</b>
<b>Equity</b>			
Issued capital	13	428,640	428,640
Reserves	14	2,424	9
Retained earnings	15	(411,587)	(270,610)
<b>Total equity</b>		<b>19,477</b>	<b>158,039</b>

*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 2018

		Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
Consolidated	Notes	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2017</b>		402,472	106	62,594	465,172
Loss for the period		-	-	(87,760)	(87,760)
Other comprehensive (loss)/income		-	(531)	-	(531)
<b>Total comprehensive (loss)/income</b>		-	(531)	(87,760)	(88,291)
Issue of ordinary shares		26,503	-	-	26,503
Share issue costs		(473)	-	-	(473)
Related income tax		142	-	-	142
Recognition of share-based payments		-	142	-	142
Payment of dividends	16	-	-	(26,510)	(26,510)
<b>Balance at 31 December 2017</b>		428,644	(283)	(51,676)	376,685
<b>Balance as at 1 July 2018</b>		428,640	9	(270,610)	158,039
Opening adjustment for adoption of AASB 15	2	-	-	(25,848)	(25,848)
Transfer of opening balance of Marketing Fund surplus to reserves <sup>(1)</sup>		-	3,915	(3,915)	-
De-recognition of hedging reserve		-	1,135	-	1,135
Marketing Fund reserves attributable to disposal group		-	(2,969)	-	(2,969)
Loss for the period		-	81	(111,215)	(111,134)
Other comprehensive (loss)/income		-	260	-	260
<b>Total comprehensive (loss)/income</b>		-	2,422	(140,978)	(138,556)
Recognition of share-based payments	14	-	(7)	-	(7)
<b>Balance at 31 December 2018</b>		428,640	2,424	(411,588)	19,476

- (1) The Group maintains marketing funds established to collect and administer funds contributed for use in advertising for company-owned and franchised stores. Under AASB 15, revenue in respect of marketing fees is now included in the Group's consolidated statement of profit and loss. Net surplus arising from marketing revenue exceeding marketing expenses has been recognised separately from Retained Earnings as part of Other Reserves. Further details on this can be found in Note 2.4.

*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 2018

Consolidated	Notes	1H19 \$'000	1H18 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		246,555	260,690
Payments to suppliers and employees		(237,866)	(242,466)
Interest and other costs of finance paid		(8,049)	(4,960)
Income taxes (paid)/received		6,984	(9,864)
<b>Net cash provided by operating activities</b>		<b>7,624</b>	<b>3,400</b>
<b>Cash flows from investing activities</b>			
Interest received		217	131
Repayment of advances to other entities		683	-
Amounts advanced to other entities		(47)	656
Payments for property, plant and equipment		(1,739)	(16,241)
Proceeds from sale of property, plant and equipment		8,611	5,778
Payments for intangible assets		(436)	(271)
Payments for business (net of cash acquired) <sup>(1)</sup>		(250)	(7,631)
<b>Net cash used in investing activities</b>		<b>7,039</b>	<b>(17,578)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		-	21,973
Proceeds from borrowings		-	109,500
Repayment of borrowings		(9,496)	(97,000)
Dividends paid		-	(21,980)
Payment for share issue costs		-	(472)
Payment for debt issue costs		-	(307)
<b>Net cash provided by financing activities</b>		<b>(9,496)</b>	<b>11,714</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>5,138</b>	<b>(2,402)</b>
Effects of exchange rate changes on cash and cash equivalents		29	(62)
Cash and cash equivalents at the beginning of the period		15,871	9,583
<b>Cash and cash equivalents at end of period</b>	<b>7</b>	<b>21,038</b>	<b>7,119</b>

(1) Earn out payments with respect to FY17 acquisitions.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

Retail Food Group Limited (the Company) is a public company listed on the Australian Securities Exchange (ASX: RFG), incorporated in Australia and operating in Australia, New Zealand and the United States. Retail Food Group Limited's registered office and its principal place of business are as follows:

### Registered Office and Principal Place of Business

RFG House  
1 Olympic Circuit  
Southport QLD 4215

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, bb's café, 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;
- Donut King, Pizza Capers Gourmet Kitchen, and Crust Gourmet Pizza Bar have been classified as disposal groups held for sale and the results of their operations reported as discontinuing operations in these interim financial statements;
- Development and management of the Donut King, bb's café, 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, It's A Grind Brand Systems throughout the world, whether directly managed and/or as licensor for all Brand Systems;
- 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 brand; and
- Development and management of the procurement, warehousing, manufacturing and distribution business under the Hudson Pacific Food Service, Dairy Country, Bakery Fresh and Associated Food Service brands.

## 2. Significant accounting policies

### 2.1 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 2018 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 30 June 2018 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, except for the adoption of new and amended standards (Note 2.4) as set out in the following sections.

### 2.2 Going concern

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. During the half-year ended 31 December 2018, the Group incurred a loss before income tax from continuing operations of \$112.0 million, and a total loss after income tax of \$111.1 million.

The Group has a net current liability position of \$182.3 million at balance date. Despite these challenges, the Group generated a positive cash-flow from operating activities of \$7.6 million and a positive Underlying EBITDA of \$23.9 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Significant accounting policies (continued)

### 2.2 Going concern (continued)

As referred to in Note 12 of the Financial Statements, the Group's secured syndicated loans totalling \$258.8 million are classified as current liabilities at the balance date with the tenor of the syndicated loans being 31 October 2019.

The results have included further impairment losses and provisions of \$123.7 million, as the Board and management of the Group have intensified their strategy of transforming the activities of the business, including closing unprofitable franchise stores and commercial operations, rationalising centralised functions, staff redundancies and instituting an asset sales program.

These actions taken are in line with announcements made by the Chairman at the Group's Annual General Meeting in November 2018.

In line with the announced asset sales program, the Group continues to work with a potential purchaser to negotiate the terms of a possible sale of the Group's Donut King and QSR Division Brand System assets and operations. All proceeds from the disposals of those assets, if those negotiations are successful, must be directed toward the repayment of the syndicated debt.

As disclosed in the 30 June 2018 annual report, the Group's restructuring program was subject to a potential review process with its lenders after 31 December 2018. On 21 December 2018, as disclosed to the ASX, the Group received a waiver from its lenders to amend the date of the potential review event from 31 December 2018 to 28 February 2019. The lenders also agreed on 21 December 2018 to suspend the testing of the Financial Covenants for the period ending 31 December 2018. The lenders have the right to initiate a review process at some period after the review trigger date of 28 February 2019. While the outcome of any potential review process is unknown at the date of this report, the Directors are confident that the lenders will continue to support the Group in its restructuring of operations and financing.

Despite the program to sell assets and restructure the businesses, there remains significant risk that the Group may breach its existing financial covenant requirements at 31 March 2019, 30 June 2019, and 30 September 2019. A breach of one or more of the financial covenants may result in all the syndicated debt becoming due and payable.

The continuing viability of the Group and its ability to continue as a going concern is dependent upon the Group maintaining the support of the syndicated lenders, including managing the covenants and the terms of the facility in the immediate term. In addition, prior to the expiry of the existing syndicated debt facilities on 31 October 2019, the Group will need to secure an extension of the facilities, or sufficient levels of alternative funding to replace the current lending facility on terms and conditions that secure its financing viability for the foreseeable future.

Achieving this outcome is dependent on:

- (1) The Group negotiating with the lenders to extend the review process from 28 February 2019 to a later date to allow for the completion of asset sales or alternative fund raising program (discussed in (3) and (4) below); and
- (2) The Group negotiating waivers of Financial Covenant testing at 31 March 2019, and where required 30 June 2019 and 30 September 2019, to allow for the completion of asset sales or alternative fund raising (discussed in (3) and (4) below); and
- (3) The Group successfully completing negotiations to sell a number of business assets. Should a binding sale of the assets be formalised, the proceeds from the sale will be utilised to pay down a portion of the syndicated debt. Accordingly, the amount of financing to be raised through alternative debt and or equity raisings will be dependent upon the proceeds realised in any asset sales; and/or
- (4) The Group successfully securing the required levels of alternative debt and/or equity funding within the period to 31 October 2019 in order to finance the operations. The Group is currently negotiating with a number of interested parties in relation to the introduction of debt and or equity into the Group.

As a result, there is a material uncertainty that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. However, the Directors, after taking into account all relevant factors, have concluded that there are reasonable grounds to believe both that the secured syndicate debt lenders will continue to support the Group in the immediate term, and that the Group will be successful in securing a comprehensive financing structure prior to 31 October 2019 that will ensure that the Group will remain a going concern for at least the next twelve months, from the date of this report.

Accordingly, the Directors have prepared the financial report on a going concern basis. As a consequence, no further adjustments have been made to the financial report relating to the recoverability and classification of the assets carrying amounts or the amounts and classifications of liabilities that might be necessary should the Group not continue as a going concern.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Significant accounting policies (continued)

### 2.3 Use of estimates and judgements

The preparation of the consolidated interim financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is amended and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the consolidated financial statements are included in the following notes:

- Revenue Recognition.
- Recoverability of Debtors.
- Recoverability of deferred tax assets.
- Impairment of non-financial assets other than goodwill and indefinite life intangible assets.
- Impairment of goodwill and indefinite life intangible assets.
- Determination as indefinite life intangible assets.
- Fair value of assets and liabilities acquired in a business combination.
- Onerous lease and other provisions.

### 2.4 Standards and interpretations adopted in the current period

#### AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 *Revenue from Contracts with Customers* (AASB 15) from 1 July 2018.

AASB 15 supersedes AASB 118 *Revenue* (AASB 118) and presents a new model for recognising revenue from contracts with customers.

The adoption of AASB 15 has resulted in the following accounting policy changes:

#### *Accounting for franchise agreements*

On entry into a franchise agreement or master franchise agreement ("franchise agreement") the Group receives fees in exchange for providing access to the Group's intellectual property. These fees include initial fees and ongoing royalties.

Initial fees include amounts paid on entry into the franchise agreement, a renewal fee paid if the franchise agreement term is extended and a transfer fee if the franchise agreement is transferred to another franchisee. Under AASB 118, the initial fees were recognised when the Group had performed all initial material services that were compensated by the initial fee.

The Group provides various services to franchisees in addition to providing a right to access the Group's brands and other intellectual property. Under AASB 15 these various services are not considered to be distinct from each other and are treated as a single combined performance obligation. Revenue is recognised over time as this performance obligation is satisfied. Therefore the initial franchise fees are deferred and recognised on a straight-line basis over the term of the related franchise agreement. On-going franchise service fees are based on a percentage of sales of the respective franchisee and under AASB 118 were recognised when the related sales by the franchisee were made. These on-going franchise fees continue to be recognised on the same basis on adoption of AASB 15.

The Group receives a marketing fee which is based on a percentage of sales of the respective franchisees. These marketing fees are to be used for specific marketing activities in relation to the relevant brand system. Under AASB 15, the provision of marketing activities is not considered to be a distinct performance obligation in the franchise agreement, and accordingly marketing fees are recognised as a percentage of sales of the respective franchisee when the related sales by the franchisee are made. Marketing expenses are recognised in the income statement as they are incurred. This change has resulted in a gross up of revenue from the sale of franchise agreements and a corresponding increase in marketing expenses. The gross up of marketing revenue and expenses is expected to offset on an annual basis, such that the impact on profit of the Group is insignificant. Any net profit arising from marketing revenue exceeding expenses will be transferred to a reserve within equity in the Statement of Financial Position.

To reflect the change in revenue recognition policies, the Group has decreased retained earnings at 1 July 2018 by \$21.4 million, increased deferred revenue by \$32.8 million and increased deferred tax assets by \$11.3 million. Since the date of adoption on 1 July 2018, \$14.3 million of revenue from the sale of franchise agreements has been recognised as revenue with a corresponding decrease in associated deferred revenue.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Significant accounting policies (continued)

### 2.4 Standards and interpretations adopted in the current period (continued)

#### *Accounting for the sale of distribution rights*

The Group receives fees from suppliers in exchange for suppliers receiving access to supply goods to the franchise network.

Under AASB 118, initial fees received by the Group on commencement of a supply distribution agreement were recorded either over the term of the agreement or upfront depending on the nature of the fees received and services to be provided.

Under AASB 15, the initial fees received in supply distribution agreements are allocated in full to the single performance obligation included in these agreements. The satisfaction of this performance obligation occurs over time and the initial fees received are recognised over the term of the supply distribution period, on the basis of either time elapsed or units distributed, depending on the terms of the agreement.

To reflect this change in policy, the Group has decreased retained earnings at 1 July 2018 by \$4.4 million, increased deferred revenue by \$6.3 million and increased deferred tax assets by \$1.9 million. Since the date of adoption on 1 July 2018, \$0.8 million of revenue from the sale of distributions rights has been recognised as revenue with a corresponding decrease in associated deferred revenue.

#### *Accounting for the sale of goods*

Under AASB 118, revenue from the sale of goods was recognised when the Group had transferred to the buyer the significant risks and rewards of ownership, the amount could be reliably measured and it was probable that the economic benefits would flow to the Group. On adoption of AASB 15, revenue from the sale of goods is recognised when control of the goods has passed to the customer. The adoption of AASB 15 did not materially affect the timing of revenue recognised from the sale of goods. Revenue from the sale of goods continues to be recognised net of any discounts or rebates.

#### *Accounting for processing of dairy products on behalf of third parties*

Revenue from the processing of dairy products on behalf of third parties was not materially affected on the adoption of AASB 15. Revenue continues to be recognised when the Group has satisfied its performance obligation, which is when the processed dairy products are transferred to the customer.

#### *Deferred Tax Assets*

A deferred tax asset is recognised in respect of revenue that is deferred and recognised in future periods.

There have been no other significant changes in the Group's revenue recognition policies on adoption of AASB 15 *Revenue from Contracts with Customers*.

The amount by which each financial statement line item has been affected in the current reporting period by the application of AASB 15 when compared to the previous accounting standard AASB 118 *Revenue* is as follows:

	AASB 118 carrying amount (31 Dec 2018) <sup>(1)</sup>	Remeasurements & Reclassifications <sup>(1)</sup>	AASB 15 carrying amount (31 Dec 2018) <sup>(1)</sup>
	\$'000	\$'000	\$'000
Other current liabilities	2,334	10,057	12,391
Other non-current liabilities	1,563	30,913	32,476
Deferred tax assets	48,120	12,246	60,366
Revenue	178,942	13,030	191,972
Expenses <sup>(2)</sup>	(310,375)	(9,602)	(319,977)
Income tax (expense)/benefit	18,685	(974)	17,711
Basic and Diluted Earnings per share	(62.1)	1.30	(60.8)

(1) Amounts presented are prior to reclassifications of Assets Held for Sale and discontinued operations.

(2) Represents an increase in marketing expenses as a result of gross presentation of Marketing Funds.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Significant accounting policies (continued)

### 2.4 Standards and interpretations adopted in the current period (continued)

The Group has applied the modified retrospective approach and have adjusted retained earnings at 1 July 2018 with the cumulative effect of applying this standard. Under this transition method the Group has applied AASB 15 to only those contracts that are not completed at the date of initial application.

The impact on the Group's retained earnings as at 1 July 2018 is as follows:

	\$'000
Opening retained earnings	(270,609)
Restatement of revenue from contracts with customers	(39,067)
Increase in deferred tax asset	13,219
Adjustment to retained earnings from adoption of AASB 15	(25,848)
Opening retained earnings after the adoption of AASB 15	(296,457)

#### *Accounting for Marketing Funds*

There has been a reclassification of certain balances included within the marketing funds that are consolidated into the Group's financial statements at 30 June 2018. These reclassifications have impacted cash, accounts receivable, deferred revenue and accounts payable. The directors are of the view that these reclassifications are not material.

The marketing fund reserve relates to marketing levies collected by the Group that are to be spent on future marketing expenses.

#### **AASB 9 Financial Instruments**

AASB 9 Replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 contains revised guidance; for the classification and measurement of financial instruments, a new impairment model for most debt instruments and new hedge accounting requirements.

There is no change to the classification of financial assets that fall under the scope of AASB 139 and subsequently under AASB 9. These assets are classified as 'amortised cost' under both standards, therefore there is an insignificant impact on the classification and measurement of the Group's financial assets.

The new impairment model methodology under AASB 9 requires the recognition of impairment losses based on expected credit losses (ECL) rather than incurred credit losses, as was the case under AASB 139. It applies to financial assets classified as amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

#### **Trade Receivables**

The Group applied the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical payment profiles for both individual and groups of debtors with similar credit risk characteristics along with current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the current franchise environment and difficult small business trading conditions to be the most relevant factors and as such has based the expected loss rates on these factors.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of 30 days past due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Significant accounting policies (continued)

### 2.4 Standards and interpretations adopted in the current period (continued)

#### Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

The Group considered that there was evidence of impairment if any of the following indicators were present:

- Significant financial difficulties of the debtor;
- Evidence that the debtor has, or probability that the debtor will, enter into bankruptcy or financial reorganisation; and
- Default of late payments (more than 60 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

### 2.5 Standards and interpretations issued but not yet effective

At the date of authorisation of the financial statements, the following Standards and Interpretations have been issued but were not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 'Leases'	1 January 2019	30 June 2020

#### AASB 16 Leases

AASB 16 will result in the leases where the Group is the lessee being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, a depreciating non-financial asset (the right to use the leased item) and the associated payable, under the lease, are recognised. For leases in which the Group is the lessor, changes are not required on transition to the new standard. However additional requirements have been introduced for subleases and lease modifications, and lessor disclosure requirements have been expanded.

In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The only exceptions will be short-term and low-value leases, which will not require recognition of right of use assets.

The new leasing Standard will have a material impact on the Group's financial statements, particularly with the inclusion of new assets and liabilities associated with lease recognition. In addition, there may be a significant impact on the way that the revenues and expenses associated with lease accounting will be reported in the consolidated statement of profit or loss and other comprehensive income.

Initial assessment activities have been undertaken on the Group's current leases to determine the impact of implementation of AASB 16 Leases. As at the reporting date, the Group has operating lease commitments of \$167.8 million which are expected to be recognised as a lease liability under AASB 16. The Group has back-to-back lease arrangements with Franchise Partners which are contracted at substantially offsetting terms. The Group is expected to recognise a corresponding lease receivable asset of \$134.4m for back-to-back lease arrangements.

A detailed review of contracts, financial reporting impacts and system requirements will continue. The Group does not intend to adopt the standard before its effective date of 1 July 2019 (the date of initial application of the standard).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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 Michel's Patisserie, Donut King and Brumby's Bakery Brand Systems);
- QSR Division (incorporating Crust Gourmet Pizza and Pizza Capers Brand Systems);
- Coffee Retail Division (incorporating Gloria Jean's Coffees, Esquires, bb's café, It's A Grind, Café2U and The Coffee Guy Brand Systems);
- Di Bella Coffee (incorporating wholesale coffee operations); and
- Manufacturing & Distribution (incorporating procurement, warehousing, manufacturing and distribution operations).

### 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 consolidated statement of profit or loss and other comprehensive income. 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		Di Bella Coffee		Manufacturing and Distribution		Discontinued Operations <sup>(4)</sup>		Total Continuing Operations	
	1H19 \$'000	1H18 \$'000	1H19 \$'000	1H18 \$'000	1H19 \$'000	1H18 \$'000	1H19 \$'000	1H18 \$'000	1H19 \$'000	1H18 \$'000	1H19 \$'000	1H18 \$'000	1H19 \$'000	1H18 \$'000
External revenue	23,248	30,556	9,994	8,815	32,039	36,894	22,150	32,378	88,732	80,718	(13,753)	(16,026)	162,411	173,334
Impact of AASB 15 adoption	1,372	-	1,070	-	886	-	20	-	-	-	(1,670)	-	1,678	-
External revenue - Marketing Funds	4,577	-	3,133	-	2,075	-	-	-	-	-	(5,326)	-	4,459	-
External revenue – Corporate stores	1,147	4,108	5	454	1,523	1,569	-	-	-	-	(16)	(1,343)	2,659	4,787
Inter-segment revenue	124	466	-	10	110	294	-	-	-	-	-	(90)	234	679
Segment revenue <sup>(1)</sup>	30,467	35,130	14,203	9,279	36,633	38,756	22,170	32,378	88,732	80,718	(20,765)	(17,460)	171,440	178,800
Operating EBITDA	10,212	15,855	4,855	6,068	5,868	11,099	1,912	5,471	(2,285)	7,201	(9,806)	(12,313)	10,757	33,382
Impact of AASB 15 adoption	1,372	-	1,070	-	886	-	20	-	-	-	(1,670)	-	1,678	-
Underlying Segment EBITDA <sup>(2)</sup>	11,584	15,855	5,925	6,068	6,755	11,099	1,931	5,471	(2,285)	7,201	(11,476)	(12,313)	12,435	33,382
Marketing Funds reserve													(877)	-
Depreciation & amortisation													(6,631)	(5,629)
Finance costs													(9,708)	(5,247)
Business restructuring costs													(12,110)	(8,494)
Impairment & provisions <sup>(3)</sup>													(95,119)	(121,281)
Loss before tax from continuing operations													(112,010)	(107,269)
Income tax benefit													19,314	22,974
Loss after tax for the period from continuing operations													(92,696)	(84,296)

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

Revenue for the period – Statutory	171,206	178,121
Inter-segment revenue: eliminated on consolidation	234	679
Total segment revenue	171,440	178,800

(2) Segment EBITDA relates to continuing and discontinuing operations as follows:

Continuing operations	12,435	33,382
Discontinuing operations	11,476	12,313
Total segment EBITDA	23,911	45,695

1H19 \$'000	1H18 \$'000
12,435	33,382
11,476	12,313
23,911	45,695

(3) Refer to Note 5.

(4) Revenue and EBITDA eliminated for discontinued operations in this segment note excludes revenues and EBITDA that would be retained by the Di Bella Coffee and Manufacturing and Distribution divisions should the asset sale be completed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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	1H19 \$'000	1H18 \$'000
Revenue from sale of goods	145,472	153,951
Revenue from sale of franchise agreements <sup>(1)</sup>	21,705	18,422
Revenue from sale of distribution rights <sup>(1)</sup>	3,524	4,409
	<u>170,701</u>	<u>176,782</u>
Other revenue	505	1,339
	<u>171,206</u>	<u>178,121</u>

(1) As the Group has applied the modified retrospective approach on adoption of AASB 15, the comparative information provided is based on AASB 118. See Note 2.4 for details regarding the change in accounting policy and the impact on the current period amounts recognised.

The Group's primary revenue streams include revenue from the sales of goods, revenue from franchise agreements and revenue from the sale of distribution rights across the following operating divisions:

	Bakery/Cafe	OSR	Coffee Retail	Di Bella Coffee	Manufacturing & Distribution	Discontinued Operations	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from sale of goods	9,404	2,859	22,846	21,706	88,673	(16)	145,472
Revenue from sale of franchise agreements	17,110	8,986	12,775	-	-	(17,166)	21,705
Revenue from sale of distribution rights	3,573	1,456	369	256	25	(2,155)	3,524
Other revenue	257	901	534	208	34	(1,429)	505
TOTAL	<u>30,343</u>	<u>14,203</u>	<u>36,523</u>	<u>22,170</u>	<u>88,732</u>	<u>(20,765)</u>	<u>171,206</u>

The Group's revised accounting policies in accordance with AASB 15 are as follows:

#### *Revenue from the sale of goods*

The Group sells a range of coffee, coffee related products, bakery goods and other food items. The sale of these goods is recognised when the control of the products passes to the customer.

Revenues from the sale of goods, in some instances, attract volume discounts based on sales over various periods. Revenue from these sales is recognised at the price in the contract, net of the expected volume discounts. The volume discounts are estimated based on the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur when discounts are finalised.

#### *Processing of dairy products*

The Group receives a fee in respect of processing of a range of dairy products. In these arrangements, the Group is considered to be an agent on the basis that the Group is not exposed to the inventory risk of the products to be processed. Revenue is recognised when the Group has satisfied its performance obligation, which is when the processed dairy products are transferred to the customer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. Revenue and other revenue (continued)

### *Revenue from franchise agreements*

The Group enters into franchise agreements and master franchise agreements (franchise agreements) with individual franchisees for the operation of the Group's various brand systems. The franchise agreements include a number of cash-flows at various stages of the franchise agreement including initial franchise fees on entry in the franchise agreements, royalties paid by franchisees throughout the term and marketing fees paid by franchisee as a contribution to marketing activities of the respective brands.

The franchise agreements have been assessed to contain one performance obligation being the grant of a licence to franchisees in order to allow them to access the Groups intellectual property over the term of the franchise agreements. The Group has determined that franchise agreements do not contain a material right to a discount on renewal.

This performance obligation is satisfied consistently over the term of the agreement. As such, initial franchise fees are recorded on a straight-line basis over the term of the franchise agreement.

In respect of ongoing sales based royalties and marketing fees received, the Group recognise revenue for these royalties and fees as the subsequent franchisee sales occur.

Initial franchise fees are payable on commencement of the franchise agreement, and the royalty is payable on a regular basis throughout the term of the agreement. Payment terms are typically 7 days.

Where long term settlement periods exist, the Group assesses whether the contract contains a significant financing component. Where a significant financing component does exist, revenue is adjusted for the effects of the time value of money.

### *Revenue from distribution rights*

The Group receives fees from suppliers in exchange for access to supply goods to the franchise network. On commencement of a supply distribution agreement, the Group may receive an upfront fee from the supplier. In addition, over the course of the supply distribution term, the Group also earns volume-based fees based on goods distributed by suppliers to the brand networks.

Each supply agreement has been assessed as having a single performance obligation relating to the grant of distribution rights to the suppliers for a specific period of time. This performance obligation is satisfied over the term of the agreement either on the basis of time elapsed or units delivered, depending on the terms of the distribution agreement. The ongoing volume-based licence fee is recognised when the subsequent supply occurs.

Payment terms of initial supplier licence fees vary across agreements. Where long term settlement periods exist, the Group determines the existence of a significant financing component. Where a significant financing component does exist, revenue is adjusted for the effects of the time value of money.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. Loss for the period from continuing operations

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

Consolidated	1H19 \$'000	Restated 1H18 \$'000
Cost of sales	115,065	108,879
Loss/(gain) on disposal of assets <sup>(2)</sup>	145	-
Write-down of inventory to net realisable value <sup>(1)</sup>	246	3,569
Write-down of property, plant and equipment <sup>(1)</sup>	12,646	11,325
Loss on sale of OLD properties <sup>(2)</sup>	696	1,431
Write-down of assets held for sale to fair value less costs to sell <sup>(1)</sup>	482	1,137
Impairment loss on intangible assets <sup>(1)</sup>	54,809	79,902
Impairment loss on trade receivables <sup>(1)</sup>	11,427	12,786
Impairment loss on loans carried at amortised cost <sup>(1)</sup>	5,696	698
Provisions for onerous leases and make good obligations <sup>(3)</sup>	7,096	14,506
Provisions for strategic review and franchisee support costs <sup>(4)</sup>	2,335	1,700
Contingent consideration deemed remuneration	250	273
Business restructuring costs <sup>(5)</sup>	8,249	6,790
Depreciation and amortisation expense:		
Depreciation of property, plant and equipment <sup>(1)</sup>	5,845	4,713
Amortisation of acquired intangible assets - customer contracts <sup>(1)</sup>	-	882
Amortisation - other <sup>(1)</sup>	786	21
Total depreciation and amortisation expense	6,631	5,616
Employee benefits expenses:		
Post-employment benefits (defined contribution plans)	2,773	3,144
Other employee benefits (wages and salaries)	41,837	42,564
Total employee benefits expense	44,610	45,708

- (1) Amounts are included in other expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
- (2) Amounts are included in other gains and losses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
- (3) Amount is included in occupancy expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
- (4) Amount is included in administration expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
- (5) Amount is included within operating expenses, administration expenses and occupancy expenses dependent on the nature of the underlying transaction.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. Impairment & Provisions

The Group has performed an assessment for assets that may be impaired, in accordance with Australian Accounting Standards, which has resulted in the Group recognising a \$123.7 million pre-tax (\$104.2 million post-tax) expense for impairment and provisions as follows:

Consolidated	Impairment and provisions \$'000 <sup>(1)</sup>
Trade and other receivables	(12,883)
Inventory	(667)
Other financial assets	(7,107)
Assets held for sale	(482)
Property, plant & equipment	(13,128)
Intangible assets	(78,747)
Provisions	(10,660)
<b>Pre-tax Total</b>	<b>(123,674)</b>
Current tax assets	4,724
Deferred tax assets	9,148
Deferred tax liabilities	5,650
<b>Post-tax Total</b>	<b>(104,152)</b>

(1) Includes discontinued operations.

### Trade and other receivables

A \$12.9 million pre-tax (\$9.0 million post-tax) provision has been recognised in respect of expected losses on trade receivables. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the estimated recoverable amount.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. On that basis, the carrying amount of overdue trade receivables net of applicable loss allowances is as follows;

Consolidated	1H19 \$'000	FY18 \$'000
31 – 60 days	1,886	3,973
61 – 90 days	-	1,654
91 + days	-	4,170
	<b>1,886</b>	<b>9,797</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. Impairment & Provisions (continued)

### Inventory

An amount of \$0.7 million pre-tax (\$0.5 million post-tax) has been expensed in respect of inventory write-downs relating to the following:

- \$0.3 million write-downs of company-owned stores; and
- \$0.4 million write-downs of slow moving and obsolete stock.

### Other financial assets

A \$7.1 million pre-tax (\$5.0 million post-tax) provision has been recognised in respect of individually impaired vendor finance loans receivable. The impairment recognised represents the difference between the carrying amount of these loan receivables and the present value of the estimated recoverable amount.

### Assets held for sale

An amount of \$0.5 million pre-tax (\$0.3 million post-tax) impairment expense has been recognised on assets held for sale with respect to coffee assets. The impairment recognised represents the difference between the carrying amount of the those assets and the estimated recoverable amount.

### Property, plant & equipment

An amount of \$13.1 million pre-tax (\$9.2 million post-tax) has been recognised in respect of write-downs of property, plant and equipment relating to discontinued projects and redundant systems and assets.

### Intangibles

Impairment losses totalling \$78.7 million pre-tax (\$72.7 million post tax) has been recognised for the period ended 31 December 2018 with respect to the following cash generating units:

- Brand systems and other intangibles: Gloria Jeans Systems (\$7.1 million), Brumby's Bakeries System (\$6.3 million), Di Bella Coffee (\$2.6 million), Crust Pizza (\$1.6 million), Café 2 U (\$1.2 million), The Coffee Guy (\$0.9 million), Pizza Capers (\$0.2 million), Donut King (\$0.1 million), and Michel's Patisserie (\$0.1 million); and
- Goodwill: Di Bella Coffee Division (\$25.9 million), Bakery/Café Division (\$15.7 million), QSR Division (\$12.7 million), Manufacturing & Distribution Division (\$3.1 million) and Coffee Retail Division (\$1.2 million).

The impairment recognised represents the difference between the carrying values of the CGUs and their recoverable amounts. The key assumptions and methodology behind the assessment of impairment of CGUs is more particularly detailed in Note 10.

### Provisions

An amount of \$10.7 million pre-tax (\$7.5 million post-tax) has been recognised in respect of provisions for the following:

- Onerous leases and associated make-goods for stores where the Group is the head on the lease and which have been assessed as high risk of closure (\$5.9 million);
- A provision for supply contracts considered onerous until their completion (\$2.2 million); and
- A provision for strategic review and franchisee support costs (\$2.6 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. Cash and cash equivalents

For the purposes of the 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 statement of cash flows, can be reconciled to the related items in the consolidated statement of financial positions as follows:

### 7.1 Reconciliation of cash and cash equivalents

Consolidated	1H19 \$'000	FY18 \$'000
Cash and bank balances	20,467	18,979
Cash and bank balances included in disposal group held for sale	4,823	-
Less: Restricted cash	(4,252)	(3,108)
	<u>21,038</u>	<u>15,871</u>

### 7.2 Restricted cash

Restricted cash relates to cash reserved for marketing specific pursuits and unclaimed dividends. As at 31 December 2018, restricted cash balances totalled \$4.3 million (FY18: \$3.1 million). These restricted cash balances have not been included in the period end cash balances for the purposes of the consolidated statement of cash flows.

## 8. Assets/Liabilities classified as held for sale

Consolidated	1H19 \$'000	FY18 \$'000
<b>Assets classified as held for sale</b>		
Land and Buildings	-	8,880
Equipment	-	482
Disposal Groups <sup>(1)</sup>	133,132	-
	<u>133,132</u>	<u>9,362</u>
<b>Liabilities classified as held for sale</b>		
Finance lease liability	-	(3,769)
Disposal Groups <sup>(1)</sup>	(45,792)	-
	<u>87,340</u>	<u>5,593</u>

(1) Refer to Note 18 for information about assets and liabilities of disposal groups that were classified as held for sale as at 31 December 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. Property, plant and equipment

		Land & buildings at cost	Leasehold improvements at cost	Plant & equipment at cost	Motor vehicles at cost	Total
Consolidated	Notes	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross carrying amount</b>						
Balance as at 1 July 2017		21,982	3,054	89,108	2,541	116,685
Additions		2,038	266	19,553	551	22,408
Disposals		(6,806)	(13)	(4,507)	(158)	(11,484)
Reclassification of inventories		-	-	(543)	-	(543)
Fair value adjustment		-	-	(1,293)	-	(1,293)
Assets classified as held for sale		(12,978)	-	(837)	-	(13,815)
Effect of movements in exchange rates		-	(4)	112	-	108
<b>Balance as at 30 June 2018</b>		<b>4,236</b>	<b>3,303</b>	<b>101,593</b>	<b>2,934</b>	<b>112,066</b>
Additions		-	-	1,717	22	1,739
Disposals		(4,236)	(13)	(5,126)	(568)	(9,943)
Reclassification of inventories		-	-	(1,777)	-	(1,777)
Assets classified as held for sale	18	-	-	(8,279)	(20)	(8,299)
Effect of movements in exchange rates		-	5	99	-	104
<b>Balance as at 31 December 2018</b>		<b>-</b>	<b>3,295</b>	<b>88,227</b>	<b>2,368</b>	<b>93,890</b>
<b>Accumulated depreciation and impairment losses</b>						
Balance as at 1 July 2017		(773)	(698)	(19,298)	(362)	(21,131)
Reclassification of inventories		-	-	(235)	-	(235)
Disposals		565	6	2,041	15	2,627
Depreciation charge		(29)	(252)	(10,462)	(460)	(11,203)
Impairment losses		(3,999)	-	(13,300)	(199)	(17,498)
<b>Balance as at 30 June 2018</b>		<b>(4,236)</b>	<b>(944)</b>	<b>(41,254)</b>	<b>(1,006)</b>	<b>(47,440)</b>
Assets classified as held for sale	18	-	-	5,703	18	5,721
Reclassification of inventories		-	7	909	-	916
Disposals		4,236	13	5,097	251	9,597
Depreciation charge		-	(188)	(5,957)	(226)	(6,371)
Impairment losses		-	(458)	(12,670)	-	(13,128)
<b>Balance as at 31 December 2018</b>		<b>-</b>	<b>(1,570)</b>	<b>(48,172)</b>	<b>(963)</b>	<b>(50,705)</b>
<b>Net book value</b>						
As at 30 June 2018		-	2,359	60,339	1,928	64,626
As at 31 December 2018		-	1,725	40,055	1,405	43,185

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets

### 10.1 Intangible assets

		Indefinite Life			Finite Life	Total
		Goodwill	Brand Networks	Intellectual Property Rights	Other	
Consolidated	Notes	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross carrying amount</b>						
Balance as at 1 July 2017		270,537	429,305	5,337	15,067	720,246
Additions		-	200	-	538	738
Acquisitions through business combinations		2,603	-	-	-	2,603
Exchange differences		(133)	(38)	-	-	(171)
<b>Balance as at 30 June 2018</b>		<b>273,007</b>	<b>429,467</b>	<b>5,337</b>	<b>15,605</b>	<b>723,416</b>
Additions		-	38	-	397	435
Exchange differences		128	37	-	3	168
Assets classified as held for sale	18	(34,654)	(78,037)	-	-	(112,691)
<b>Balance as at 31 December 2018</b>		<b>238,481</b>	<b>351,505</b>	<b>5,337</b>	<b>16,005</b>	<b>611,328</b>
<b>Accumulated amortisation and impairment losses</b>						
Balance as at 1 July 2017		-	(48,894)	-	(2,426)	(51,320)
Amortisation expense		-	-	-	(1,881)	(1,881)
Impairment losses recognised in profit or loss		(128,256)	(177,418)	-	(478)	(306,152)
<b>Balance as at 30 June 2018</b>		<b>(128,256)</b>	<b>(226,312)</b>	<b>-</b>	<b>(4,785)</b>	<b>(359,353)</b>
Amortisation expense		-	-	-	(930)	(930)
Impairment losses recognised in profit or loss		(58,601)	(19,509)	-	(637)	(78,747)
<b>Balance as at 31 December 2018</b>		<b>(186,857)</b>	<b>(245,821)</b>	<b>-</b>	<b>(6,352)</b>	<b>(439,030)</b>
<b>Net book value</b>						
As at 30 June 2018		144,751	203,155	5,337	10,820	364,063
As at 31 December 2018		51,624	105,684	5,337	9,653	172,298

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets (continued)

### 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.

The market capitalisation of the Group reduced significantly in 1H19 to circa \$55 million, based on the closing share price at 31 December 2018, indicating the carrying value of the net assets of the Group may be impaired as compared to its market capitalisation.

Additionally, the financial performance of the Group is being impacted whilst involved in a significant turnaround process, with requirement for debt reduction to strengthen the balance sheet.

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 FY20 sustainable earnings, and the present increased risk profile of the Group. The outcome of this assessment was an impairment charge of \$78.7 million pre-tax.

### *Indefinite and finite intangible assets*

There are a total of ten CGU's in existence, with eight CGU's attributable to the operation of the Group's Brand Systems, the ninth CGU attributable to the coffee roasting business, and the tenth CGU attributable to the Manufacturing & Distribution business. Three CGU's attributable to the operation of the Group's Brand Systems have been reclassified to held for sale as at 31 December 2018, as indicated in Note 10.3.

### *Goodwill*

Goodwill is monitored by management at the level of the five operating segments identified in Note 3.1 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.

## 10.2 Allocation of goodwill to cash-generating units

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

Goodwill allocation	1H19 \$'000	FY18 \$'000
Bakery/Café Systems	14,945	52,864
OSR Systems	-	25,092
Coffee Retail Systems	17,239	18,436
Di Bella Coffee	4,278	30,067
Manufacturing & Distribution	15,162	18,292
	<u>51,624</u>	<u>144,751</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets (continued)

### 10.3 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	1H19 \$'000	FY18 \$'000
Donut King Brand System <sup>(1)</sup>	-	36,201
Brumby's Bakeries Brand System	24,552	30,797
Michel's Patisserie Brand System	23,009	23,062
Pizza Capers Gourmet Kitchens Brand System (PC) <sup>(1)</sup>	-	8
Crust Gourmet Pizza Bars Brand System (CGP) <sup>(1)</sup>	-	43,097
The Coffee Guy Brand System	-	919
Café2U Brand System	6,970	8,168
Gloria Jeans Brand System	44,841	51,969
Di Bella Coffee	11,649	14,271
	<u>111,021</u>	<u>208,492</u>

(1) Reclassified as assets held for sale.

### 10.4 Impairment losses and recoverable amounts

During the period to 31 December 2018, impairment losses totalling \$78.7 million pre-tax (\$72.7 million post tax) have been recognised in respect of the following cash-generating units.

The recoverable amounts of each of these cash-generating units for which an impairment was recognised are also presented below:

Cash-generating unit	Impairment charge	Recoverable amount
<i>Brands</i>		
Donut King	\$0.1m	-
Michel's Patisserie	\$0.1m	\$18.4m
Brumby's Bakeries	\$6.3m	\$22.7m
Crust Pizza	\$1.6m	-
Pizza Capers	\$0.2m	-
Gloria Jeans	\$7.1m	\$37.8m
Café 2U	\$1.2m	\$7.0m
The Coffee Guy	\$0.9m	\$0.5m
Di Bella Coffee	\$2.6m	\$28.6m
<i>Goodwill</i>		
Bakery/Café CGU	\$15.7m	\$29.5m
Quick Service Restaurant (QSR) CGU	\$12.7m	-
Coffee Retail CGU	\$1.2m	\$53.5m
Di Bella Coffee CGU	\$25.9m	\$30.5m
Manufacturing & Distribution CGU	\$3.1m	\$20.5m

### 10.5 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 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 discounted cash-flow is based on the following key assumptions and estimates:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets (continued)

### 10.5 Key assumptions used for calculating recoverable amounts (continued)

#### Year 1 cash-flows

Year 1 cash-flows are based on management's expectations of future performance, specifically incorporating the planned reduction in domestic franchise outlets previously referred to and the cash-flows expected to be incurred associated with these closures.

#### Annual cash-flow growth

The cash-flows in year's two to five are based on management's expectation of cash-flows following the store closure program and the expected normalised, like for like growth in a reduced domestic store network.

#### Terminal growth

An indefinite terminal growth rate of 2% has been applied to all cash-flows to extrapolate these beyond the five year budget period. This rate is consistent with long term industry growth rates.

#### Discount Rates

The following pre-tax discount rates have been applied to reflect the specific risks within each operating segment.

Cash-generating unit	Discount rate
Bakery/Café	17.40%
QSR Systems	15.29%
Coffee Retail Systems	17.43%
Di Bella Coffee	16.57%
Manufacturing & Distribution	16.43%

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 value in use calculation based on the following key assumptions and estimates:

#### Year 1 cash-flows

Year 1 cash-flows are based on management's expectations of future performance, specifically incorporating the planned reduction in domestic franchise outlets previously referred to and the cash-flows expected to be incurred associated with these closures.

#### Annual cash-flow growth

The cash-flows in year's two to five are based on management's expectation of cash-flows following the store closure program and the expected normalised, like for like growth in a reduced domestic store network.

#### Terminal growth

An indefinite terminal growth rate of 2% has been applied to all cash-flows to extrapolate these beyond the five year budget period. This rate is consistent with long term industry growth rates.

#### Discount Rates

The following pre-tax discount rates have been applied to reflect the specific risks within each operating segment.

Cash-generating unit	Discount rate
Donut King Brand System	17.43%
Brumby's Bakeries Brand System	17.40%
Michel's Patisserie Brand System	17.40%
Crust Gourmet Pizza Bars Brand System	15.29%
The Coffee Guy Brand System	17.43%
Café 2U Brand System	17.43%
Gloria Jeans Brand System	17.43%
Di Bella Coffee Brand System	16.57%
Manufacturing & Distribution	16.43%



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Intangible assets (continued)

### 10.5 Key assumptions used for calculating recoverable amounts (continued)

#### Significant estimate: Impact of reasonably possible change in key assumptions

The recoverable amounts in respect of those cash-generating units against which an impairment loss has been recognised continue to be highly sensitive to a range of assumptions, in particular the growth rates in the cash-flow forecasts.

#### *Identifiable intangible assets*

Impairment charges have been taken on all brand system cash-generating units.

#### *Goodwill*

Impairment charges have been taken on all cash-generating units to which goodwill is allocated during the period.

Accordingly, any downwards movement in the growth rate underpinning the calculation of the recoverable amounts of those cash-generating units where an impairment charge has been recognised will result in further impairment. The growth rate assumptions for these cash-generating units were:

Cash-generating unit	Average growth rate years 2 - 5
<i>Brands</i>	
Brumby's Bakeries	0.9%
Crust Gourmet Pizza	0.9%
The Coffee Guy	(0.5%)
Café 2 U	(0.4%)
Gloria Jeans	0.9%
Di Bella Coffee	0.9%
<i>Goodwill</i>	
Bakery/Café	0.9%
QSR	0.9%
Di Bella Coffee	0.9%
Manufacturing & Distribution	0.9%

The following table outlines the headroom, growth rates and sensitised growth rates which would trigger impairment in the following cash-generating units, where recoverable amount is determined by the value in use model, that are also sensitive to a reasonably possible movement in the growth rate:

Cash-generating unit	Headroom	Average growth rate years 2 - 5	Average growth rate years 2 - 5 to trigger impairment
<i>Brands</i>			
Michel's Patisserie	\$6.1m	0.9%	(7.0%)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. Deferred tax balances

Consolidated 1H19	Opening balance	Impact of transition to AASB15 at 1 July 2018	Recognised in profit or loss	Reclass to Held for sale	Recognised directly in equity	Recognised in other comprehensive income	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000

### Temporary differences

Intangible assets	(63,288)	-	2,849	23,534	-	-	(36,905)
Unrealised exchange differences	(100)	-	(28)	-	-	-	(128)
Employee benefits	1,405	-	(148)	-	-	-	1,257
Provisions	9,657	-	(946)	(1,715)	-	-	6,996
Doubtful debts	12,692	-	1,869	(2,657)	-	-	11,904
Unearned income	821	13,219	(1,135)	(3,837)	-	-	9,068
Share issue costs	317	-	(83)	-	9	-	243
Other	706	-	597	-	-	(448)	855
	(37,790)	13,219	2,975	15,325	9	(448)	(6,710)

### Unused tax losses and credits

Tax (losses)/credits	5,858	-	15,767	-	-	-	21,625
	5,858	-	15,767	-	-	-	21,625
	(31,932)	13,219	18,742	15,325	9	(448)	14,915

Consolidated FY18	Opening balance	Recognised in profit or loss	Recognised directly in equity	Recognised in other comprehensive income	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000

### Temporary differences

Intangible assets	(118,091)	54,803	-	-	(63,288)
Unrealised exchange differences	9	(109)	-	-	(100)
Employee benefits	1,515	(110)	-	-	1,405
Provisions	5,286	4,371	-	-	9,657
Doubtful debts	3,027	9,665	-	-	12,692
Unearned income	1,130	(309)	-	-	821
Share issue costs	451	(277)	143	-	317
Other	362	425	-	(81)	706
	(106,311)	68,459	143	(81)	(37,790)

### Unused tax losses and credits

Tax (losses)/credits	535	5,323	-	-	5,858
	535	5,323	-	-	5,858
	(105,776)	73,782	143	(81)	(31,932)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. Deferred tax balances (continued)

Deferred tax balances are presented in the statement of financial position as follows:

Consolidated	1H19 \$'000	FY18 \$'000
Deferred tax assets	52,155	32,255
Deferred tax liabilities	(37,240)	(64,187)
	<u>14,915</u>	<u>(31,932)</u>

The deferred tax assets include an amount of \$21.6 million which relates to carried forward tax losses of the Group. The Group has incurred these losses in the prior financial year and current six month period as a result of events that are not expected to continue indefinitely. Whilst the Group has experienced these challenges, the deferred tax assets in respect of losses are expected to be recovered as the business currently generates underlying profits and the Group therefore expects to generate taxable income from 2020 onwards once the impact of these events have passed. The losses can be carried forward indefinitely and have no expiry date.

## 12. Borrowings

Consolidated	1H19 \$'000	FY18 \$'000
<b>Secured at amortised cost</b>		
<b>Current</b>		
Bank loans <sup>(1)</sup>	258,754	265,000
Equipment loans	23	20
Borrowing costs (deferred)	(521)	(773)
Other Loans	584	-
	<u>258,840</u>	<u>264,247</u>
<b>Secured at amortised cost</b>		
<b>Non-current</b>		
Equipment loans	38	49
	<u>258,878</u>	<u>264,296</u>

- (1) On 21 December 2018 the Group received a waiver from its lenders to amend the date of this review event from 31 December 2018 to 28 February 2019. The lenders also agreed on the 21 December 2018 to suspend the testing of the Financial Covenants for the period ending 31 December 2018. Lending covenants are presented in the following table:

Financial covenants and conditions	
Covenant testing	Quarterly on 31 March, 30 June, 30 September and 31 December
Operating Leverage ratio (Secured Net Debt/EBITDA)	5.0x to December 2018; 4.5x to March 2019; 4.0x from 1 April 2019 onwards;
Interest cover ratio (EBITDA/interest costs)	Greater than or equal to 3.0x
Mandatory prepayment – asset sales	100% of net proceeds
Tenor of facilities	31 October 2019

Refer to Note 2.2 Going Concern for further information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. Issued capital

Consolidated	1H19 \$'000	FY18 \$'000
182,745,510 fully paid ordinary shares (FY18: 182,745,510)	428,640	428,640
	<u>428,640</u>	<u>428,640</u>

Consolidated	1H19 No. '000	1H19 \$'000	FY18 No. '000	FY18 \$'000
<b>Fully paid ordinary shares <sup>(1)</sup></b>				
Balance at beginning of period	182,745	428,640	176,736	402,472
Issue of ordinary shares	-	-	6,009	26,503
Share issue costs	-	-	-	(477)
Related income tax	-	-	-	142
Balance at end of period	<u>182,745</u>	<u>428,640</u>	<u>182,745</u>	<u>428,640</u>

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

## 14. Reserves

Equity-settled employee benefits reserve	1H19 \$'000	FY18 \$'000
Balance at beginning of period	67	85
Recognition of share-based payments	<u>(7)</u>	<u>(18)</u>
Balance at end of period	<u>60</u>	<u>67</u>

Foreign currency translation reserve	1H19 \$'000	FY18 \$'000
Balance at beginning of period	987	1,254
Exchange difference on translation of foreign operations	<u>350</u>	<u>(267)</u>
Balance at end of period	<u>1,337</u>	<u>987</u>

Hedging reserve	1H19 \$'000	FY18 \$'000
Balance at beginning of period	(1,045)	(1,233)
Changes in the fair value of cashflow hedges	(129)	268
Amounts derecognised due to hedge ineffectiveness	1,135	-
Deferred tax	<u>39</u>	<u>(80)</u>
Balance at end of period	<u>-</u>	<u>(1,045)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. Reserves (continued)

Marketing Fund surplus	1H19 \$'000	FY18 \$'000
Balance at beginning of period	-	-
Transfer from retained earnings	3,915	-
Marketing fund reserves attributable to disposal group	(2,969)	-
Surplus	81	-
Balance at end of period	1,027	-
Total Reserves	2,424	9

### Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

#### Hedging reserve

##### *Amounts recognised in profit or loss*

During the period, the following amounts were derecognised from other reserves and recognised in profit or loss in relation to hedge ineffectiveness of interest rate swaps;

	1H19 \$'000	FY18 \$'000
Hedge ineffectiveness of interest rate swaps - amounts recognised in financing expenses	1,135	-

During the period the Group assessed that the interest rate swaps due to mature in 2020 and 2021 became ineffective due to differences in critical terms between the interest rate swaps and the underlying floating rate loans. The Group renegotiated its lending facilities in August 2018, with these now being due to expire in October 2019 (previously December 2020 and 2021).

The Group has continued to account for these derivative financial instruments under AASB 139.

There was no ineffectiveness during 2018 in relation to these swaps.

## 15. Retained earnings

Consolidated	1H19 \$'000	FY18 \$'000
Balance at beginning of period	(270,610)	62,594
Net (loss)/profit attributable to members of the parent entity	(111,134)	(306,694)
Dividends provided for or paid	-	(26,510)
Opening adjustment for adoption of AASB 15	(25,848)	-
Net (loss)/profit attributable to Marketing Funds reclassified to Other Reserves	(81)	-
Transfer of marketing fund surpluses to other reserves	(3,915)	-
Balance at end of period	(411,588)	(270,610)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. Dividends

Company	1H19		1H18	
	Cents Per Share	Total \$'000	Cents Per Share	Total \$'000
<b>Recognised amounts</b>				
<u>Fully paid ordinary shares</u>				
Final FY17 dividend - fully franked at 30% tax rate <sup>(1)</sup>	-	-	15.00	26,510

(1) The Directors have resolved that no interim dividend will be paid in respect of 1H19.

## 17. Financial instruments - Fair value

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

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3, based on the degree to which the fair value is observable.

### *Recognised fair value measurements*

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2018.

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

<i>Recurring fair value measurements</i> At 31 December 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Derivatives used for hedging - interest rates swaps	-	1,677	-	1,677
Contingent consideration	-	-	97	97
<b>Total financial liabilities</b>	-	1,677	97	1,774

<i>Recurring fair value measurements</i> At 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial Liabilities</b>				
Derivatives used for hedging - interest rates swaps	-	1,547	-	1,547
Contingent consideration	-	-	344	344
<b>Total financial liabilities</b>	-	1,547	344	1,891

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. Financial instruments - Fair value (continued)

Consolidated	Contingent consideration payable \$'000
Opening balance 1 July 2018	344
Cash payments	(250)
Finance costs	3
Closing balance 31 December 2018	97

## 18. Discontinued operations

Each of the Donut King, Pizza Capers Gourmet Kitchen, and Crust Gourmet Pizza Bar Brand Systems ("DK/QSR operations") have (having regard to the progress which had been achieved in their sale process by 31 December 2018) been classified as a disposal group held for sale and presented separately in the statement of financial position. DK/QSR operations form part of Bakery/Café and QSR reportable segments. Financial information relating to the discontinued operation for the period to 31 December 2018 is set out below.

An impairment loss of \$23.2 million has been recognised before classification of these operations as held for sale. The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

Consolidated	1H19 \$'000
Cash and cash equivalents	4,823
Trade and other receivables	3,765
Other financial assets	1,033
Inventories	26
Property, plant and equipment	2,578
Intangible assets	112,691
Deferred tax assets	8,209
Other assets	7
<b>Total assets classified as held for sale</b>	<b>133,132</b>
Trade and other payables	799
Provisions	5,570
Deferred tax liabilities	23,534
Other liabilities	15,889
<b>Liabilities directly associated with assets classified as held for sale</b>	<b>45,792</b>
<b>Net assets of disposal group</b>	<b>87,340</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. Discontinued operations (continued)

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

Consolidated	1H19 \$'000	1H18 \$'000
Revenue	20,765	17,460
Expenses	(37,598)	(22,377)
Loss before income tax	(16,833)	(4,917)
Attributable tax (expense)/benefit	(1,605)	1,453
Net loss attributable to discontinued operations	(18,438)	(3,464)
<b>Earnings per share</b>		
From discontinuing operations:		
Basic (cents per share)	(10.1)	(1.9)
Diluted (cents per share)	(10.1)	(1.9)

During the 1H19, net cash inflow from operating activities of DK/QSR operations was \$1.3 million (1H18: \$2.9 million), net cash outflow from investing activities was \$0.5 million (1H18: \$1.4 million) and net cash inflow from financing activities was \$2.0 million (1H18: \$4.3 million).

### Accounting policy:

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

## 19. Events after the reporting period

Subsequent to 31 December 2018, the Company has resolved to close the Bakery Fresh wholesale bakery business. The business will cease operations in the 2019 calendar year, when existing contractual commitments are completed.

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 Board of Directors has resolved that no interim dividend will be paid in FY19.



Company Secretary	Registered Office	Principal Administration Office	Share Registry
Mr Anthony Mark Connors RFG House 1 Olympic Circuit Southport QLD 4215	RFG House 1 Olympic Circuit Southport QLD 4215	RFG House 1 Olympic Circuit Southport QLD 4215	Computershare Investor Services Level 1 200 Mary Street QLD 4000