RETAIL FOOD GROUP
RFG
STRENGTH IN BRANDS

Retail Food Group Limited ABN 31 106 840 082


DONUT KING
Life is a hole lot sweeter with

cafe bb's
BREWED FRESH

# Prospectus

**Prospectus for the underwritten offer of 34,117,757 Existing Shares and 2,382,243 New Shares.**

Underwriter and Lead Manager

Wilson HTM
INVESTMENT GROUP


RETAILFOODGROUP
RFG
STRENGTH IN BRANDS


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# Important *notice*

This Prospectus is dated 9 May 2006 and a copy of this Prospectus was lodged with ASIC on that date. Neither ASIC nor ASX takes any responsibility for the content of this Prospectus or the merits of the investment to which this Prospectus relates. The Company will apply for quotation of the Shares on ASX within seven days after the date of this Prospectus. No securities will be sold or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

You should read this Prospectus in its entirety before deciding to complete and lodge an Application Form or Priority Offer Application Form. In particular, in considering the prospects of the Company, you should consider the assumptions underlying the financial information and the risk factors that could affect the financial performance of the Company. You should consider these factors in light of your personal circumstances (including financial and taxation issues). If you have any questions you should seek professional advice from your stockbroker, accountant or other professional adviser before deciding to invest. Some of the risk factors that should be considered by potential investors are outlined in Section 7.

Applications for Shares can only be made on the Application Form or Priority Offer Application Form contained at the back of this Prospectus or a paper copy of the Application Form or Priority Offer Application Form in the online version of this Prospectus, completed in accordance with the instructions on the back of that Application Form or Priority Offer Application Form. No Application Form or Priority Offer Application Form will be accepted if sent in electronic form. The Corporations Act prohibits the Company from processing Applications in the seven day period after the date of lodgement of this Prospectus with ASIC. This period may be extended by ASIC by up to a further seven days. This period is an exposure period to enable the Prospectus to be examined by market participants prior to the raising of funds. Applications received during the exposure period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the exposure period.

### Foreign Jurisdictions

This Prospectus does not constitute an offer in any jurisdiction in which, or to any person to whom, it would be unlawful to make such an offer. No action has been taken to register or qualify the Offer or Priority Offer under this Prospectus, or to otherwise permit an offering of Shares, in any jurisdiction outside Australia. In particular, the Offer and the Priority Offer do not and will not constitute an offer of securities within the United States. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. The return of a duly completed Application Form or Priority Offer Application Form will be taken by the Company to constitute a representation and warranty made by the Applicant to the Company that there has been no breach of such laws and that all necessary approvals and consents have been obtained.

### Disclaimer

No person is authorised to give any information or make any representation in connection with the Offer or the Priority Offer described in this Prospectus that is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer or the Priority Offer.

### Definitions and Abbreviations

Defined terms and abbreviations used in this Prospectus are explained in the Glossary at the end of this document.

### Financial Amounts

The financial amounts in this Prospectus are expressed in Australian dollars unless otherwise stated.

### Photographs

The assets depicted in photographs in this Prospectus are not assets of the Company, unless otherwise stated.

# Key dates and details of *the Offer and Priority Offer*



| **Summary of key dates** | |
|---|---|
| Offer and Priority Offer open | 29 May 2006 |
| Priority Offer closes | 12 June 2006 |
| Offer closes | 16 June 2006 |
| Expected date for allotment of Shares | 20 June 2006 |
| Expected despatch of holding statements | 20 June 2006 |
| Shares expected to commence trading on ASX on a normal settlement basis | 22 June 2006 |

| **Summary of key Offer and Priority Offer details** | |
|---|---|
| Offer Price per Share | $1.00 |
| Maximum number of Shares in Offer (including the Priority Offer) | 36,500,000 |
| Priority Offer Price per Share | $0.90 |
| Maximum number of Shares in Priority Offer | 1,278,600 |
| Total Shares on issue on completion of the Offer and Priority Offer | 71,691,259 |
| Market capitalisation at the Offer Price | $71,691,259 |

| **Forecasts for the year ending** | **30 June 2006** | **30 June 2007** |
|---|---|---|
| Network Sales | $143.1 million | $156.7 million |
| Franchise Revenue | $15.9 million | $18.2 million |
| Marketing Fund Revenue | $5.0 million | $5.1 million |
| Other Revenue | $3.1 million | $1.4 million |
| Total revenue | $24.0 million | $24.7 million |
| EBIT | $10.1 million | $11.7 million |
| NPAT | | $7.4 million |
| Earnings per Share | | 10.3 cents |
| Forecast FY2007 dividend per Share (fully franked) | | 6.25 cents |
| EBIT multiple at the Offer Price | 8.5 times | 7.3 times |
| Price earnings multiple at the Offer Price | | 9.7 times |
| Forecast FY2007 dividend yield (fully franked) at the Offer Price | | 6.25% |

# Chairman's *letter*



Dear Investor,

On behalf of the Directors, I have great pleasure in offering you the opportunity to become a shareholder in Retail Food Group Limited.

Retail Food Group is the franchisor and intellectual property owner of the Donut King and bb's café franchise systems.

Since its inception in 1989, Retail Food Group has successfully grown the Donut King system from approximately 50 outlets to 261 outlets in Australia. Retail Food Group's specialist coffee and muffin retail concept, bb's café, comprises a total of 66 café outlets with 41 outlets in Australia and an additional 25 outlets in New Zealand.

As at 31 March 2006, our Total Network was 327 outlets making the Company one of the largest retail food franchise operators in Australia, with a significant presence in all Australian states and territories as well as New Zealand.

The Australian retail food industry includes a significant number of franchise operations. The Directors believe there is a genuine market opportunity for an experienced franchisor with proven management, training and support systems to consolidate a number of franchise systems. Retail Food Group is ideally positioned to leverage its franchise management systems and national presence to achieve and take advantage of economies of scale through multi-brand ownership.

In addition to assessing synergistic acquisition opportunities which would increase shareholder value, the Company is focused on driving organic earnings through continued and sustainable new outlet growth and driving Outlet Average Weekly Sales.

Under this Prospectus 34,117,757 Existing Shares are being offered for sale by the Vendor and the Company is offering a further 2,382,243 New Shares.

On successful completion of the Offer and Priority Offer, the Shares issued or transferred pursuant to this Prospectus will represent approximately 50.9% of the Company's total issued capital.

On behalf of my fellow Directors, I commend this investment opportunity to you and look forward to welcoming you as a Shareholder.

Yours sincerely,

**John Cowley AM**
Chairman

# Investment *highlights*



## One of the foremost Australasian retail food franchisors

- Established existing brands in Donut King and bb's café
- 327 outlets in Total Network[1]
- Annual Total Network Sales in excess of $139 million[2]
- Approximately 32.7 million customers served in FY2005[3].

**Notes:**

(1) As at 31 March 2006
(2) Achieved in FY2005 based on Franchisee reported outlet sales
(3) Based on number of individual transactions for Total Network.

## Attractive industry dynamics in retail food franchising

- The number of chain outlets in the fast food retailing sector has grown by 52.3% from 2001 to 2005 (Source: BIS Shrapnel, *Fast Food in Australia*)
- The Directors believe there is an opportunity for an experienced, well capitalised industry operator to implement a strategy of consolidating a number of food retail chains and franchise systems
- Retail Food Group is ideally positioned to implement such a strategy given its established and scaleable internal systems and national presence.

## Attractive margins

- The Company's franchise business model allows it to achieve strong profit margins and return on capital, with Franchisees wholly responsible for inventory and new outlet establishment costs
- In FY2007 the Company is forecasting:
  - EBIT of $11.7 million on revenue (excluding Marketing Fund Revenue) of $19.6 million representing a margin of 59.8%
  - Return on tangible assets of 142.7%[1]

**Notes:**

(1) Return on tangible assets = Forecast FY2007 EBIT/Tangible assets as per pro forma adjusted 31 December 2005 balance sheet. All calculations based on the Company's pro forma financial information which is included in Section 8.



## Committed and experienced management team

The Company's Senior Management Team has:

- A track record of growing the Donut King and bb's café franchise systems and since 2001 has grown the Total Network from 261 to 327 outlets
- An average of nine years tenure in the retail and/or franchising industry.

## Scaleable business model

- The rollout of additional outlets can be achieved with limited capital expenditure by the Company
- In addition, the Directors believe that the Company's established internal systems will ensure efficient and effective management of acquired franchise systems and brands.

## Diversified and robust revenue streams

- In addition to earning franchise service fees based on a percentage of Total Network Sales, Retail Food Group receives fees for the provision of a variety of services to Franchisees as well as licence revenue from suppliers
- A significant proportion of the Company's revenues are a function of Total Network Sales which provides revenue stability.


cafe bb's
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BAKED FRESH
relax & recharge
cafe bb's
BREWED FRESH
BAKED FRESH
relax & recharge


# 2 Investment *Overview*

**Retail Food Group is a leading Australian retail food brand manager and franchisor.**

# 2 Investment *Overview*



## 2.1 Overview of Retail Food Group

Retail Food Group is a leading Australian retail food brand manager and franchisor. The Company currently operates the Donut King and bb's café franchise systems which achieved Total Network Sales in excess of $139 million in FY2005.

As at 31 March 2006, Retail Food Group had 327 outlets in its Total Network, comprising:

- 261 Donut King outlets;
- 41 bb's café outlets in Australia; and
- an additional 25 bb's café outlets in New Zealand. Further information in relation to these outlets is set out in Section 5.8.

Retail Food Group continually develops and refines its internal procedures for the management of its franchise systems. The Directors believe that the Company's skills and systems can be adapted to the management of a broad range of retail food brands and franchising systems.

## 2.2 Key investment highlights

Retail Food Group has a number of attributes that the Directors believe make it an attractive investment opportunity:

**Track record of growth and potential for increase in profitability**

- Compound annual EBIT growth of 10.7% from FY2003 to FY2005
  - this has been achieved with a program of new outlet openings and no acquisition activity other than completion of the dissolution of the master franchise network
- The Company is forecasting:
  - Franchise Revenue of $15.9 million in FY2006 and $18.2 million in FY2007 representing growth of 8.2% in FY2006 and 14.5% in FY2007
  - Pro forma 2006 Forecast EBIT of $10.1 million and EBIT of $11.7 million in FY2007 representing growth of 13.5% in FY2006 and 15.8% in FY2007.

**Strong revenue and cash flow generation**

- Retail Food Group is a cash flow positive business, with the majority of its revenues recurrent and payable by Franchisees on a weekly basis
- The Company derives its revenues from a variety of different services including the licensing of its intellectual property.

**Attractive growth prospects**

- The Company will continue to drive earnings through a number of initiatives, primarily including:
  - expanding the Total Network through a program of new outlet openings
  - driving Outlet Average Weekly Sales growth through product promotion, menu adaptation and a range of other marketing initiatives in the Donut King and bb's café franchise systems
  - assessing and undertaking suitable acquisitions.

**Scaleable business model with strong systems to support expansion**

- Retail Food Group's national information technology infrastructure and point-of-sale till system is capable of supporting strong growth in new outlets
- Limited capital expenditure is required to maintain and enhance the Total Network with outlet development costs wholly funded by Franchisees
- Growth in the size of the Total Network will allow Retail Food Group to continue to negotiate favourable product supply arrangements and pricing for Franchisees
- Retail Food Group is experienced in managing franchise systems in Australia and New Zealand and will assess opportunities to expand its systems and brands internationally.



**Committed and experienced Board and management team**

- The Company's Senior Management Team has:
  - a track record of developing franchise businesses
  - an average tenure of five years with Retail Food Group
- The Company's management team is committed to delivering growth in outlets as well as revenue and earnings both at Company and Franchisee level
- No member of the management team who is associated with a Continuing Shareholder will sell more than 30% of their Shares into the Offer/Priority Offer.[1]

**Note:**
(1) See also Section 12.5.

**Attractive dividend yield**

- The Directors anticipate paying a fully franked dividend of 6.25 cents per Share in respect of FY2007 which will be the Company's first complete financial year following listing. This represents a yield of 6.25% based on the Offer Price.

## 2.3 Market opportunity

A key determinant of success for a franchisor is achieving a critical mass of outlets to generate revenue in excess of system overheads.

In 2004 approximately 60% of franchise systems in Australia had fewer than 30 franchise units and only 15% had more than 100 units. The average number of franchise units per franchisor in Australia was 26.

The Directors believe there is an opportunity for an experienced, well capitalised industry operator to implement a strategy of consolidating a number of food retail chains and franchise systems to achieve economies of scale through multi-brand ownership and leverage of existing franchise systems.

Potential direct cost savings may be achieved through improvements in compliance, reporting systems, and general administrative costs. Other potential benefits of scale include increased negotiating leverage with:

- shopping centres on rental costs
- suppliers of goods and services to the Company's franchise systems.

The Directors believe that the Company is positioned to be the 'acquirer of choice' for proprietors of other franchise systems seeking to exit their business and who wish to ensure minimal disruption to their business and network.

It is anticipated that potential vendors will be attracted by:

- the Company's ability to implement systems within its Total Network and successfully operate multiple franchise systems
- the Company's strong and experienced management team
- the potential to receive Shares in Retail Food Group as consideration for the sale of their business
- demonstrated strong cash flows
- financial capacity which can be supported through access to equity capital markets
- the knowledge that their franchisees will be managed and supported by a substantial, reputable, experienced and committed organisation
- the Company's ability to further the development of acquired brands.

## 2.4 Retail Food Group's growth strategy

The Company has in place a clear and defined strategy for driving growth. The key elements of this strategy include:

- continuing to achieve consistent and sustainable growth in new outlet openings
- driving Outlet Average Weekly Sales growth
- the CMF pilot which if successful, will be rolled out on a national basis allowing centralised manufacture and distribution of fresh food products into the majority of outlets
- continuing development of the Donut King and bb's café menus to increase customer purchase frequency and average purchase value
- encouragement of multi-outlet Franchisees
- assessing and undertaking suitable acquisitions
- expansion of the Company's brands internationally.


# 2 Investment *Overview*



## 2.5 Summary financial information

| | **Pro forma Adjusted Historical Financial Information[1]** | | | **Pro forma 2006 Forecast[2]** | **Forecast 2007[2]** |
|---|---|---|---|---|---|
| **Year ended 30 June $ million** | **2003** | **2004** | **2005** | **2006** | **2007** |
| Network Sales[3] | 105.9 | 119.0 | 129.6 | 143.1 | 156.7 |
| Franchise Revenue | 12.7 | 14.0 | 14.7 | 15.9 | 18.2 |
| Marketing Fund Revenue | 3.0 | 4.1 | 5.8 | 5.0 | 5.1 |
| Other Revenue | 1.3 | 2.4 | 3.6 | 3.1 | 1.4 |
| Total revenue | 17.0 | 20.5 | 24.1 | 24.0 | 24.7 |
| EBITDA[4] | 7.7 | 8.4 | 9.1 | 10.3 | 11.9 |
| EBIT[5] | 7.6 | 8.3 | 8.9 | 10.1 | 11.7 |
| NPAT | | | | | 7.4 |
| Earnings per Share | | | | | 10.3 cents |
| Dividend per Share post Offer and Priority Offer (fully franked) | | | | | 6.25 cents |

**Notes:**
(1) Historical financial information is presented on a pro forma basis. The pro forma adjusted historical financial information has been derived from audited and reviewed consolidated financial statements and accounting records relating to the Company which the Company considers appropriate to reflect the Company's operations following listing on ASX and to eliminate certain non-recurring items as if is those transactions and events had occurred effective for the periods presented. These adjustments are discussed in further detail in Section 8. The pro forma adjusted historical financial information has been prepared in accordance with the recognition and measurement principles prescribed in A-IFRS.
(2) In accordance with customary practice in offerings in Australia, this Prospectus includes forecast financial information. The forecast financial information is necessarily based upon a number of estimates and assumptions that, while presented with numerical specificity and considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies many of which are beyond the control of the Company, and upon estimates and assumptions with respect to future business decisions which are subject to change. These estimates and assumptions are discussed in greater detail in Section 8. The inclusion of forecast financial information in this Prospectus should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the underlying estimates or assumptions or that the Company will achieve or is likely to achieve any particular results. The forecast financial information presented in this Prospectus may vary from actual results, and these variations may be material.
(3) Network Sales are based on outlet sales reported by Franchisees to Retail Food Group and have not been independently audited or reviewed by Deloitte Touche Tohmatsu or Deloitte Corporate Finance Pty Limited.
(4) The Company believes that EBITDA and EBIT provide useful information, but should not be considered as an indication of, or alternative to, NPAT as an indicator of financial performance or as an alternative to cash flow as a measure of liquidity.
(5) The historical financial performance has been presented to the EBIT line only. This is because the Retail Food Group business operated under different corporate structure, gearing, treasury and tax profiles prior to the Offer and Priority Offer. Accordingly, reported historical borrowing expenses, income tax, and net financing cash flows are not considered to be meaningful or appropriate.



## 2.6 Ownership structure

The ownership structure of the Company immediately prior to, and at the completion of the Offer and Priority Offer, is shown in the table below:

| Shareholder | Pre Offer and Priority Offer | | Post Offer and Priority Offer | |
|---|---|---|---|---|
| | Shares | % | Shares | % |
| Continuing Shareholders | 35,191,259 | 50.8% | 35,191,259 | 49.1% |
| Vendor | 34,117,757 | 49.2% | – | – |
| New Shareholders | – | – | 36,500,000 | 50.9% |
| **Total** | **69,309,016** | **100%** | **71,691,259** | **100%** |

All Continuing Shareholders have entered into voluntary escrow arrangements with the Company whereby they have agreed that prior to the announcement of the FY2007 financial results, they will not dispose of any Shares held by them at completion of the Offer and Priority Offer, unless otherwise agreed by the Company. Details of the arrangements are set out in Section 11.3.

## 2.7 Dividend policy

Subject to the Company's forecasts being achieved and other relevant factors, the Directors propose to declare the following fully franked dividends in respect of the forecast periods.

| | Cents per share | Annualised dividend yield at Offer Price (%) |
|---|---|---|
| Forecast final dividend for year ending 30 June 2007[1] | 6.25 | 6.25% |

**Notes:**

(1) Full year dividend comprises interim dividend payable in approximately April 2007 and final dividend payable in approximately October 2007.

Subject to future business conditions and opportunities and the future cash flow requirements of the Company, the Directors currently propose to distribute between 50% and 70% of the Company's NPAT as fully franked dividends.

It is intended that fully franked dividends will be paid in approximately April and October each year.

## 2.8 Risks

There are a number of risks associated with an investment in the Company. A description of these risks is set out in Section 7.

Before deciding to invest in the Company, potential investors should read the Prospectus in its entirety and in particular, should consider the assumptions underlying the financial information and the risk factors that could affect the Company's operating and financial performance.

## 2.9 Purposes of the Offer and Priority Offer

The purposes of the Offer and Priority Offer are to:

- provide the Company with access to equity capital markets and a capital structure that will give flexibility for funding future acquisition opportunities
- provide an opportunity for Continuing Shareholders to realise part of their investment in the Company
- provide Eligible Priority Offer Participants with an opportunity to acquire an equity interest in the Company at a discount to the Offer Price
- raise working capital to assist the Company in meeting the costs of the Offer and the Priority Offer.

## 2.10 Offer and Priority Offer proceeds

The gross proceeds of the Offer and Priority Offer will be used as follows:

| | |
|---|---|
| Purchase of Shares from the Vendor | $34,117,757 |
| Expenses of the Offer and Priority Offer (excluding the Priority Offer discount) | $2,100,400 |
| Working capital Retail Food Group | $281,843 |
| **Total** | **$36,500,000** |

Retail Food Group will meet the expenses of the Offer and the Priority Offer (excluding the Priority Offer discount).

In addition, the discount available to Eligible Priority Offer Participants will be jointly funded by the Company and the Vendor. At completion of the Offer and the Priority Offer, the Vendor will refund to the Company approximately 40% of the difference between the Offer Price and the Priority Offer Price for each Share issued under the Priority Offer. Further information is provided in Section 3.

# 3 Details of the Offer and Priority Offer

**Investors are invited to apply for a total of 36,500,000 Shares.**

# 3 Details of the Offer and *Priority Offer*



## 3.1 Details of the Offer and the Priority Offer

Investors are invited to apply for a total of 36,500,000 Shares comprising:

- 2,382,243 New Shares, being offered by Retail Food Group
- 34,117,757 Existing Shares being offered by the Vendor.

A maximum of 1,278,600 Shares will be issued or transferred to Eligible Priority Offer Participants under the Priority Offer. These Shares will be issued or transferred at the Priority Offer Price of $0.90.

The remainder of Shares offered under this Prospectus will be offered at the Offer Price of $1.00 per Share.

Where the Priority offer is not fully subscribed, the balance of Shares not subscribed for will be reallocated to the Offer.

The discount available to Eligible Priority Offer Participants will be jointly funded by the Company and the Vendor. At completion of the Offer and the Priority Offer, the Vendor will refund to the Company approximately 40% of the difference between the Offer Price and the Priority Offer Price for each Share issued under the Priority Offer.

Following the Offer and the Priority Offer, the Shares issued or transferred pursuant to this Prospectus will represent approximately 50.9% of Retail Food Group's issued capital. The remaining 49.1% of Shares will be held by the Continuing Shareholders.

Details of voluntary escrow agreements in favour of the Company entered into by the Continuing Shareholders are contained in Section 11.3.

## 3.2 Structure of the Offer and the Priority Offer

The Offer is open to retail and institutional investors who receive the Offer in Australia, together with those investors located in Australia who have received a firm allocation from a broker.

Applications under the Offer must be for a minimum of 2,000 Shares ($2,000) and in increments of 500 Shares ($500) thereafter.

The Priority Offer is open to Eligible Priority Offer Participants.

Applications under the Priority Offer must be for a minimum of 560 Shares ($504) and in increments of 200 Shares ($180) thereafter.

## 3.3 How to apply for Shares

Eligible Priority Offer Participants should complete the Priority Offer Application Form. All other Applicants should complete the Application Form.

Applications for Shares can only be made by completing and lodging a paper copy of an Application Form or Priority Offer Application Form. No Application will be accepted if sent in electronic form.

Application Forms and Priority Offer Application Forms are attached to this Prospectus and the Prospectus in electronic form at www.rfg.com.au.

Persons who access the electronic version of this Prospectus should ensure they download and read the entire Prospectus. A paper copy of this Prospectus will be provided free of charge to any person who requests a copy by contacting the Underwriter on 1300 133 230 during the Offer or Priority Offer period.

Application Forms and Priority Offer Application Forms should be completed in accordance with the instructions on the back of the relevant form.

An Application Form or Priority Offer Application Form may only be distributed attached to a complete and unaltered copy of this Prospectus. Application Forms and Priority Offer Application Forms included with this Prospectus contain a declaration that the Applicant has personally received the complete and unaltered Prospectus prior to completing the Application Form or Priority Offer Application Form.

The Company will not accept a completed Application Form or Priority Offer Application Form if it has reason to believe that the Applicant has not received a complete paper or electronic copy of this Prospectus or if it has reason to believe that the Application Form, Priority Offer Application Form or electronic copy of the Prospectus has been altered or tampered with in any way. Applicants using the Application Form or Priority Offer Application Form attached to the electronic version of this Prospectus must be residents of Australia.

Whilst Retail Food Group believes that it is extremely unlikely that during the period of the Offer or the Priority Offer, the electronic version of the Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy of the Prospectus directly from the Underwriter or their financial adviser.

The completed Application Form or Priority Offer Application Form, together with a cheque for the value of the Shares applied for made payable to 'Retail Food Group Limited Share Offer' and crossed 'Not Negotiable', should be mailed or delivered to the following addresses respectively:

| Mailing address: | Delivery address: |
|---|---|
| Computershare Investor Services Pty Limited<br>GPO Box 523<br>Brisbane QLD 4001 | Computershare Investor Services Pty Limited<br>Level 19<br>307 Queen Street<br>Brisbane QLD 4000 |

**Broker firm allocations**

Applicants who have received a firm allocation of Shares from their broker must lodge their Application Form and Application Monies with their broker, in accordance with their broker's instructions, in order to receive their allocation. Neither the Company, the share registry or the Underwriter take any responsibility for any acts or omissions by brokers in connection with the Application Form or Application Monies.

Priority Offer Application Forms and cheques must be received by the share registry by no later than 5.00pm Brisbane time on 12 June 2006.

Completed Application Forms and cheques must be received by the share registry no later than 5.00pm Brisbane time on 16 June 2006.

Completion and lodgement of an Application Form or Priority Offer Application Form constitutes an irrevocable offer to subscribe for or purchase Shares on the terms and conditions set out in this Prospectus.

Enquires about the Offer or the Priority Offer should be directed to the Underwriter on 1300 133 230 during business hours.

## 3.4 Rights attaching to Shares

All Shares issued or transferred pursuant to this Prospectus will rank equally in all respects with the Existing Shares. The rights attaching to Shares are detailed in the Constitution. A summary of the Constitution is set out in Section 11.1.

## 3.5 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants for Shares under the Offer or Priority Offer. Stamp duty payable on sale of Shares (if any) will be borne by the Company or the Vendor.


# 3 Details of the Offer and *Priority Offer*



### 3.6 Allocation, transfer and allotment

The Underwriter (in consultation with the Company) has absolute discretion regarding the basis of allocation of Shares to Applicants. The Underwriter (in consultation with the Company) reserves the right to allocate Shares in full for any Application, to allocate any lesser number, or to decline an Application.

Where the Priority Offer is not fully subscribed, the balance of Shares not subscribed for will be reallocated to the Offer.

All Application Monies will be held in a special purpose trust account until Shares are issued to successful Applicants. Application Monies will be refunded (without interest and as soon as practicable) where the number of Shares allocated is less than the number applied for or if the Offer or Priority Offer is withdrawn. Applicants are taken to agree that the interest earned on all Application Monies received (whether accepted or refunded) belongs to Retail Food Group.

There is no provision to accept Applications for more than the number of Shares offered pursuant to this Prospectus.

Subject to ASX granting approval for the Company to be admitted to the official list of ASX, the Shares will be issued and allotted or transferred as soon as possible after the Closing Date.

### 3.7 Selling Shares

Applicants are responsible for confirming their allocation before trading in Shares. Applicants who sell Shares before receiving confirmation of their allocation do so entirely at their own risk.

### 3.8 ASX listing

The Company will apply for admission to the official list and quotation of the Shares on ASX within seven days after the date of this Prospectus. If granted, it is expected that trading of the Shares will commence as soon as is practicable after the issue of holding statements to investors. The Company has reserved the ASX code RFG.

If the Shares are not admitted to quotation on ASX within three months after the date of this Prospectus (or any longer period permitted by law) the Offer and the Priority Offer will not proceed and all Application Monies will be refunded to Applicants as soon as practicable without interest.

The fact that ASX may admit the Company to its official list is not to be taken as an indication of the merits of the Company or the Offer or the Priority Offer. ASX, its officers and employees take no responsibility for the contents of this Prospectus, the Offer or the Priority Offer.






### 3.9 CHESS and issuer sponsored subregisters

The Company will maintain an electronic CHESS subregister (for all shareholders who are participants in CHESS or sponsored by such a participant) and an electronic issuer-sponsored register (for all other shareholders).

Following the issue and transfer of Shares to successful Applicants, New Shareholders will be sent a holding statement that sets out the number of Shares that they have been allocated in the Offer or the Priority Offer. This statement will also provide details of a Shareholder's holder identification number or, where applicable, the security holder reference number for each of the sponsored holders.

Shareholders will receive subsequent statements showing changes to their shareholding in the Company. Share certificates will not be issued.

### 3.10 Underwriting

The Offer and the Priority Offer are fully underwritten by Wilson HTM. Details of the Underwriting Agreement are set out in Section 11.4.

### 3.11 Withdrawal

The Company and the Vendor reserve the right not to proceed with the Offer or the Priority Offer, or any element of the Offer or the Priority Offer, at any time before the issue and allotment or transfer of Shares to successful Applicants. If the Offer or the Priority Offer does not proceed, all Application Monies will be refunded without interest.

# 4 Industry *Overview*

**Franchising has grown significantly in Australia with the total number of franchised outlets in Australia growing by 43.8% in the three years to 2004**

(Franchising Australia 2004 Survey)

# 4 Industry *Overview*



Donut King and bb's café compete in the food retailing and coffee/café categories.

## 4.1 Franchising

Franchising has grown significantly in Australia with the total number of franchised outlets growing by 43.8% in the three years to 2004. In 2004 there were approximately 850 franchise systems operating in Australia.

Retail Food Group operates 'full format' franchise systems. Under full format franchising a relationship is established between the franchisor and franchisee whereby the franchisor grants the franchisee, in return for an initial franchise fee, the right to establish and operate a business under the franchisor's brand. The franchisee is contractually bound to operate the business according to systems, formats and operational standards specified by the franchisor and will typically pay a royalty based on sales turnover of the franchise outlet.

In addition to providing the 'blue print' for operating a franchised business, the franchisor directs the overall marketing strategy for the brand and also provides franchisees with ongoing quality control, guidance, supervision and business enhancements. Marketing and promotion is typically funded via a marketing levy paid by franchisees into a fund for which the franchisor is custodian and responsible for directing to marketing initiatives.

The Directors believe that the key factors that influence the success of a franchise system include:

- access to quality franchisees capable of successfully operating and managing a franchised outlet
- strong franchisee training and support systems
- strict enforcement of franchise operating procedures and protocols to maintain product quality, consistency and service levels
- regular communication and feedback between the franchisor and franchisees
- a system that supports quality products and services that satisfy consumer wants and needs.

## 4.2 Competitive environment

Donut King and bb's cafe operate within the coffee/café sector and the treat and light meal food retailing category within the broader food retailing sector.

Both Donut King and bb's café compete with a variety of alternative food and beverage retailers with selections of both systems menus served in a variety of other coffee shops, bakeries, cake shops/patisseries and snack food outlets.

The competitive environment in the fast food retailing sector is characterised by increasing market shares of chain operators relative to independent operators. BIS Shrapnel research indicates that the number of chain outlets in the fast food retailing sector has grown by 52.3% over the 2001 to 2005 period whilst the number of independent fast food retailers has declined by 18.3%. The number of smaller fast food chains, classified as chains with between five and 29 outlets, has grown from 36 chains in 2002 to over 60 chains in 2005. Snack food chains have also shown considerable growth in recent years. In 2005, there were 886 outlets compared with 578 outlets in 1998. This represents a 53% increase over the period.

### Donut King

Donut King operates within the 'impulse buy', 'reward' and 'treat' segments of the food retailing sector.

Although there a number of multiple-store operators in Australia which may be considered direct competitors for donut sales, Donut King offers a product range extending to a broad range of food products including savouries and other snack foods such as hot dogs.

### bb's cafe

bb's café operates within the 'time out', 'relaxation' and 'meeting place' segment of the food retailing sector. Direct competitors for bb's café include other cafés, coffee shops and coffee vendors.

The Directors believe that bb's café has a competitive edge over its competitors in that:

- outlets are typically positioned in frequently visited areas of shopping centres in order to generate repeat patronage
- its food production systems give it the ability to provide a wide variety of food and beverage products in a timely manner and at a reasonable price.

## 4.3 Australian coffee and café market

According to BIS Shrapnel:

- cafés represent the largest channel for non-domestic coffee consumption, supplying nearly 30% of all coffees served in the food service industry
- in recent years there has been a discernable increase in the number of outlets operated by coffee chains with a 24.5% compound annual increase between 2001 and 2005. This

compares to a 1.8% compound annual reduction in the number of independent cafés over the same period.

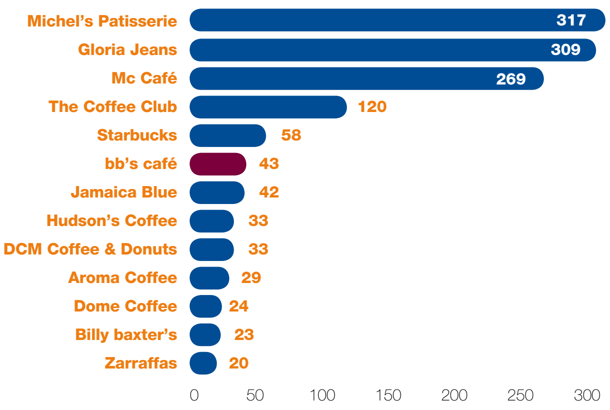
**Coffee outlets—2001 to 2005**

| Type of outlet | 2001 | 2005 | % change (per annum) |
|---|---|---|---|
| Coffee chains | 591 | 1,420 | +24.5% |
| Independent cafés | 6,375 | 5,929 | -1.8% |
| **Total cafés** | **6,966** | **7,349** | **+1.3%** |
| Mobile coffee chains | – | 140 | – |
| Bakeries with cafés | 670 | 735 | +2.3% |
| **Total coffee outlets** | **7,636** | **8,224** | **+1.9%** |

Source: BIS Shrapnel, Coffee in Australia 2006.

BIS Shrapnel research shows that in 2005, bb's café was the sixth largest coffee chain in size in Australia in terms of number of outlets. The repositioning of bb's café from a muffin and snack destination to a specialty coffee and light meal provider over the last three year period is reinforced by the brand's position as the third largest Australian founded café concept.

**Number of outlets—2005**




Source: BIS Shrapnel, Coffee in Australia, 2006.

BIS Shrapnel research also shows that Donut King, although traditionally known as a specialty donut retailer, ranked fifth in a 2005 survey designed to determine where respondents were most likely to purchase coffee.

The Directors believe the key success factors for operating in the niche food retailing and coffee/café categories include:

- proprietary and unique blends, ingredients and recipes and comprehensive technical, operating and marketing systems which ensure product quality and consistency
- the location of retail outlets in shopping centres and other retail locations with a high volume of passing traffic
- consistent branding, imaging and quality product which results in brand integrity, awareness, customer trust and loyalty
- strong relationships with property owners and ability to secure favourable lease terms
- effective marketing programs supported where relevant by regional and community-based marketing campaigns
- remaining abreast and responding to trends in consumer eating and drinking habits.

# 5 Business *Profile*

**Retail Food Group's principal objective is to remain at the forefront of best practice in the management and conduct of retail food franchise systems.**


# 5 Business Profile



## 5.1 Overview

Retail Food Group designs, develops and manages franchise retail systems and is currently the intellectual property owner and licensor of the Donut King and bb's café franchise systems throughout Australia and New Zealand.

Donut King is Australia's largest specialty donut and coffee chain with 261 outlets nationally as at 31 March 2006 and forecast system wide outlet sales of in excess of $122 million in FY2006, an increase of 11% on FY2005 system wide outlet sales of approximately $109 million.

Similarly, bb's café is a leading café franchise with 41 outlets in Australia and 25 outlets in New Zealand as at 31 March 2006. bb's café system wide outlet sales for Australia were approximately $20 million in FY2005 and system wide outlet sales for New Zealand were approximately NZD$11 million for the twelve month period ending 30 June 2005.

Retail Food Group owns the worldwide intellectual property rights for the Donut King franchise system and the worldwide (excluding Europe) intellectual property rights for the bb's café franchise system. The bb's café franchise system is subject to a co-existence agreement in respect of Europe.

Retail Food Group's principal objective is to remain at the forefront of best practice in the management and conduct of retail food franchise systems.

With in excess of 17 years in the retail food franchising industry, Retail Food Group has developed a proven and unique system of operational, management and marketing procedures that it believes can be applied to develop and manage a broader range of franchise systems.

## 5.2 History

The origin of the name Donut King dates back to approximately 1981 when a retail outlet was opened in Sydney from which donuts and coffee were sold.

Soon after, the early retail outlet operations were developed into a rudimentary franchise model.

In 1989 Donut King was restructured and became the property of a newly incorporated structure—Retail Food Group.

Retail Food Group subsequently commenced the development of the coffee and muffin franchise retail concept now known as bb's café.

In 1996 Tony Alford took a position with the Company and was subsequently joined by Gary Best.

During their tenure, Tony Alford and Gary Best have presided over the transformation of the business including:

- developing a highly experienced management team
- establishing a dedicated training academy
- increasing brand awareness through television advertising and other marketing initiatives
- designing and implementing the Donut King Express outlet concept which today boasts in excess of 60 outlets
- increasing the Total Network of franchised outlets to 327 as at 31 March 2006
- increasing Total Network Sales to approximately $139 million for FY2005
- developing alternative revenue streams to reduce the Company's reliance upon franchise service fees.

Retail Food Group acquired a joint venture interest in a juice and smoothie concept in late 2003 which became known as Juice Fusion. A total of 19 Company owned or franchised outlets were commissioned. The Company completed the disposal of the Juice Fusion system in September 2005 due to a number of factors including rationalisation of the juice industry resulting in a number of mergers and acquisitions, segment contraction and increased competition from non-specialist juice and smoothie retailers.


In FY2003, Retail Food Group established a company store division for the purposes of owning and managing a number of non-franchised outlets. This division operated during FY2003 to FY2005 and the half year to 31 December 2005. Non-franchised outlets consisted of both Non-voluntary Company Stores and outlets which were not franchised from inception (voluntary company stores), this included a number of Juice Fusion outlets. During FY2005, Retail Food Group rationalised both its voluntary company stores and Non-voluntary Company Stores by closing or selling them to Franchisees. This rationalisation was completed by 31 December 2005 and the company store division was closed.

In late 2003 ANZ Banking Corporation approached management and subsequently acquired an equity stake in a Shareholder of Retail Food Group.

## 5.3 Donut King

Donut King is the largest specialty coffee and donut retailer in Australia with 261 outlets as at 31 March 2006.

Whilst Donut King offers a variety of products including milkshakes, frozen beverages, hot dogs, soft serve ice creams and its own proprietary blend of espresso coffee, the signature products of a Donut King outlet are its 'Original' and 'Classic' donuts.

Donut King targets the 'impulse buy', 'reward' and 'treat' segments of the food retailing sector and attracts a broad range of customers across a diverse demographic profile.

Retail Food Group has commissioned research to assist it in identifying its customer segments and their buying habits and preferences. The research suggests that there remains a significant opportunity to increase the number of planned repeat purchases and entice new customers.

Donut King outlets are typically located in shopping centres and are usually positioned in high traffic flow areas such as food courts or kiosks in front of shopping centre 'anchor' tenants.

Franchisees operate outlets in both 'Express' and 'Full Concept' formats. There are currently in excess of 60 'Express' outlets. 'Full Concept' outlets are identified for producing 'Classic' yeast based donuts and other food products whereas the only donuts produced by 'Express' outlets are 'Original' cake based donuts.

## 5.4 bb's café system

bb's café outlets are specialty cafés serving espresso coffee and freshly baked and pre prepared food. As at 31 March 2006, bb's café had 41 outlets throughout Australia and a further 25 outlets in New Zealand.

The bb's café concept was developed in response to a growing consumer demand for espresso style coffee and other complementary offerings.

bb's café competes with:

- national coffee chains
- locally owned and operated cafes
- retail food chains
- convenience stores.

bb's cafés' objective is to create a 'welcoming oasis' for customers by providing an inviting place to enjoy some quality time out.

Additionally, each bb's café outlet is designed with an ambience, style and menu in order to cater to a broad cross section of customers.

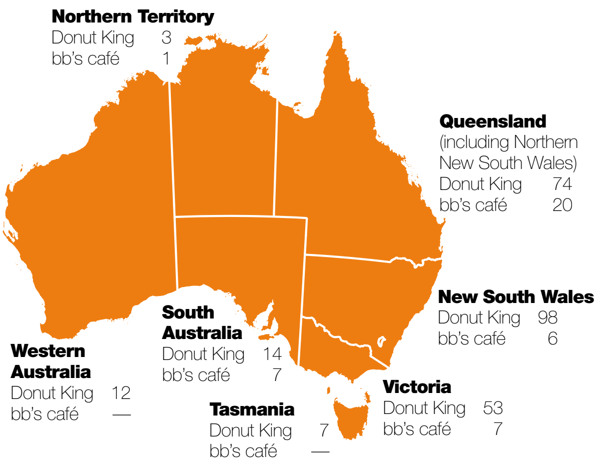
Innovation and menu development is a key business process that will enable the bb's cafe brand to continue to compete effectively in the café segment.

# 5 Business Profile



## 5.5 Store location—geographic breakdown

Retail Food Group through its Donut King and bb's café franchise systems has a presence in each of the following territories:



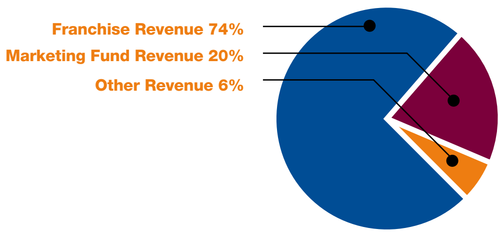

| | Donut King | bb's café |
|---|---|---|
| **Total** | **261** | **41** |

Store numbers as at 31 March 2006.

In addition, there are a further 25 bb's café outlets spread across the North and South Islands of New Zealand, details of which are provided in Section 5.8.

## 5.6 Diverse revenue streams

Retail Food Group derives income from a diverse range of revenue streams—Franchise Revenue, Marketing Fund Revenue and Other Revenue.




**Note:** Based on forecast FY2007 revenue.

Franchise Revenue streams can be further broken down as set out below.

### Initial franchise fees

An initial franchise fee is payable upon execution of franchise agreements for new outlets. The right to operate either a Donut King or bb's café outlet is generally issued for an initial five year term with the Franchisee having a further five year option term provided that, among other things, the premises lease from which the outlet operates is able to be renewed on suitable terms.

The initial franchise fee payable for either a bb's café or Donut King 'Full Concept' outlet is $50,000 and a $17,500 fee is payable in respect of Donut King 'Express' outlets.

### Franchise service fees

Franchise service fees are payable for ongoing support and services provided by Retail Food Group. Franchise service fees comprise a weekly payment equal to the greater of $270 per week or 7% of weekly gross sales for 'Full Concept' outlets. For 'Express' outlets, the franchise service fee is 9%.

Currently New Zealand bb's café Franchisees pay a franchise service fee of 6% of weekly gross sales to bb's New Zealand Limited. However all new bb's café franchises granted after January 2006 will be required to remit a franchise service fee of 7%.

### Renewal fees and further term franchise fees

A renewal fee of $5,000 is generally payable after the expiry of the first term of the franchise agreement.

A further term franchise fee of between $10,000 and $35,000 is generally payable upon expiration of a Franchisee's option term in circumstances where Retail Food Group approves the grant of a further franchise term.

### Training fees

Ensuring that both new and existing Franchisees are properly trained is essential to maintaining product quality and systems compliance.

New Franchisees must undertake initial training at a cost of between $7,500 and $10,000.

Franchisees are also required to periodically attend refresher training courses (generally every five years). The cost of these refresher training courses is approximately $4,000.

### Supplier product licence fees

Retail Food Group maintains a regimented menu and product adoption policy and where possible maintains ownership of the intellectual property associated with its menu items. This protocol ensures, product quality, standardisation and consistency.

Retail Food Group receives licence fees from some suppliers of goods into its franchise systems.

From time to time, Retail Food Group may also receive promotional and other allowances from suppliers.

### Transfer fees

The transfer of an outlet incurs a transfer fee of between $7,500 and $13,000 which is payable by the Franchisee to Retail Food Group.

Franchisees must also obtain Retail Food Group's consent prior to the transfer of an outlet.

### Marketing Fund Revenue

Franchisees make payments of 3% of weekly gross sales into their respective marketing funds which are applied towards the marketing of each franchise system.

Retail Food Group incurs marketing expenses on behalf of the bb's café and Donut King franchise systems and is reimbursed from the appropriate marketing fund.

## 5.7 Food supply and production arrangements

Retail Food Group has entered into supply arrangements on behalf of its Franchisees for a range of raw ingredients such as donut and muffin mix, fondant, shortening, sauces and syrups, soft serve, as well as finished products including prepacked beverages, coffee beans, pastries and packaging consumables.

## 5.8 bb's café New Zealand operations

There are currently 25 bb's cafe outlets in New Zealand.

Legal ownership and control (as defined by A-IFRS) of the bb's café franchise system in New Zealand is held by an individual engaged by RFG (NZ) Limited. This individual is a New Zealand citizen and is not a related party of Retail Food Group.

Retail Food Group has entered into a licence agreement with BB's New Zealand Limited, the operator of the bb's café franchise system in New Zealand pursuant to which it licences the right to operate bb's café in New Zealand in return for the payment of certain licence fees.

Revenue from these licence fees was approximately $322,000 in FY2005 and the Directors believe that this will increase to approximately $399,000 in FY2006.

All other income derived by the bb's café New Zealand operations remains the property of RFG (NZ) Limited, a wholly-owned subsidiary of RFG (NZ) Holdings Limited which is an unrelated company outside the Retail Food Group of companies.

Subject to its further assessment of the litigation referred to in Section 12.10, Retail Food Group may acquire legal ownership of RFG (NZ) Holdings Limited following 1 July 2006.

Should this occur, this will consolidate the legal ownership of the bb's café franchise system in New Zealand with that of Retail Food Group.

Retail Food Group's financial statements would then consolidate the impact of the New Zealand operations from the date of acquiring control, as defined by A-IFRS.

The pro forma adjusted historical, pro forma forecast and forecast financial information contained in Section 8 and Appendix A of this Prospectus does not incorporate the impact of the consolidation of bb's café New Zealand operations.

# 5 Business *Profile*



## 5.9 Strategy for growth

Retail Food Group's objective is to enhance revenues and earnings received from the operation of its franchise systems.

Key elements of Retail Food Group's strategy for growth include:

**Expanding the Total Network through new outlet openings**

A key factor in driving earnings growth for Retail Food Group is new outlet openings.

New outlet openings deliver Franchise Revenue including initial franchise and training fees and have a positive flow-on effect through ongoing franchise service fee revenue and increased supply turnover from which the Company derives supplier product licence fees and other benefits.

Retail Food Group has maintained a deliberate strategy of delivering moderate, yet consistent growth in new outlet openings for the Donut King system.

The number of Donut King outlets (net of closures) has grown at approximately 7.5% per annum for FY2001 to FY2005.

The Company is forecasting net outlet growth of 6.0% in FY2006 and 7.1% in FY2007.

Retail Food Group's long term objective is to establish in excess of 500 domestic Donut King outlets which would predominantly be located in traditional shopping centre sites.

Increased outlet penetration in the brand's existing strong markets, namely Queensland, New South Wales and Victoria will continue and Retail Food Group anticipates being able to continue its expansion in Western Australia, South Australia, Tasmania and the Northern Territory.

Although, new entrants in the retail food industry have increased the competition for quality retail sites, Donut King and bb's café's strong brand recognition and Retail Food Group's established relationships with national and regionally based shopping centre managers should allow it to continue to secure retail sites in shopping centres it considers appropriate for the establishment of retail outlets.

The Directors believe that there is also an opportunity to establish the Donut King franchise system in New Zealand and are presently assessing opportunities in this regard. In addition, Retail Food Group is actively considering other international expansion opportunities.

The number of bb's café outlets has remained relatively static in recent years. Retail Food Group has continued a program which includes the rationalisation of under performing outlets brought about by increased competition in both the coffee shop/café category for consumer patronage and outlet rental costs.

The program of rationalising under performing bb's café outlets is nearing completion and as a consequence of the brand repositioning, extensive menu modification and image redesign, Retail Food Group is optimistic about the brand's future.

The Directors believe that:

- any significant expansion of the bb's café brand is likely to be by way of acquisition given the Company's conservative outlook for organic growth
- there are a number of opportunities to acquire coffee shop/café franchise systems in Australia which lack the scale to operate effectively in this market.

The following table shows historical and forecast outlet numbers for both Donut King and bb's café:

| Outlets | FY2001 | FY2002 | FY2003 | FY2004 | FY2005 | 1st half FY2006 | FY2006 | FY2007 |
|---|---|---|---|---|---|---|---|---|
| Donut King | 187 | 202 | 217 | 235 | 250 | 257 | 265 | 284 |
| Net outlet increase | | +15 | +15 | +18 | +15 | | +15 | +19 |
| Growth in outlets | | 8.0% | 7.4% | 8.3% | 6.4% | | 6.0% | 7.1% |
| bb's café (including New Zealand outlets) | 71 | 70 | 68 | 68 | 69 | 67 | 67 | 69 |
| Net outlet increase | | -1 | -2 | 0 | +1 | | -2 | +2 |
| Growth in outlets | | -1.4% | -2.9% | 0% | 1.5% | | -2.9% | +2.9% |

**Driving Outlet Average Weekly Sales**

Retail Food Group's franchise service fees correlate directly to Total Network Sales. Total Network Sales growth is in turn driven by new outlet growth and growth in Outlet Average Weekly Sales.

Over the past eighteen months a key focus for Retail Food Group has been reinforcing operational 'best practice' at Franchisee level. This has included:

- an increased emphasis on Franchisee compliance
- redefinition of the field support structure
- reinforcement of brand protocols
- further development and rollout of tailored operational and training programs
- increased emphasis on consistent targeted marketing initiatives
- execution and successful achievement of an ambitious program of 37 outlet refurbishments in FY2005
- introduction of the new menu to bb's café.

Historical and forecast growth in Network Sales and Outlet Average Weekly Sales are shown below.

# 5 Business *Profile*



### Network Sales[1]

| Franchise system | FY2001 | FY2002 | FY2003 | FY2004 | FY2005 | 1st half FY2006 | FY2006 | FY2007 |
|---|---|---|---|---|---|---|---|---|
| Donut King sales ($ million) | 69.8 | 78.6 | 86.8 | 99.9 | 109.8 | 60.4 | 122.8 | 135.7 |
| growth | | +12.6% | +10.4% | +15.1% | +9.9% | | +11.8% | +10.6% |
| bb's café sales ($ million. Australian outlets only) | 20.9 | 19.9 | 19.1 | 19.1 | 19.8 | 10.3 | 20.3 | 21.0 |
| growth | | -4.8% | -4.0% | -0.3% | +3.6% | | +2.5% | +3.4% |

**Notes:**

(1) Network Sales are based on outlet sales reported by Franchisees to Retail Food Group and have not been independently audited or reviewed by Deloitte Touche Tohmatsu or Deloitte Corporate Finance Pty Limited.

### Outlet Average Weekly Sales[1]

| Franchise system | FY2001 | FY2002 | FY2003 | FY2004 | FY2005 | 1st half FY2006 | FY2006 | FY2007 |
|---|---|---|---|---|---|---|---|---|
| Donut King 'Full Concept' | 7,680 | 7,970 | 8,518 | 9,032 | 9,179 | 9,615 | 9,408 | 9,776 |
| growth | | +3.8% | +6.9% | +6.0% | +1.6% | | +2.5% | +3.9% |
| Donut King 'Express' | 5,074 | 5,577 | 6,887 | 7,197 | 7,232 | 7,953 | 7,660 | 7,975 |
| growth | | +9.9% | +23.5% | +4.5% | +0.5% | | +5.9% | +4.1% |
| bb's café (Australian outlets only) | 7,873 | 8,000 | 8,543 | 8,748 | 8,706 | 9,412 | 9,140 | 9,460 |
| growth | | +1.6% | +6.8% | +2.4% | -0.5% | | +5.00% | +3.5% |

**Notes:**

(1) Outlet Average Weekly Sales are based on outlet sales reported by Franchisees to Retail Food Group and have not been independently audited or reviewed by Deloitte Touche Tohmatsu or Deloitte Corporate Finance Pty Limited.



**Strengthening our Franchisee base**

Franchisees and their employees are the public face of Retail Food Group's franchise systems.

Retail Food Group will endeavour to attract and retain quality Franchisees whilst providing operational support, training and advocating high levels of Franchisee involvement.

The Company, together with its Franchisees, will continue to develop and strengthen the Company's brands for the benefit of all stakeholders.

**Establishment of CMF and range rationalisation**

In February 2005, Retail Food Group commenced a pilot CMF for the purposes of manufacturing and distributing donuts on a wholesale basis to participating Franchisees. As at 18 April 2006, there were 29 Donut King outlets in South East Queensland involved in the pilot program. The pilot program is conducted by way of a third party supply arrangement.

Retail Food Group is in the process of establishing a fully operational commercial CMF for the manufacture and distribution of product to its Franchisees.

A principal objective of the CMF initiative is to eliminate the need for Franchisee early morning preparation and cooking of donut products, allowing them to focus their attention on retailing and marketing.

As part of the CMF program, Retail Food Group has rationalised the Donut King range to a 'core menu' principally consisting of the most popular donut products. Less patronised products are to form part of an 'extension menu' range to be offered on a promotional or periodic basis.

Retail Food Group ultimately intends to develop CMFs throughout Australia and is currently investigating the most appropriate ownership structure. Franchisee cooperative ownership arrangements are currently under consideration but no decision has been made in this regard.

Irrespective of the ownership arrangement, Retail Food Group proposes to manage the CMF's and will charge a fee per unit for providing this service.

The Directors believe that in the future, CMFs operating at full capacity will provide attractive returns for the Company. Retail Food Group estimates that the cost to establish a CMF will range between $1.8 million and $2 million. The financial impact of this initiative has not been taken into account in the forecast financial information contained in Section 8.

**Increasing multi-outlet ownership**

Retail Food Group continues to develop initiatives which assist and encourage Franchisees to become multi-outlet and multi-brand proprietors.

Multi-outlet ownership encourages the recruitment of new Franchisees with different skill sets including those focused on management and supervisory roles as opposed to in-store operations.

The CMF pilot program is a tangible initiative that will enhance this ongoing process.

**Assessing and undertaking suitable acquisitions**

Listing on ASX will provide the Company with more efficient access to equity capital to fund the acquisition of competitors and complementary franchise systems.

The Directors believe that there are a number of acquisition targets which would allow Retail Food Group to achieve:

- growth in revenue and earnings
- increased purchasing power and economies of scale in the utilisation of marketing, field operation, administration and management functions.

Retail Food Group intends to evaluate these potential acquisitions and growth opportunities on an on-going basis.

# 6 Board and *Management*

**The Company's management team is committed to delivering growth in outlets as well as revenue and earnings both at Company and Franchisee level.**

# 6 Board and *Management*



## 6.1 Board of Directors

**John Cowley AM**
**Independent Chairman**

John has had a career in media spanning more than 40 years which included being responsible for some of the largest newspapers in the world including, in London, *The News of the World*, *The Sun*, *The Sunday Times* and *The Times*. He retired as a director of News Limited in 2001.

During his career John was Chief Executive Officer of Queensland Newspapers, a founding staff member of The Australian and he established the world's first daily newspaper for the blind in Hong Kong in 1989.

John has also served as Chairman of the Gold Coast's Indy 300 race and Royal Women's Hospital Children's Research Foundation and he has been made a Member of the Order of Australia (General Division).

He is also Chairman of Oaks Hotels and Resorts Limited, one of Australia's largest accommodation operators.

**Anthony (Tony) Alford**
**Chief Executive Officer and Managing Director**

Tony has been an accountant in public practice for in excess of 18 years. He holds a Bachelor of Business from the University of Tasmania and is a fellow of CPA Australia, a member of the Taxation Institute of Australia and a retired member of the Institute of Chartered Accountants. Tony is also a registered tax agent.

Tony commenced his involvement with Retail Food Group in 1994 in an advisory role through his private accounting practice. Through this association, he built a strong relationship with the Company's founders which resulted in his appointment as financial controller in 1996.

Tony's achievements in this role and intimate knowledge of Retail Food Group's operations resulted in his appointment as Managing Director in December 1999.

Subsequently, he has presided over significant growth in the Company's franchise systems, revenue and profitability which has been achieved as a result of the focus on developing and implementing the internal systems and procedures which are essential to Retail Food Group's success.

Prior to his involvement with the Company, Tony conducted a successful private accounting practice. His experience advising a range of clients in relation to taxation, business development and growth strategies will continue to be relevant to Retail Food Group.


**Left to right**
**Nigel Nixon**, Corporate Counsel and Executive Director; **Colin Archer**, Independent Director;
**Tony Alford**, Chief Executive Officer and Managing Director; and **John Cowley**, Independent Chairman.

### Nigel Nixon
### Corporate Counsel and Executive Director

Nigel is a solicitor of the Supreme Court of Queensland and the Australian Capital Territory and has a Master of Laws qualification from the Queensland University of Technology.

In August 1995 he jointly acquired the Donut King master franchise for South East Queensland and Northern New South Wales with his brother Gavin, and was involved with the master franchise business for some seven years before joining Retail Food Group in August 2002.

Nigel also jointly operated the Lenards Poultry master franchise for South East Queensland for a 16 month period.

Since 1996, Nigel and his brother Gavin have owned and managed 11 Donut King outlets at various times.

### Colin Archer
### Independent Director

Colin is the founding Partner of Archer Gowland Chartered Accountants now operating for 25 years. He advises in the corporate services division, specialising in management and letting rights, property trusts, mergers and acquisitions and corporate governance.

Colin holds a Bachelor of Economics, is a Chartered Accountant and a registered auditor and tax agent. He is a member of the Australian Institute of Company Directors and a fellow of the Community Title Institute of Queensland.

He has been involved in a number of successful public offers including:

- Trinity Consolidated Group, of which he is a co-founder and responsible officer
- Oaks Hotels and Resorts Limited, of which he is a director.

# 6 Board and Management



## 6.2 Senior Management Team

**Gary Best**
**Chief Operating Officer**

Gary holds a Bachelor of Commerce from the University of Tasmania.

Gary's association with Retail Food Group began in 1996. He initially joined the Company as an accountant (on secondment) but remained and over the ensuing nine years has been involved in many different facets of Retail Food Group's business.

As Chief Operating Officer, Gary has always maintained a keen focus on the financial and budgetary aspects of the Company's operations.

Immediately before his involvement with the Company, Gary worked as an accountant with Alfords Accountants and Business Advisors for a twelve month period. Prior to this, he was employed by the Tasmanian Government, where over a period of 15 years he worked with several different Government departments, culminating in his appointment as business manager for the North West Institute of TAFE.

**Anthony Mark Connors**
**Legal Counsel and Company Secretary**

Mark is a solicitor of the Supreme Court of Queensland with over eight years post admission experience.

Mark joined the Company as legal counsel in July 2004, but had previously acted for the Company as a private practitioner since 1999.

Since his admission in 1998, Mark has practiced principally in the areas of franchising, leasing, trade practices and general commercial law.

Mark holds a Bachelor of Laws from Bond University.

**Karen Walker**
**Chief Financial Officer**

Karen has in excess of 11 years accounting and financial management experience in public practice and commercial enterprise.

Karen is a retired member of the Institute of Chartered Accountants and holds a Bachelor of Business from Griffith University.

Karen was employed by Alfords Accountants and Business Advisors for a period of five years (1995 to 2000). During this period Karen progressed from the position of graduate accountant to senior manager responsible for a varied portfolio of small to medium enterprises.

Karen was employed by Retail Food Group in November 2000 as financial controller and continues to be responsible for the company's financial accounting, forecasting, budgetary planning, internal and statutory reporting and internal audits.

**Gavin Nixon**
**National Property Manager**

Gavin holds a Bachelor of Commerce from Griffith University.

Together with his brother Nigel, Gavin acquired the Donut King master franchise for South East Queensland and Northern New South Wales in 1995 and was involved with the master franchise business for some seven years before joining Retail Food Group in August 2002.

Both as master Franchisee and in his current role as National Property Manager for Retail Food Group, Gavin gained a plethora of knowledge and experience in all facets of the franchising industry. Gavin's duties include site selection, lease negotiation, franchise outlet relocation and outlet configuration.

Gavin is also intricately involved in the recruitment process which endeavours to match Franchisees to appropriate sites.

Since 1996 Gavin and his brother Nigel have owned and managed 11 Donut King outlets at various times.

**Gary Alford**
**National Operations Manager—Franchise Systems**

Gary commenced employment with Retail Food Group in 1996 as Operations Manager for bb's cafe and held this position until late 1999.

Gary's previous experience includes two years in a management position within a bb's café. Prior to that, he worked with Clark Rubber for 12 years.

In January 2000 Gary accepted a twelve month secondment to New Zealand for the purposes of reinvigorating the bb's café system after the removal of the New Zealand master franchisee.

On successful completion of this objective, Gary was appointed to his current role as Retail Food Group's National Operations Manager.

**Alicia Atkinson**
**National Special Projects Manager**

Alicia obtained a Bachelor of Business in Accounting from Griffith University.

Alicia commenced her professional career in 1988 as a trainee accountant with a Gold Coast public accounting practice and in 1991 accepted a position with Alfords Accountants and Business Advisors. From 1995 Alicia assumed responsibility for a portfolio of clients operating principally within the small business sector as well as being responsible for the recruitment and human resources for the practice.

As a consequence of her experience in this role, in June 2000 Alicia was contracted to Retail Food Group to develop its training and personnel management.

**Left to right:**
**Robert Sutherland,** Regional Leasing and Property Manager;
**Mark Connors,** Company Secretary and Legal Counsel;
**Karen Walker,** Chief Financial Officer;
**Alicia Atkinson,** National Special Projects Manager;
**Gary Alford,** National Operations Manager—Franchise Systems;
**Gary Best,** Chief Operating Officer;
**Gavin Nixon,** National Property Manager;
**Les Hall,** Chief Marketing Officer—Donut King;
**Nicole Dodd,** Chief Marketing Officer—bb's café.

In September 2003, as a result of the continued development within Retail Food Group, Alicia accepted a position as manager of its Special Projects Division.

**Robert Sutherland**
**Regional Leasing and Property Manager**

Robert holds a Bachelor of Business in Transport Economics (RMIT) and a Graduate Diploma in Marketing (Chisolm Institute of Technology, now a part of Monash University).

In 1994, Robert acquired the master franchise rights to the Donut King system in Victoria and in that capacity obtained extensive experience in all facets of franchise management including operational disciplines, franchisee recruitment, site selection and lease negotiations.

In April 2003 Robert joined Retail Food Group as the Regional Leasing and Property Manager located in Victoria and is responsible for leasing, recruitment and site selection in the regions of Victoria, South Australia, Tasmania and Western Australia.

Prior to his association with Retail Food Group, Robert held a number of senior positions within the bakery industry, most notably as including National Sales Manager—Retail for the Bunge Bakery Group.

**Les Hall**
**Chief Marketing Officer—Donut King**

Les was appointed Chief Marketing Officer—Donut King in August 2005.

As a member of the Retail Food Group senior management team, Les has focussed on brand awareness and product category development resulting in a greater consumer awareness of the Donut King system menu and corresponding Network Sales increases.

Prior to joining Retail Food Group, Les worked as Chief Marketing Officer for Flight Centre North America and has over 25 years experience as a marketing and brand consultant and media professional.

From 1997 until June 2002, Les was a shareholder, agency principal and Creative Director of a highly successful Queensland advertising and marketing communications company—The Advertising Works.

His experience encompasses brand building and the creation of innovative and unique marketing strategies to increase retail food sales.

Les has an Associate Diploma of Business (Marketing), is an Associate Fellow of the Australian Institute of Management and has a Diploma of Cinematography.

**Nicole Dodd**
**Chief Marketing Officer—bb's café**

Nicole was initially engaged as bb's café Brand Manager by Retail Food Group in August 2004 and in July 2005 was promoted to the position of Chief Marketing Officer—bb's café.

In this role Nicole has overseen the repositioning of the bb's café system drawing upon seven years experience within the quick service restaurant industry.

In September 2002 Nicole was employed as Brand Manager and was subsequently promoted to New Product Development Manager by KR Darling Downs. In June 2003, she accepted a similar position with Harvest Fresh Cuts.

Prior to 2002 Nicole was employed with McCain Foods in a variety of roles but was principally associated with and responsible for product management, quality control, research & development (new & existing products), and customer service management.

Nicole has obtained a Bachelor of Applied Science (Foodtechnology / Biotechnology) and an MBA (Marketing), together with an Advanced Certificate in Sales Management and Graduate Diploma of Business.

# 6 Board and Management



## 6.3 Corporate Governance

### Scope of responsibility of Board

Responsibility for the Company's proper corporate governance rests with the Board. The Board's guiding principle in meeting this responsibility is to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Retail Food Group's shareholders (with a view to building sustainable value for them) and those of employees and other stakeholders.

The Board's broad function is to:

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

Power and authority in certain areas is specifically reserved to the Board—consistent with its function as outlined above.
These areas include:

- composition of the Board itself including the appointment and removal of Directors
- oversight of the Company including its control and accountability system
- appointment and removal of the CEO
- ratification of the appointment and where appropriate the removal of the CEO and the Company secretary
- reviewing and overseeing systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and statutory compliance
- monitoring senior management's performance and implementation of strategy
- approving and monitoring financial and other reporting and the operation of committees.

### Composition of Board

The Board performs its roles and function, consistent with the above statement of its overall corporate governance responsibility, in accordance with the following principles:

- the Board should comprise at least four directors
- at least half of the Board must be non-executive Directors at least two of whom must also be independent
- the chairman of the Board must be one of the independent non-executive directors.

### Board charter and policy

The Board has adopted a charter (which will be kept under review and amended from time to time as the Board may consider appropriate) to give formal recognition to the matters outlined above. This charter sets out various other matters that are important for effective corporate governance including the following:

- a detailed definition of 'independence'
- a framework for the identification of candidates for appointment to the Board and their selection
- a framework for individual performance review and evaluation
- proper training to be made available to Directors both at the time of their appointment and on an on-going basis
- basic procedures for meetings of the Board and its committees —frequency, agenda, minutes and private discussion of management issues among non-executive Directors
- ethical standards and values—formalised in a detailed code of ethics and values
- dealings in securities—formalised in a detailed code for securities transactions designed to ensure fair and transparent trading by Directors and senior management and their associates
- communications with shareholders and the market.

These initiatives, together with the other matters provided for in the Board's charter, are designed to 'institutionalise' good corporate governance and generally, to build a culture of best practice in Retail Food Group's own internal practices and in its dealings with others.



**Audit and risk management committee**

The purpose of this committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. Its current members are:

- Colin Archer
- John Cowley
- Tony Alford.

The committee performs a variety of functions relevant to risk management and internal and external reporting and reports to the Board following each meeting. Among other matters for which the committee is responsible are the following:

- Board and committee structure to facilitate a proper review function by the Board
- internal control framework including management information systems
- corporate risk assessment and compliance with internal controls
- internal audit function and management processes supporting external reporting
- review of financial statements and other financial information distributed externally
- review of the effectiveness of the audit function
- review of the performance and independence of the external auditors
- review of the external audit function to ensure prompt remedial action by management, where appropriate, in relation to any deficiency in or breakdown of controls
- assessing the adequacy of external reporting for the needs of shareholders
- monitoring compliance with the Company's code of ethics.

Meetings are held at least four times each year. A broad agenda is laid down for each regular meeting according to an annual cycle. The committee invites the external auditors to attend each of its meetings.

**Remuneration committee**

The purpose of this committee is to assist the Board and report to it on remuneration and issues relevant to remuneration policies and practices including those for senior management and non-executive Directors. Its current members are:

- Colin Archer
- John Cowley
- Nigel Nixon.

Among the functions performed by the committee are the following:

- review and evaluation of market practices and trends on remuneration matters
- recommendations to the Board in relation to the Company's remuneration policies and practices
- oversight of the performance of senior management and non-executive Directors
- recommendations to the Board in relation to the remuneration of senior management and non-executive Directors.

Meetings are held at least twice yearly.

**Nominations committee**

The purpose of this committee is to assist the Board and make recommendations to it in relation to the appointment of new Directors (both executive and non-executive) and senior management. Its current members are:

- Colin Archer
- John Cowley
- Nigel Nixon.

Functions performed by the committee include the following:

- development of suitable criteria (as regards skills, qualifications and experience) for Board candidates
- identification and consideration of possible candidates, and recommendation to the Board accordingly
- establishment of procedures, and recommendations to the Chairman, for the proper oversight of the Board and management
- ensuring the performance of each Director, and of senior management, is reviewed and assessed each year in accordance with procedures adopted by the Board.

Meetings are held at least twice yearly.

# 6 Board and *Management*



**Best practice commitment**

The Company is committed to achieving and maintaining the highest standards of conduct and has undertaken various initiatives, as outlined in this Section, that are designed to achieve this objective. Retail Food Group's corporate governance charter is intended to 'institutionalise' good corporate governance and, generally, to build a culture of best practice both in the Company's own internal practices and in its dealings with others.

The following are a tangible demonstration of the Company's corporate governance commitment.

**Independent professional advice**

With the prior approval of the Chairman, which may not be unreasonably withheld or delayed, each Director has the right to seek independent legal and other professional advice concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors. Any costs incurred are borne by the Company.

**Code of ethics and values**

The Company has developed and adopted a detailed code of ethics and values to guide Directors in the performance of their duties.

**Code of conduct for transactions in securities**

The Company has developed and adopted a formal code to regulate dealings in securities by Directors and senior management and their associates. This is designed to ensure fair and transparent trading in accordance with both the law and best practice.

**Charter**

The code of ethics and values and the code of conduct for transactions in securities (referred to above) both form part of the Company's corporate governance charter which has been formally adopted.

**Compliance with ASX corporate governance guidelines and best practice recommendations**

The ASX document, ***'Principles of Good Corporate Governance and Best Practice Recommendations'*** ('Guidelines') applying to listed entities was published in March 2003 by the ASX Corporate Governance Council with the aim of enhancing the credibility and transparency of Australia's capital markets.

The Board has assessed the Company's current practice against the Guidelines and outlines its assessment below:

**Principle 1**
**Lay solid foundations for management and oversight**

The role of the Board and delegation to management have been formalised as described above in this Section and will continue to be refined, in accordance with the Guidelines, in light of practical experience gained in operating as a listed company. Retail Food Group complies with the Guidelines in this area.

**Principle 2**
**Structure the Board to add value**

Together the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business of the Company. The Board has established a nomination committee which will ensure the selection and appointment of quality Directors.

At least two Directors of Retail Food Group will be independent, giving the Board the benefit of independent and unfettered judgement. In particular the Chairperson, who is responsible for the leadership of the Board, is independent.

**Principle 3**
**Promote ethical and responsible decision making**

The Board has adopted a detailed code of ethics and values and a detailed code of conduct for transactions in securities. The purpose of these codes is to guide Directors in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities.

The Board will ensure that restrictions on dealings in securities are strictly enforced. Both codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore compliance with the Guidelines.



**Principle 4**
**Safeguard integrity in financial reporting**

The audit and risk management committee (with its own charter) complies with the Guidelines. All the members of the audit and risk management committee are financially literate.

**Principle 5**
**Make timely and balanced disclosure**

Retail Food Group's current practice on disclosure is consistent with the Guidelines. Policies and procedures for compliance with Listing Rule disclosure requirements are included in the Company's corporate governance charter.

**Principle 6**
**Respect the rights of shareholders**

The Board recognises the importance of this principle and strives to communicate with shareholders both regularly and clearly—both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors will always attend the annual general meeting and are available to answer Shareholders' questions. The Company's policies comply with the Guidelines in relation to the rights of shareholders.

**Principle 7**
**Recognise and manage risks**

The Board, together with management, has constantly sought to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and, wherever possible improved. The whole issue of risk management is formalised in the Company's corporate governance charter (which complies with the Guidelines in relation to risk management) and will continue to be kept under regular review. Review takes place at both committee level (audit and risk management committee), with meetings at least four times each year, and Board level.

**Principle 8**
**Encourage enhanced performance**

The corporate governance charter adopted by the Board requires individual performance review and evaluation to be conducted formally on an annual basis. In addition, an external review of the performance of Directors and key executives is planned to take place after the completion of the previous financial year audit and prior to the convening of the next annual general meeting, and this external review process will be repeated on a regular basis (at intervals not exceeding three years) to ensure independent professional scrutiny and benchmarking against developing best market practice. The Board acknowledges that performance can always be enhanced and will continue to seek and consider ways of further enhancing performance both individually and collectively. Retail Food Group's practice complies with the Guidelines in this area.

**Principle 9**
**Remunerate fairly and responsibly**

Retail Food Group's remuneration practices are reviewed regularly and comply with the Guidelines. Remuneration of Directors and executives will be fully disclosed in the annual report and any changes with respect to key executives announced in accordance with continuous disclosure principles. A review process will take place on a regular basis (at least twice a year).

**Principle 10**
**Recognise the legitimate interests of stakeholders**

The Board recognises the importance of this principle, which it believes represents not only sound ethics but also good business sense and commercial practice, and continues to develop and implement procedures to ensure compliance with legal and other obligations to legitimate stakeholders. The Company and its policies and practices comply with the Guidelines in this area.

# 7 Risk Factors

**This Section describes potential risks that may be significant for investors to consider before accepting the Offer or the Priority Offer.**

# 7 Risk Factors



## 7.1 Introduction

The business activities of Retail Food Group are subject to a number of risks that could affect the Company and the industry in which it operates. These factors may substantially impact on its future performance. There can be no guarantee that the Company will achieve its stated objectives, that forecasts will be met or that forward looking statements will be realised. The Directors are of the belief that there are a number of general and specific risk factors that should be taken into account before investors decide whether or not to apply for Shares.

This Section describes potential risks that may be significant for investors to consider before accepting the Offer or the Priority Offer. These risk factors could, if they eventuate, have a significant influence on the operating and financial performance of the Company.

This list is not exhaustive and investors should read this Prospectus in full.

If investors require further information on material risks, they should seek professional advice.

## 7.2 General risk factors

### Share market

There are a number of risks associated with any stock market investment.

The price of the Shares on ASX may rise or fall and as such the Shares may trade on ASX at higher or lower prices than the Offer Price or the Priority Offer Price following listing. Investors who decide to sell their Shares after listing may not receive the full amount or any of their original investment.

There can be no guarantee that an active market in the Shares will develop or continue. If a market does not develop or is not sustained, it may be difficult for investors to sell their Shares at a price that is attractive to them or at all.

The price at which the Shares trade on ASX may be affected by the financial performance of Retail Food Group and by numerous external factors over which the Directors and Retail Food Group have no control. These factors include movements in local and international stock exchanges, local interest rates and exchange rates, domestic and international economic and political conditions, government taxation, market supply and demand and other legal, regulatory or policy changes.

No assurances can be given that Retail Food Group's market performance will not be adversely impacted by such market fluctuations or factors. None of Retail Food Group, its Directors or any other person, guarantees Retail Food Group or its Shares' market performance.

### Dependence on general economic conditions

The performance of Retail Food Group may be influenced by the general condition of the Australian and New Zealand economies. Changes in interest rates, employment rates, inflation, consumer spending and government policy may affect sales and operating profits. Changes in economic conditions may result in customers changing spending patterns or their level of consumption, which may have an adverse impact upon Retail Food Group's operating and financial performance.

### Regulatory

Changes in relevant taxes (including GST), legal and administrative regimes and government policies may adversely affect the financial performance of the Company. Any change to the corporate tax rate will impact on shareholder returns both in terms of profits that the Company is able to distribute as dividends and the level of franking credits available to frank future dividends. Any change to the current rates of income tax applying to individuals and trusts will similarly impact on shareholder returns. In addition, a portion of the Company's earnings are derived from New Zealand operations. Any changes to withholding and other taxes in New Zealand may impact on repatriated revenues.

## 7.3 Specific risk factors

In addition to the general risks set out in Section 7.2, the Directors are of the belief that there are a number of specific factors that should be taken into account before investors decide whether or not to apply for Shares. These are as follows:

### Competition

The Company operates in a competitive market.

The Company's financial performance or operating margins could be adversely affected if the actions of competitors or potential competitors become more effective, or if new competitors enter the market, and the Company is unable to counter these actions.

The impact on the forecast EBITDA for the year ending 30 June 2007 of a reduction in the Company's revenue is set out in the sensitivity analysis in Section 8.7.



**Consumer preferences and perceptions**

Food service businesses are affected by changes in consumer tastes, national, regional and local economic conditions, and demographic trends.

There could be a materially adverse effect on the Company's business and operating results if prevailing health or dietary preferences cause consumers to avoid the Company's franchise systems' food and beverage products (e.g. donuts, milkshakes, coffee and other food products offered) in favour of food and beverage products that are perceived as more healthy.

**Growth prospects**

The growth rates forecast in this Prospectus are dependent upon a number of factors, including the rate of new outlet openings, the maturation of new outlets and Outlet Average Weekly Sales growth of existing outlets. Should actual sales fail to meet the forecast sales in the forecast financial information in Section 8, this is likely to translate into the Company's NPAT being lower than the forecast NPAT set out in the forecast financial information.

The Company's growth strategies including outlet roll-out, Total Network Sales increases and the pilot CMF program contain risks. If there is a delay in the opening of outlets, or Total Network Sales is lower than projected, the Company may not be able to meet its revenue or profit forecasts for the forecast period. The sensitivity of the forecast EBITDA for the year ending 30 June 2007 to outlet roll-out is set out in the sensitivity analysis in Section 8.7.

The commerciality of the pilot CMF program may be affected by any reduction in product demand from participating pilot Franchisees thereby affecting the forecast revenue from this source.

The achievement of the outlet roll-out program will also be dependent upon factors such as site availability and viability, competitor activity, Franchisee availability and the economic outlook for the economy as a whole and for particular demographic groups.

The forecast financial information contained in Section 8 does not include provision for prospective acquisitions or the proposed CMF rollout.

Any unsuccessful acquisition is likely to have a materially adverse impact on NPAT. If an unsuccessful CMF is established, this will similarly have a materially adverse impact on NPAT.

**Franchisee risk**

The Company's future growth also depends on its ability to identify, attract and retain suitably qualified and motivated Franchisees. An inability to do so or poor performance by the Franchisees may have a materially adverse impact on the financial performance of the Company and could cause harm to the reputation of Retail Food Group and its franchise systems.

In addition, the termination and or abandonment of a franchise may be costly in terms of the time that an outlet may not generate revenue for Retail Food Group. Additionally the time and resources required to source a new Franchisee and/or to take temporary control of an outlet, may be costly.

**Managing growth**

As its businesses and Total Network increases, Retail Food Group will be required to increase the scale of its operational and financial systems. This will particularly be the case should new franchise systems be acquired.

There is a risk of a material adverse impact on the Company if it is not able to effectively manage its expansion and growth strategies.

**Operating costs**

The Company's ability to maintain a relatively low cost operating structure is not guaranteed and there is no assurance that the current ratio of expenses to revenue can be maintained.

**Property leases**

Retail Food Group is in most cases, the lessee of premises from which franchises are conducted.

Franchisees are granted a licence to occupy the premises for the purpose of conducting a franchised business. As a licensee, the Franchisee is obliged to discharge Retail Food Group's obligations under the terms of the lease.

Should a Franchisee fail to meet its obligations under the licence, Retail Food Group may be responsible for performance of the obligations under the lease including unpaid rent and making good the premises.

In addition, maintenance of, and growth in, the number of outlets is an important contributor to earnings. Accordingly, there may be a material adverse impact on the Company's business and profitability if it is unable to:

- renegotiate acceptable lease terms for existing outlets when leases are due to expire
- identify suitable sites and negotiate suitable leasing terms for new outlets.

Furthermore, a large number of leases require the landlord's consent for the Company to continue as a tenant following a change in

# 7 Risk *Factors*



control in the Company. The Company will, where applicable seek this consent following completion of the Offer and the Priority Offer. Whilst landlords generally have an express or implied obligation to act reasonably in granting this consent, if any of the leases requiring landlord's consent are terminated or need to be renegotiated as a result of this, it may have an adverse impact on the Company.

### Information technology

Retail Food Group relies heavily on management information systems designed to control its franchise systems and maximise the efficiency of the Total Network.

Should these systems not be adequately maintained, secured or updated, or the Company's disaster recovery processes not be adequate, system failures may negatively impact on the Company's performance.

### Involvement of the Continuing Shareholders

After issue of the Offer and Priority Offer Shares, the Continuing Shareholders will hold approximately 49.1% of the total issued Shares.

The Continuing Shareholders will have a material influence at any general meeting of the Company at which they are entitled to vote on matters such as the composition of the Board or a change in control of the Company.

The Continuing Shareholders have agreed to enter into voluntary escrow agreements with the Company under which they will be restricted from selling, transferring or assigning the Shares that they hold upon listing until the date on which the Company releases to ASX its preliminary final report for FY2007. However, once the escrow period is at an end, the Continuing Shareholders will be able to sell some or all of their Shares, and should they choose to do so, this may have a material adverse impact on the share price of the Company.

### Reliance on key personnel

The Company is committed to providing an attractive employment environment, conditions and prospects to assist in retaining its key senior management personnel. However, there can be no assurance that the Company will be able to retain these key personnel.

### Maintenance of reputation and brand name

The continuing profitability of Retail Food Group is heavily reliant on its reputation and branding. Unforeseen issues or events which place the reputation of the Company or either of its franchise systems at risk may impact on revenue and growth strategies as well as impeding the Company's ability to attract and retain Franchisees.

### Relationships with suppliers

The Company relies on numerous key suppliers. Any deterioration in the Company's relationship or terms of trade with these key suppliers may have an adverse impact. In particular:

- any event which results in higher costs may impact both the Company's NPAT and its Franchisees' margins, or alternatively require the Company to source alternative products
- any delays in delivery of supplies to Franchisees may impact Total Network Sales and consequently the Company's revenues
- the Company does not have written contracts with many of its current suppliers, and accordingly, may not be able to negotiate suitable supplier product and licence fee arrangements with replacement suppliers.

Where any of these events occurs, current and forecast revenues may not be able to be maintained.

### Exchange rates

A portion of the Company's income is earned in New Zealand dollars however the Company's financial statements are expressed and maintained in Australian dollars. To the extent the foreign exchange rate risk is not hedged, or not appropriately hedged, the profit and loss account of the Company may be affected as a result of an adverse movement of the Australian dollar exchange rate against the New Zealand dollar.

### Interest rates

The Company is exposed to adverse interest rate movements where funds are borrowed at a floating interest rate. Whilst this risk may be reduced through interest rate hedging, such as fixed interest rates, interest rate swaps or other mechanisms, some residual exposure may remain.

### Litigation risk

Litigation risks to the Company include, but are not limited to, retail customer claims, personal injury claims, lessor, Franchisee and employee claims. If any claim were to be pursued, irrespective of whether it was eventually successful, it may adversely impact the profitability, financial position or the reputation of the Company and its Franchisees.

Where a Franchisee is successful in prosecuting a claim against the Company, other Franchisees operating under similar franchise grant documentation may be motivated to make similar claims.



**Product liability**

The Company and its Franchisees are required to comply with strict food hygiene protocols. Defective foodstuff including ingredients however is an inherent risk of the Company's businesses and that of its Franchisees. Any such incident may have a material adverse impact on the Company's businesses, profitability and the reputation of its franchise systems.

**Insurance**

Franchisees are obliged to obtain public liability insurance to comply with obligations imposed on Retail Food Group by lessors.

Whilst the Company makes every reasonable effort to ensure that Franchisees comply with this obligation, in the event that an uninsured Franchisee is unable to meet a claim, Retail Food Group may be liable for any damages payable in respect of a claim.

**Non-voluntary Company Stores**

From time to time, Retail Food Group will be required to assume management of Non-voluntary Company Stores. The costs of management of these outlets, and any trading losses incurred in the operation thereof, will have an adverse impact on the Company's profitability.

The management of Retail Food Group has policies and systems designed to minimise the financial detriment caused by the management of outlets. The Directors believe that the management of outlets in these circumstances will continue to be necessary as it:

- allows Retail Food Group to satisfy its lease obligations
- minimises damage to Retail Food Group's brands as a result of non-compliant Franchisees
- maintains and strengthens important relationships with lessors
- in many circumstances, allows the resale of the outlet to a new Franchisee.

**Breach of laws**

Retail Food Group is obliged to operate its franchise systems and businesses in accordance with various laws including the *Trade Practices Act 1974 (Cth)* (including the Franchising Code) and various State retail shop lease legislation.

Without limitation, the Franchising Code imposes a regime which Retail Food Group must comply with in relation to, among other things, the terms of franchise agreements, disclosure and its relationship with Franchisees generally.

Should Retail Food Group breach relevant laws, such as the Franchising Code, it may be exposed to claims by third parties (such as Franchisees) and investigated and or prosecuted by the Australian Competition and Consumer Commission.

Penalties associated with breaches of these laws are serious. For instance, fines of up to $10 million can be imposed for each individual breach of the Trade Practices Act. In addition to the potential for penalties, any investigation or prosecution by the Australian Competition and Consumer Commission may be detrimental to Retail Food Group's reputation and harm its ability to attract and retain Franchisees in the future.

Retail Food Group has implemented processes in order to achieve compliance with the Franchising Code and retail lease legislation but there is no guarantee that these are effective and/or sufficient.

**New workplace laws**

The *Workplace Relations Amendment (Work Choices) Act 2005* ('Work Choices') became operative on 27 March 2006. Work Choices represents a substantial change in the area of employment and industrial law and the impact of the changes cannot be fully assessed with any certainty at this time. Any adverse changes to the employment relationship may potentially have a material adverse impact upon the performance of Franchisees and Retail Food Group.

Additionally, Work Choices contains detailed and complex provisions relating to the transition of State-based employers and the employment conditions of their employees into the Federal jurisdiction. The implications that will flow from 'transmissions of business' will also change to impose new procedural obligations on both entities acquiring and being acquired. The provisions may lead to higher costs in connection with business acquisitions and may potentially have a material adverse impact on the viability of certain acquisitions, necessitating an early and thorough due diligence process. Although the changes will generally provide employers with greater flexibilities, their interpretation has not been tested and it will take some time for the full impact of Work Choices to be felt and understood.


FREE
DONUT KING
Toast
Hot Dog
Hot Dog Combo
Hot Dog Extras
12 Box
24 Box
$2 Voucher
OK


# 8 Financial Information

This Section contains a summary of the Financial Information for Retail Food Group.

# 8 Financial *Information*



## 8.1 Introduction

This Section contains a summary of:

- certain financial information including, as defined below, the Pro forma Adjusted Historical Financial Information and the Forecast Financial Information for Retail Food Group ('Financial Information')
- certain other information of a financial nature, which is excluded from the definition of Financial Information in this Section, such as, sensitivity analysis, certain ratios, dividend policy, and management's discussion and analysis of the Financial Information
- the basis of preparation of the Financial Information
- reconciliations of the Pro forma Adjusted Historical Financial Information to historical financial statements.

The Financial Information comprises the following:

| | | | |
|---|---|---|---|
| Financial Information | Pro forma Adjusted Historical Financial Information | Pro forma Adjusted Historical Income Statements | The Pro forma Adjusted Historical Income Statement extracts for FY2003, FY2004 and FY2005 as set out in Table 8.1 of Section 8.4 of this Prospectus and the Pro forma Adjusted Historical Income Statement for the six months ended 31 December 2005 as set out in Appendix A of this Prospectus. The Pro forma Adjusted Historical Income Statements are presented before interest and income tax and on a basis consistent with the ongoing business to be conducted by Retail Food Group. |
| | | Pro forma Adjusted Historical Cash Flow Statements | The Pro forma Adjusted Historical Statement of Cash Flows for FY2003, FY2004 and FY2005 as set out in Table 8.7 of Section 8.9 of this Prospectus and the Pro forma Adjusted Historical Statement of Cash Flows for the six months ended 31 December 2005 as set out in Appendix A of this Prospectus. The Pro forma Adjusted Historical Cash Flow Statements are presented before interest and income tax and on a basis consistent with the ongoing business to be conducted by Retail Food Group. |
| | | Pro forma Adjusted Balance Sheet | The Pro forma Adjusted Balance Sheet as at 31 December 2005 as set out in Table 8.5 of Section 8.8 and Appendix A of this Prospectus. The Pro forma Adjusted Balance Sheet is presented on the assumption that all transactions stated which have occurred or will occur as proposed in this Prospectus are undertaken as at 31 December 2005. |
| | Forecast Financial Information | Pro forma 2006 Forecast | The pro forma forecast income statement for FY2006 as set out in Table 8.1 of Section 8.4 of this Prospectus. The pro forma 2006 forecast is based on the pro forma adjusted actual performance for the six months ended 31 December 2005 and the pro forma forecast performance for the six months ending 30 June 2006. |
| | | Pro forma 2006 Cash Flow Statement | The pro forma forecast statement of cash flows for FY2006 as set out in Table 8.7 of Section 8.9 of this Prospectus. The Pro forma 2006 Forecast Cash Flow Statement is based on the pro forma adjusted actual cash flows presented before interest and income tax for the six months ended 31 December 2005 and the pro forecast cash flows for the six months ending 30 June 2006. |
| | | 2007 Forecast | The forecast income statement for FY2007 as set out in Table 8.1 of Section 8.4 of this Prospectus. |
| | | 2007 Cash Flow Statement | The forecast statement of cash flows for FY2007 as set out in Table 8.7 of Section 8.9 of this Prospectus. |

It is important to note the following in relation to the Pro forma Adjusted Historical Financial Information of Retail Food Group:

- The financial statements for the year ended 30 June 2003 were prepared for RFGA Holdings Pty Limited, being the former parent entity in the group until RFG Investments (Vic) Pty Ltd was formed and became the new parent entity on 3 November 2003. RFG Investments (Vic) Pty Ltd changed its name to Retail Food Group Limited on 7 March 2006
- The Pro forma Adjusted Historical Financial Information for the year ended 30 June 2004 therefore comprises four months of trading of RFGA Holdings Pty Limited as the parent entity, and eight months of trading under Retail Food Group as the new parent entity
- To enable a potential investor to compare the historical trading performance of Retail Food Group to the Pro forma Forecast Financial Information

and Forecast Financial Information, adjustments have been made to the actual historical financial information to remove the impact of historical results that the Directors believe will not occur in the future and to include the impact of certain matters that will occur in the listed entity in future. A detailed reconciliation of the adjustments to Retail Food Group's historical trading performance is contained in Section 8.11 of this Prospectus

- All Financial Information presented in this Prospectus has been re-stated in accordance with A-IFRS unless otherwise stated. Refer to Section 8.13 for further details.

All Financial Information presented in this Section should be read in conjunction with the other information contained in this Section, the risk factors outlined in Section 7 and other information contained in this Prospectus.

The actual financial information that will be reported by Retail Food Group in its annual report for FY2006 will differ from the Pro forma 2006 Cash Flow Statement and Pro forma 2006 Forecast for that period as a result of, amongst other things, the pro forma normalisation adjustments as set out in the reconciliation presented in Section 8.12 of this Prospectus.

## 8.2 Basis of preparation of Pro forma Adjusted Historical Financial Information

The Pro forma Adjusted Historical Financial Information adjusts the Company's audited historical financial statements ('Historical Financial Information') to provide comparability with the Forecast Financial Information. A reconciliation is provided in Table 8.9 of Section 8.11 of this Prospectus.

The Pro forma Adjusted Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by A-IFRS and the accounting policies of Retail Food Group as disclosed in Note 1 of Appendix A to this Prospectus and incorporates the pro forma adjustments as disclosed in Table 8.9 within Section 8.11 and Table 8.5 within Section 8.8 of this Prospectus. Refer to Section 8.13 of this Prospectus for further details regarding A-IFRS.

The Pro forma Adjusted Historical Financial Information does not include any costs associated with operating as a listed public company. Additional costs associated with a listed public company structure have been assumed for the purposes of the Forecast Financial Information.

Included in Appendix A is the Pro forma Adjusted Historical Financial Information for the six months ended 31 December 2005 together with accounting policies adopted and used by the Company.

The Pro forma Adjusted Balance Sheet is based on the reviewed balance sheet of the Company as at 31 December 2005, adjusted to reflect the impact of the transactions contemplated by the Prospectus, including the capital restructure and the capital raising as if the Company was a listed public company as at 31 December 2005. A reconciliation of the Pro forma Adjusted Balance Sheet is provided in Section 8.8 of this Prospectus.

The Pro forma Adjusted Historical Financial Information has been reviewed by Deloitte Touche Tohmatsu and its Investigating Accountants' Report is contained in Section 9 of this Prospectus.

## 8.3 Basis of preparation of Forecast Financial Information

The Forecast Financial Information is based on the Directors' best-estimate assessment of the market conditions that Retail Food Group operates in, together with other assumptions concerning future events. A summary of these assumptions is set out in Section 8.6 of this Prospectus.

The Directors' Forecast Financial Information has been prepared on the basis of assumptions as to expected future events, and actions that the Directors expect to take in the future.

The Directors believe that they have prepared the Forecast Financial Information with due care and attention, taking into account all relevant economic, market and competitive risks that existed at the time of preparing this Prospectus.

The Forecast Financial Information is subject to uncertainties and unanticipated events that may be outside the control of Retail Food Group and the Directors. Accordingly, there will be differences between the Forecast Financial Information and actual results achieved by Retail Food Group, some of which may be material in nature.

As the Forecast Financial Information is by its very nature subject to unexpected events, the Company, the Vendor, the Directors or any other person associated with the Offer and Priority Offer cannot give any guarantee that the Forecast Financial Information or any prospective statement contained in this Prospectus will be achieved.

The Forecast Financial Information should be read together with the best-estimate assumptions underlying their preparation as set out in Section 8.6, the sensitivity analysis set out in Section 8.7, the risk factors set out in Section 7 and the other information contained in this Prospectus. The Forecast Financial Information has been reviewed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by Deloitte Corporate Finance Pty Limited and its report on Directors' Forecast Financial Information is contained in Section 10 of this Prospectus.

The material best-estimate general assumptions made by the Directors in preparing the Forecast Financial Information are as follows:

- there is no loss of key management personnel
- there is no substantial change in the manner of operation of the business or with the existing franchise grant documentation that will require Retail Food Group to incur additional expenses over and above the current level required to service the Total Network
- there is no adverse change to the efficiency of the Company's supply chain during the forecast period
- there are no material beneficial or adverse effects arising from the actions of competitors
- there is no material adverse amendment to or the discontinuance of any material agreement relating to Retail Food Group's business
- there are no material acquisitions or disposals, other than as set out in this Prospectus
- there is no change to Retail Food Group's funding or capital structure other than as outlined in this Prospectus
- there are no changes to the statutory, legal or regulatory environment, including taxation, which would be detrimental to Retail Food Group or its key suppliers in any of the jurisdictions in which they operate
- there is no material change to the general economic conditions evident at the time of preparing the Forecast Financial Information which would impact, amongst other things, the level of consumer spending, and levels of inflation and interest rates
- accounting policies remain consistent with those adopted in preparing historical financial statements, as set out in Note 1 of Appendix A
- there are no material changes in Australian Accounting Standards, other mandatory professional reporting requirements or the Corporations Act, which would have a material effect on the Forecast Financial Information.

## 8.4 Summary income statements

Table 8.1 sets out a summary of the Pro forma Adjusted Historical Income Statements, the Pro forma 2006 Forecast and the 2007 Forecast.

The Pro forma Adjusted Historical Income Statements are presented to the EBIT line only and therefore exclude the historical impact of interest and tax expense which, in the opinion of the Directors, is not relevant due to the different company structure and level of gearing going forward.

The Pro forma Adjusted Historical Income Statements and Pro forma 2006 Forecast have been adjusted to remove the impact of one-off, abnormal or non-recurring transactions that are not expected to recur during the forecast period and to reflect the ongoing structure of the business. Further discussion regarding the adjustments from historical earnings is set out in Section 8.11 of this Prospectus.


**Table 8.1 Summary income statements**

| | Pro forma Adjusted Historical Income Statements[1] | | | Pro forma 2006 Forecast[2] | 2007 Forecast |
|---|---|---|---|---|---|
| **Year ended/ending 30 June $ million** | **2003[3]** | **2004[3]** | **2005** | **2006** | **2007** |
| Franchise Revenue | 12.7 | 14.0 | 14.7 | 15.9 | 18.2 |
| Marketing Fund Revenue | 3.0 | 4.1 | 5.8 | 5.0 | 5.1 |
| Other Revenue | 1.3 | 2.4 | 3.6 | 3.1 | 1.4 |
| Total Revenue | 17.0 | 20.5 | 24.1 | 24.0 | 24.7 |
| EBITDA | 7.7 | 8.4 | 9.1 | 10.3 | 11.9 |
| Depreciation and amortisation | (0.1) | (0.1) | (0.2) | (0.2) | (0.2) |
| EBIT | 7.6 | 8.3 | 8.9 | 10.1 | 11.7 |
| Interest expense | | | | | (1.3) |
| Income tax | | | | | (3.0) |
| NPAT | | | | | 7.4 |

**Notes:**
(1) The Pro forma Adjusted Historical Income Statements are based on audited income statements for FY2003, FY2004 and FY2005. As explained in Section 8.1 of this Prospectus, the financial statements for FY2003 were prepared for RFGA Holdings Pty Limited, being the former parent entity in the group until RFG Investments (Vic) Pty Ltd (now named Retail Food Group Limited) was formed and became the new parent entity on 3 November 2003. The Pro forma Adjusted Historical Income Statement for FY2004 comprises four months of trading under RFGA Holdings Pty Limited and eight months trading under Retail Food Group. The Pro forma Adjusted Historical Income Statement for FY2005 is based on the financial statements of Retail Food Group.
(2) The Pro forma Forecast Income Statement for FY2006 is based upon the reviewed Pro forma adjusted income statement for the six months ended 31 December 2005 and the forecast result for the six months ending 30 June 2006.
(3) The accounting policies adopted by Retail Food Group for FY2003 and FY2004 are consistent with the accounting policies adopted on transition to A-IFRS on 1 July 2004. Refer to Section 8.13 for further details.

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**Table 8.2 Other key financial and operating information**

| | Pro forma Adjusted Historical Income Statements | | | Pro forma 2006 Forecast | 2007 Forecast |
|---|---|---|---|---|---|
| **Year ended/ending 30 June $ million** | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Key Financial Information** | | | | | |
| Network Sales[1]: | | | | | |
| Donut King | 86.8 | 99.9 | 109.8 | 122.8 | 135.7 |
| bb's café | 19.1 | 19.1 | 19.8 | 20.3 | 21.0 |
| Network Sales | 105.9 | 119.0 | 129.6 | 143.1 | 156.7 |
| **Key Operating Information** | | | | | |
| Network Sales growth | – | 12.4% | 8.9% | 10.4% | 9.5% |
| Franchise Revenue growth | – | 10.2% | 5.0% | 8.2% | 14.5% |
| Total revenue growth | – | 20.6% | 17.6% | (0.4%) | 2.9% |
| EBITDA margin | 45.3% | 41.0% | 37.8% | 42.9% | 48.2% |
| EBITDA growth | – | 9.1% | 8.3% | 13.2% | 15.6% |
| EBIT margin | 44.7% | 40.5% | 36.9% | 42.1% | 47.4% |
| EBIT growth | – | 9.2% | 7.2% | 13.5% | 15.8% |

**Notes:**
(1) The franchise service fee revenue derived by Retail Food Group is dependent upon the level of Network Sales. Network Sales have not been independently audited or reviewed by Deloitte Touche Tohmatsu, Deloitte Corporate Finance Pty Limited or the Company.



## 8.5 Management's discussion and analysis of the Pro forma Adjusted Historical Income Statements

### 8.5.1 FY2004 compared to FY2003

Retail Food Group's pro forma adjusted EBITDA in FY2004 was $8.4 million, compared to $7.7 million in FY2003. This represented growth of 9.1% on FY2003.

A summary of the historical outlet movements for Donut King and bb's café is contained in Table 8.3. At the start of FY2004 there were 285 outlets in the Total Network comprising 217 Donut King and 68 bb's café outlets (of which 24 were located in New Zealand). During the course of the year, 22 Donut King outlets were opened and four closed for a net increase of 18 additional Donut King outlets. Five bb's café outlets were opened during the period and five closed. As such, the number of bb's café outlets remained static.

Donut King system sales increased from $86.8 million in FY2003 to $99.9 million in FY2004, an increase of 15.1%, as a result of the roll out of new outlets and growth in Outlet Average Weekly Sales. Donut King's average weekly sales increased from $8,070 per outlet in FY2003 to $8,543 per outlet in FY2004, an increase of 5.9%.

bb's café system sales remained constant at $19.1 million in both FY2003 and FY2004.

The growth in Retail Food Group's pro forma adjusted EBITDA during FY2004 was attributable to the following factors:

- growth in Network Sales of 12.4% during the period
- growth in Retail Food Group's total revenue of 20.6% during the period
- net increase of 18 outlets.

### 8.5.2 FY2005 compared to FY2004

A key focus for Retail Food Group in FY2005 was to improve the overall performance and profitability of the Network.

Retail Food Group also determined to cease its company stores division and began to rationalise the number of voluntary company stores that were owned and managed by Retail Food Group.

The rationalisation of voluntary company stores and closure of the company stores division was completed by 31 December 2005. As a consequence, the historical impact of voluntary company stores has been adjusted to eliminate it from the Pro forma Adjusted Historical Financial Information and the Pro forma 2006 Forecast. Further details are contained in Section 8.11 of this Prospectus.

On 1 February 2005, Retail Food Group commenced a pilot CMF. The pilot CMF was introduced to initially cater for a maximum of 21 Donut King outlets in South East Queensland as a means of determining if large volume non-Franchisee in house manufacture and supply of donuts to Franchisees was feasible and economic. The program was designed to eliminate the need for Franchisees to undertake early morning preparation and cooking of donuts in their outlets which has historically been an essential part of the Donut King franchise system. Details of Retail Food Group's future intentions for the CMF program are set out in Section 5.9 of this Prospectus.

A summary of the historical outlet movements for the Total Network is contained in Table 8.3. At the start of FY2005 there were 303 outlets in the Total Network, comprising 235 Donut King and 68 bb's café outlets (of which 25 were located in New Zealand). During FY2005, 18 Donut King outlets were opened and three outlets closed for a net increase of 15 additional Donut King outlets. A total of eight bb's café outlets were opened and seven outlets closed for a net increase of one bb's café outlet. Outlet closures result for a number of reasons, including the failure of a Franchisee to remedy a breach of its franchise agreement.

Donut King system sales increased from $99.9 million to $109.8 million, an increase of 9.9%. Donut King average weekly outlet sales increased from $8,543 to $8,689, an increase of 1.7%.

bb's café system sales in Australia increased from $19.1 million to $19.8 million, an increase of 3.7%.

Retail Food Group's total revenues for FY2005 increased by 17.6% to $24.1 million, compared to $20.5 million in FY2004, as a result of the overall increase in outlet numbers and the increase in Outlet Average Weekly Sales.

Retail Food Group's pro forma adjusted EBITDA in FY2005 was $9.1 million compared to $8.4 million in FY2004, representing an increase of 8.3%.


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## 8.6 Management's discussion and analysis of the Forecast Financial Information

This Section provides a detailed discussion of the specific key assumptions underlying the Directors' Forecast Financial Information for FY2006 and FY2007.

### 8.6.1 New outlet roll out

Due to the nature of the Retail Food Group business operations as a franchisor, a key driver to growth is the roll out of new Donut King and bb's café outlets.

Retail Food Group focuses on the management and support of the existing franchise network of Donut King and bb's café outlets. As mentioned in Section 8.5 of this Prospectus, as of 1 January 2006, Retail Food Group no longer operates voluntary company stores.

Retail Food Group has two dedicated departments, one that concentrates on new site and Franchisee identification, and a second that undertakes the construction and commissioning of new outlets. These departments are the sales and leasing department and the purchasing, project management and design department.

The purchasing, project management and design department currently consists of six people who plan and oversee the construction and commissioning of new Donut King and bb's café outlets as well as outlet refurbishments.

Retail Food Group do not apply a complex formula or turnover projection to assess the suitability or otherwise of a new site. Instead, the following non-exhaustive list of factors is taken into account:

- shopping centre foot traffic flows (if available)
- competition levels in each shopping centre
- site size and in-shopping centre location
- site rental requirements and other lease terms.

A crucial factor to the identification of a new outlet site is the availability of suitable Franchisees to operate the new outlets. Retail Food Group undertake a detailed application and interview process prior to selecting a new Franchisee, and the Franchisee's approval is only satisfied upon successful completion of a five to six week competency based training course at Retail Food Group's training academy at the Company's head office in Southport, Queensland.

Due to the demand from existing and new Franchisees to acquire new outlet franchises, the identification of a Franchisee for many identified sites can usually be finalised.

Retail Food Group usually follows a 13 week program from site and Franchisee procurement until the commissioning of a new Donut King or bb's café outlet. This program will often involve negotiating a lease agreement with the landlord of a new site, training the selected Franchisee, obtaining council approvals, and construction. There is limited exposure for Retail Food Group to capital expenditure on the new outlets, as the costs incurred by the Company in relation to architectural plans, legal fees and construction costs are recovered from the new Franchisee pursuant to the contractual terms of the franchise grant documentation.

As at 31 December 2005, there were a total of 324 outlets in the Total Network, including 257 Donut King outlets and 67 bb's café outlets (of which 25 were located in New Zealand).

Total Network outlet numbers are forecast to be 353 by 30 June 2007, with 13 stores (net of closures) to be opened in FY2006 (including a net increase of eight outlets in the six months ending 30 June 2006), and a further 25 outlets forecast to be opened and four closures forecast in FY2007.

A summary of Retail Food Group's outlet growth is contained in Table 8.3.


**Table 8.3**
**Historical and Forecast outlet roll out performance**

| | Adjusted Actual | | | Forecast | |
|---|---|---|---|---|---|
| **Year ended/ending 30 June** | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Donut King** | | | | | |
| Outlets at beginning of period | 202 | 217 | 235 | 250 | 265 |
| Openings | 15 | 22 | 18 | 20 | 21 |
| Closures | – | (4) | (3) | (5) | (2) |
| Outlets at end of period | 217 | 235 | 250 | 265 | 284 |
| **bb's café** | | | | | |
| Outlets at beginning of period | 70 | 68 | 68 | 69 | 67 |
| Openings | 4 | 5 | 8 | 6 | 4 |
| Closures | (6) | (5) | (7) | (8) | (2) |
| Outlets at end of period | 68 | 68 | 69 | 67 | 69 |
| **Total outlets at period end** | **285** | **303** | **319** | **332** | **353** |

Retail Food Group has forecast to roll out eight new outlets (six Donut King and two bb's café) in the six months to 30 June 2006. As at 31 March 2006, three new outlets had been commissioned. Four of the remaining five new outlets are with the purchasing, project management and design department and are at various stages of the outlet commissioning process. The fifth, a bb's café outlet, is expected to open in New Zealand in June 2006.

In relation to the forecast roll out of 25 new outlets (three of which will be bb's café New Zealand outlets) in FY2007, Retail Food Group has executed an 'intention to lease' document (as opposed to a formal lease agreement) in respect of 19 identified sites. Franchisees have been identified in respect of seven of these sites. A further 20 sites have been identified as potential new outlet locations. Retail Food Group estimates that approximately 95% of the outlets are located in shopping centres. The Directors believe that with in excess of 800 shopping centres in Australia, there is capacity for further growth of the Network.

The monthly sales revenue of Donut King and bb's café outlets traditionally peak during the months of April, July, September and December due to the increase purchasing of consumers during school holiday and vacation periods. In order to maximise the revenue derived from these peak periods, Retail Food Group has historically rolled out new outlets during the periods April to June and September to December. This trend is forecast to continue.

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### 8.6.2 Forecast assumptions for the six months ending 30 June 2006

The specific assumptions underlying the Pro forma Forecast Financial Information in the six months ending 30 June 2006 are as follows:

- open six new Donut King outlets and two bb's cafe outlets
- growth in Outlet Average Weekly Sales for Donut King outlets of between 3% and 5%, depending on the State or Territory location of the outlet
- growth in Outlet Average Weekly Sales for bb's cafe outlets of between -2% and 8%, depending on the State or Territory location of the outlet
- there is no ramp up period of sales in respect of new outlets. Historically, the sales achieved by many of the new outlets have been higher in the initial two month trading period
- there is no change in franchise service fee percentages charged. The percentage will remain at 9% of sales for 'Express' outlets and 7% for 'Full Concept' outlets and bb's café outlets in Australia
- the licence fee payable to Retail Food Group under the deed of licence with BB's New Zealand Limited relative to the use of the bb's café system intellectual property and development of the bb's café system in New Zealand increased from 3% of New Zealand outlet sales to 4% with effect from 1 January 2006. Refer to Section 5.8 of this Prospectus for further information in relation to RFG (NZ) Limited
- the continuation of the pilot CMF program, although as at 18 April 2006, the number of Donut King outlets participating in the program had increased to 29. Refer to Section 5.9 of this Prospectus for further discussion of the pilot CMF program
- the cessation of voluntary company stores and the reduction in Non-voluntary Company Store operations from 1 January 2006.

In addition to the franchise service fee revenue (which is calculated as a percentage of Network Sales), Retail Food Group also derives other revenue, which include:

- initial franchise fees and training fees paid by an incoming Franchisee in respect of a new outlet commissioning
- other upfront recoveries from an incoming Franchisee including legal fees, plans and drawing fees
- supplier product and licence fees which are paid to Retail Food Group from certain of its suppliers of goods to the Network.
- Marketing Fund Revenue
- income from the pilot CMF program
- other income including rental income derived from the sub-lease of a part of the Company's head office.

Amongst other things, the franchise service fees, supplier product and licence fees and Marketing Fund Revenue are recurrent sources of revenue for Retail Food Group, whereas initial franchise fees and other upfront recoveries are non-recurring and are paid one-off by a new Franchisee.

The Pro forma 2006 Forecast EBITDA is forecast to increase 13.2% to $10.3 million compared to FY2005. The key drivers for the forecast increase include:

- net increase of 13 new outlets during FY2006
- increase of 10.4% in Network Sales due to the increase in new outlet numbers and growth in Outlet Average Weekly Sales. This forecast increase in Network Sales contributes to a forecast increase of 8.2% in Franchise Revenue derived by Retail Food Group. The impact of this forecast increase in Franchise Revenue does not significantly impact Retail Food Group's total revenue due to the offset caused by the reduction in Non-voluntary Company Store sales and the cessation of the company stores division effective 31 December 2005. Therefore the total revenue of Retail Food Group is forecast to remain relatively constant compared to FY2005
- decrease in overheads associated with the non-requirement for Retail Food Group to operate the company stores division, resulting in a decrease of 8.2% in total costs. The decrease in costs is a key driver to the increase in EBITDA for FY2006.

### 8.6.3 Forecast assumptions for FY2007

The specific assumptions underlying the Forecast Financial Information in FY2007 are as follows:

- increase of 19 new Donut King outlets and two bb's cafe outlets (net of forecast closures)
- growth in Outlet Average Weekly Sales for Donut King outlets between 3% and 10%, depending on the State or Territory location of the outlet
- growth in Outlet Average Weekly Sales for bb's cafe outlets between 1% and 4%, depending on the State or Territory location of the outlets



- there is no ramp up period for sales of new outlets
- there is no change in the franchise service fee percentages
- the licence fee payable to Retail Food Group under the deed of licence with BB's New Zealand Limited relative to the use of the bb's café system intellectual property and development of the bb's café system in New Zealand continues at 4% of outlet sales
- the continuation of the pilot CMF program
- continuation of reduced instances where Retail Food Group operates Non-voluntary Company Stores.

2007 Forecast EBITDA is forecast to increase 15.6% to $11.9 million compared to FY2006. The key drivers for the forecast increase include the following factors:

- forecast 2.9% increase in Retail Food Group's revenue due to a forecast increase of 9.5% in Network Sales. The impact of this forecast increase in Retail Food Group's revenue is largely offset by the discontinuance of the operation of the company stores division, therefore reducing gross sales compared to FY2006
- 6.9% decrease in total forecast costs due to the reduction in costs associated with the operation of Non-voluntary Company Stores.

## 8.7 Sensitivity analysis of Forecast Financial Information

The Forecast Financial Information has been based on certain economic and business assumptions about future events. A summary of the key best-estimate assumptions underlying the Forecast Financial Information is set out in Section 8.6.

Retail Food Group's EBITDA is considered to be sensitive to movements in a number of key assumptions. A summary of the likely impact of movements in certain key assumptions on Retail Food Group's forecast EBITDA for FY2007 is set out in Table 8.4 below. However, the changes in the key assumptions set out below are not intended to be indicative of the complete range of variations that may occur, and are not intended as any indication of potential changes considered likely by the Directors.

Extreme care should be taken in interpreting this information. This analysis treats each assumption in isolation from possible movements in other assumptions, which may not be the case. Movements in one assumption may have offsetting or compounding effects on other variables, the effects of which are not reflected in the following analysis. In addition, it is possible that more than one assumption may move at any one point in time, giving rise to cumulative effects, which also are not reflected in this analysis.

In order to fulfil their duty of care to the Shareholders of the Company, Retail Food Group's management and Directors would respond to any material adverse change in conditions by taking appropriate action to minimise or maximise, to the extent possible, any adverse or beneficial effect on EBITDA and dividend. The effect of any such mitigating action has been excluded from the following analysis.

**Table 8.4 EBITDA sensitivity analysis for FY2007**

| Sensitivity | % Change | Impact on EBITDA for FY2007 $million |
|---|---|---|
| Network Sales | - 1% | (0.1) |
| Company expenses | - 1% | (0.1) |
| New outlet roll outs delayed by one quarter[1] | N/A | (0.3) |

**Notes:**

(1) New oulets due to open in the final quarter of FY2007 are delayed until FY2008. Note that a delay in the roll-out of a new outlet will decrease both the recurring and non-recurring revenue streams of Retail Food Group (see Section 5.6 of this Prospectus for further details). The non-recurring revenue derived by Retail Food Group at the commissioning of a new outlet has the most significant impact on EBITDA shown in the table above.

## 8.8 Pro forma Adjusted Balance Sheet

The Pro forma Adjusted Balance Sheet has been prepared by adjusting the balance sheet as at 31 December 2005 for the impact of the Company's listing on ASX that will be in place following the Offer and Priority Offer, as if Retail Food Group was listed as at that date.

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**Table 8.5 Pro forma Adjusted Balance Sheet**

| $ million | Reviewed actual 31 December 2005 | Pro forma adjustments | Pro forma adjusted 31 December 2005 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash assets | 2.2 | 0.3[1] | 2.5 |
| Receivables | 3.9 | | 3.9 |
| Inventories | 0.2 | | 0.2 |
| Other | 0.3 | | 0.3 |
| **Total Current Assets** | **6.6** | **0.3** | **6.9** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 0.5 | | 0.5 |
| Intangibles | 42.0 | | 42.0 |
| Deferred tax assets | – | 0.6[3] | 0.6 |
| Other | 0.2 | | 0.2 |
| **Total Non-Current Assets** | **42.7** | **0.6** | **43.3** |
| **Total Assets** | **49.3** | **0.9** | **50.2** |
| **Current Liabilities** | | | |
| Payables | 0.8 | | 0.8 |
| Interest-bearing liabilities | 1.9 | | 1.9 |
| Current tax liabilities | 0.7 | | 0.7 |
| Provisions | 0.1 | | 0.1 |
| Other | 0.6 | | 0.6 |
| **Total Current Liabilities** | **4.1** | | **4.1** |
| **Non-Current Liabilities** | | | |
| Interest-bearing liabilities | 16.6 | | 16.6 |
| Deferred Tax Liability | 0.4 | | 0.4 |
| **Total Non-Current Liabilities** | **17.0** | | **17.0** |
| **Total Liabilities** | **21.1** | | **21.1** |
| **Net Assets** | **28.2** | **0.9** | **29.1** |
| **Equity** | | | |
| Issued Capital | 30.2 | 0.9[2,3] | 31.1 |
| Retained profits/(Accumulated losses) | (2.0) | | (2.0) |
| **Total Equity** | **28.2** | **0.9** | **29.1** |



**Notes:**
(1) excess cash following receipt of Offer and Priority Offer proceeds ($2,382,243) and payment of Prospectus costs ($2,100,400).
(2) Retail Food Group conducts a share split converting 1,649,351 ordinary shares to 69,309,016 ordinary shares. This does not give rise to a financial impact in the Company. 34,117,757 of the existing ordinary shares are transferred to New Shareholders as part of the Offer and Priority Offer. This does not give rise to a financial impact in the Company. Retail Food Group issues 2,382,243 new fully paid ordinary shares at an issue price of $1.00 per share as part of the Offer. This increases issued capital of the company by $2,382,243.
(3) costs of the capital raising in the amount of $2,100,400 are paid for and are offset against issued capital, net of tax effect. Deferred tax asset raised at 30% totalling $630,120.

The reconciliation of the adjustments from the actual 31 December 2005 balance sheet to the Pro forma Adjusted Balance Sheet is as follows:

**Table 8.6 Reconciliation of Pro forma Adjusted Balance Sheet**

| $ million | Pro forma 31 December 2005 |
|---|---|
| **Actual Net Assets as at 31 December 2005** | **28.2** |
| Proceeds from Issue of New Shares | 2.4 |
| Share issue costs | (2.1) |
| Tax effect of share issue costs | 0.6 |
| **Pro forma Adjusted Net Assets as at 31 December 2005** | **29.1** |

The actual balance sheet that arises following the Offer and Priority Offer will be based on actual assets and liabilities once the New Shares have been issued and allotted and the Existing Shares transferred pursuant to this Prospectus. The actual balance sheet will differ to the position set out above.

## 8.9 Pro forma Adjusted Historical Cash Flow Statements, Pro forma 2006 Cash Flow Statement and 2007 Cash Flow Statement

The following table sets out the Pro forma Adjusted Historical Cash Flow Statements, Pro forma 2006 Cash Flow Statement and 2007 Cash Flow Statement, adjusted for the cash flow effects of the Pro forma adjustments outlined in Tables 8.5, 8.9 and 8.10, such that they are presented on a basis consistent with the ongoing business to be conducted by Retail Food Group.


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**Table 8.7 Cash Flow Statements**

| | Pro forma Adjusted Historical Cash Flow Statements[1 2] | | | Pro forma 2006 Cash Flow Statement [3] | 2007 Cash Flow Statement |
|---|---|---|---|---|---|
| **Year ended/ending 30 June $ million** | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Cash flows from operating activities** | | | | | |
| EBITDA | 7.7 | 8.4 | 9.1 | 10.3 | 11.9 |
| Movements in working capital items | (1.1) | (1.0) | (0.6) | (0.5) | (0.4) |
| **Net Cash provided by operating activities before interest and income tax** | **6.6** | **7.4** | **8.5** | **9.8** | **11.5** |
| Interest and finance costs paid | | | | | (1.3) |
| Income tax paid | | | | | (3.0) |
| **Net cash provided by operating activities after interest and income tax** | | | | | **7.2** |
| **Cash flows from investing activities** | | | | | |
| Loans to related parties/employees | (0.8) | (0.1) | – | – | – |
| Payments for property, plant and equipment | (0.1) | (0.3) | (0.2) | (0.4) | (0.4) |
| Payment for shares to exiting shareholders of RFGA Holdings Pty Ltd | – | (10.2) | – | – | – |
| **Net cash used in investing activities** | **(0.9)** | **(10.6)** | **(0.2)** | **(0.4)** | **(0.4)** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of Shares[4] | – | – | – | 0.3 | – |
| Share buy back | – | – | (5.6) | – | – |
| Proceeds from borrowings | 1.6 | 13.7 | 2.7 | 9.3 | 0.3 |
| Repayment of borrowings | (0.2) | (3.7) | (3.0) | (2.4) | (1.9) |
| Dividends paid | – | (0.5) | (0.6) | (12.2) | (2.2) |
| Proceeds from repayment of related party loans | 0.2 | 0.3 | 0.3 | 0.6 | – |
| **Net cash provided by/(used in) financing activities** | **1.6** | **9.8** | **(6.2)** | **(4.4)** | **(3.8)** |
| **Net cash flows before interest and income tax** | **7.3** | **6.6** | **2.1** | **5.0** | **7.3** |
| **Net cash flows after interest and income tax** | | | | | **3.0** |



**Notes:**

(1) The Pro forma Adjusted Historical Cash Flow Statements and the Pro forma 2006 Cash Flow Statement have been presented on a before interest and income tax basis.
(2) The Pro forma Adjusted Historical Cash Flow Statements are based upon the audited historical Cash Flow Statements for FY2003 to FY2005. As explained in Section 8.1 of this Prospectus, the financial statements for FY2003 were prepared for RFGA Holdings Pty Limited, being the former parent entity in the group until RFG Investments (Vic) Pty Ltd (now named Retail Food Group Limited) became the new parent entity on 3 November 2003. The Pro forma Adjusted Historical Cash Flow Statement FY2004 comprises 4 months of trading under RFGA Holdings Pty Limited and 8 months trading under Retail Food Group. The Pro forma Adjusted Historical Cash Flow Statement for FY2005 is based on the financial statements of Retail Food Group.
(3) The Pro forma 2006 Forecast Cash Flow Statement is based upon the reviewed actual historical Cash Flow Statement for the half year ended 31 December 2005, adjusted for the pro forma adjustments outlined in Table 8.9 and the forecast cash flows for the six months ending 30 June 2006.
(4) Net proceeds from the Offer and Priority Offer comprises offer proceeds of $2,382,243 less payment of share issue costs of $2,100,400.

The Directors believe that the Company will have sufficient cash flow and cash reserves to finance the Company's operations and forecast capital expenditure as detailed in the FY2006 and FY2007 Forecast Financial Information.

Table 8.8 above, sets out the pro forma adjusted historical statement of cash flows for the FY2003, FY2004 and FY2005, the pro forma forecast statement of cash flows for FY2006 and the forecast statement of cash flows for FY2007.

With respect to the pro forma adjusted historical statement of cash flows for the FY2003, cash flow was impacted by loans to related parties and borrowings from the Bank of Queensland. In respect to loans to related parties, a short term loan (< one year) and a long term loan (< five years) were made to existing shareholders of the Company. The short term loan was repaid in FY2004 and the long term loan was repaid in FY2006. In respect to borrowings from the Bank of Queensland, the loan was to partially fund the purchase of land and buildings. The land and buildings have been removed from the adjusted historical balance sheet.

With respect to the pro forma adjusted historical statement of cash flows for the FY2004, cash flow was impacted by the payment of $10.2 million (net of cash balances acquired) to exiting shareholders of RFGA Holdings Pty Ltd. Borrowings from the ANZ Bank funded the cash component of the purchase.

With respect to the pro forma adjusted historical statement of cash flows for the FY2005, cash flow was impacted by a share buy back in an amount of $5.6m which was partially funded by borrowings from the ANZ Bank.

With respect to the pro forma forecast statement of cash flows for FY2006, cash flow was impacted by the payment of a dividend in an amount of $9.4 million which was funded by borrowings from the ANZ Bank. Repayment of the long term related party loan (five years) made in FY2003 also impacted cash flows.

The 2007 Cash Flow Statement will be impacted by the payment of an interim dividend to Shareholders of $2.24 million. The payment of the final dividend of a further $2.24 million does not affect the FY2007 cash flow, with payment expected in October 2007.

# 8 Financial Information



## 8.10 Dividend Policy

Subject to the forecast financial targets of the Company being achieved, the ongoing dividend policy of the Company is currently intended as follows:

- make regular, half yearly dividend payments to Shareholders, subject to available profits, the level of borrowings, working capital and the matters referred to below
- frank dividends to the greatest extent possible

The payment of dividends by the Company will be at the complete discretion of the Directors. No guarantee can be given by the Directors or the Company about the payment of dividends, the level of franking of such dividends or the extent of the payout ratios for FY2007, or for any future period. These matters will depend upon the future profits of the Company, its financial and taxation position as well as general business and financial conditions and any other factors the Directors may consider relevant.

Subject to these considerations, the dividend policy of the Company will be to distribute between 50% and 70% of reported NPAT in the form of dividends, subject to such alteration as the Directors consider to be in the best interests of the Company from time to time. An interim dividend, if any, is expected to be paid annually in April, and a final dividend (if any) paid annually in October.

The Company is not forecasting the payment of a final dividend in respect of the period from Closing Date until 30 June 2006.

In respect of FY2007, the Directors anticipate to declare total dividends of 6.25 cents per Share, representing a yield of 6.25% based on the Offer Price. Subject to available franking credits, it is expected that this dividend will be franked to 100%.

**Table 8.8 Forecast dividend yield[1]**

| | Cents per Share | Annualised forecast yield (%)[2] |
|---|---|---|
| Forecast full year dividend for FY2007[3] | 6.25 | 6.25% |

**Notes:**
(1) The forecast dividend yield for FY2007 has not been reviewed by Deloitte Touche Tohmatsu or Deloitte Corporate Finance Pty Limited, and represents the best-estimate assumption of the Directors.
(2) Based on the Offer Price.
(3) Based on the NPAT for FY2007 (calculated in accordance with A-IFRS and before unusual items) of $7.4 million. A forecast interim dividend is anticipated to be payable in April 2007 and a final dividend in October 2007.

## 8.11 Reconciliation of historical financial information

The Pro forma Adjusted Historical Income Statements adjust the actual historical financial information of Retail Food Group to remove the impact of one-off, abnormal or non-recurring transactions that are not expected to recur during the forecast period and to reflect the ongoing structure of the business. These adjustments are made to provide comparability within the Pro forma Adjusted Historical Financial Information, and between the Pro forma Adjusted Historical Financial Information and the Forecast Financial Information.

In arriving at the Pro forma Adjusted Historical Financial Information for Retail Food Group, the following adjustments have been made to the actual historical financial information.



**Table 8.9 Reconciliation of Pro forma Adjusted Historical Income Statements**

| | Pro forma Adjusted Historical Income Statements | | | |
|---|---|---|---|---|
| **Year ended 30 June (half year ended 31 December) $ million** | **2003** | **2004** | **2005** | **Half year 31 December 2005** |
| **Historical total revenue** | **17.6** | **22.6** | **27.9** | **14.2** |
| Donut King Unit Trust[1] | 1.1 | – | – | – |
| Voluntary company stores[2] | (1.8) | (1.9) | (2.0) | (0.8) |
| Juice Fusion franchise system[3] | – | (0.4) | (1.3) | (0.1) |
| Other[6] | 0.1 | 0.2 | (0.5) | – |
| **Pro Forma Adjusted historical total revenue** | **17.0** | **20.5** | **24.1** | **13.3** |
| **Historical EBIT** | **2.2** | **6.8** | **6.1** | **4.6** |
| Donut King unit trust[1] | 0.3 | 0.1 | – | – |
| Voluntary company stores[2] | 0.4 | 0.5 | 1.3 | 0.2 |
| Juice Fusion franchise system[3] | – | – | 0.9 | 0.4 |
| Consultancy fees[4] | 4.1 | 0.7 | – | – |
| Writedown of head office building[5] | – | – | 0.9 | – |
| Other[6] | 0.6 | 0.2 | (0.3) | – |
| **Pro Forma Adjusted Historical EBIT** | **7.6** | **8.3** | **8.9** | **5.2** |

**Notes:**

(1) The Donut King unit trust, an unrelated entity, was the franchisor of the Donut King master franchise structure which operated outlets in Victoria, South East Queensland and Northern New South Wales during FY2003. The Donut King unit trust derived all franchisor revenue and incurred all expenses relating to its operation as franchisor of these territories. The Donut King unit trust was not consolidated into the results of Retail Food Group, but paid a licence fee and an administration fee to Retail Food Group. As at 7 April 2003 the last of the master franchise arrangements was terminated and Retail Food Group rationalised this structure and became the franchisor from that date. This adjustment eliminates all actual transactions and balances between the Donut King unit trust and Retail Food Group and recognises the gross revenue and expenses incurred by the Donut King unit trust, as if these franchise territories had been operated by Retail Food Group since 1 July 2002.

(2) Retail Food Group owned and managed a number of Donut King and bb's café voluntary company stores during FY2003 to FY2005 and the half year to 31 December 2005. These outlets were managed within the company stores division specifically established for this purpose. During the first 6 months of FY2005, Retail Food Group rationalised voluntary and Non-voluntary Company Stores by closing or selling them to Franchisees. The rationalisation of the voluntary company stores was completed as at 31 December 2005 and the company stores division was closed at this time. This adjustment removes the revenue and expenses incurred by Retail Food Group in owning and managing the voluntary company stores, as well as the revenue and expenses incurred in acquiring and disposing of them, as the commissioning of voluntary company stores is not intended to be part of the ongoing business of Retail Food Group.

(3) Retail Food Group operated the Juice Fusion franchise system during FY2004 and FY2005 and during the half year to 31 December 2005. The Juice Fusion franchise system was sold on 1 September 2005. This adjustment eliminates revenues and costs incurred in operating the Juice Fusion franchise system (including any Juice Fusion company stores), as they are not part of the ongoing business of Retail Food Group.

(4) Retail Food Group made payments to a director related entity for consultancy services provided to Retail Food Group during FY2003 and FY2004. This adjustment eliminates this non-recurring expense.

(5) Retail Food Group recognised a recoverable amount write-down during FY2005 relating to the head office building which was sold during FY2005. This adjustment eliminates the entries recorded for the recoverable amount write-down and sale of the building.

(6) This adjustment eliminates the effect of miscellaneous immaterial non-recurring items.

# 8 Financial *Information*



## 8.12 Reconciliation of adjusted forecast EBIT to the Pro forma 2006 Forecast EBIT

A reconciliation between Retail Food Group's adjusted forecast EBIT and the Pro forma 2006 Forecast EBIT for FY2006 is as follows:

**Table 8.10**
**Reconciliation of Pro forma 2006 Forecast EBIT to adjusted forecast EBIT**

| | Pro forma 2006 Forecast |
|---|---|
| **Year ending 30 June $ million** | **2006** |
| Adjusted forecast EBIT | 9.3 |
| Lease surrenders[1] | 0.2 |
| Voluntary company stores[2] | 0.2 |
| Juice Fusion franchise system[3] | 0.4 |
| **Pro forma 2006 Forecast EBIT** | **10.1** |

**Notes:**
(1) Retail Food Group incurred expenses to obtain the surrenders of certain leases and suffered other costs in respect to several Juice Fusion outlets that were not sold as part of the Juice Fusion franchise system.
(2) As per Note 2 in Table 8.9.
(3) As per Note 3 in Table 8.9.

## 8.13 International Financial Reporting Standards

All reporting entities in Australia are required to comply with A-IFRS, as issued by the Australian Accounting Standards Board, for reporting periods commencing on or after 1 January 2005.

Historical financial statements of Retail Food Group until 30 June 2005 had been prepared in accordance with previous AGAAP. AGAAP in general, differs to A-IFRS in several respects.

The adoption of A-IFRS will be reflected in Retail Food Group's statutory financial statements for the first time for FY2006. The transition to A-IFRS will be accounted for in accordance with AASB 1 'First Time Adoption of Australian Equivalents to International Financial Reporting Standards'. The A-IFRS transition date for Retail Food Group is 1 July 2004 and on first time adoption, comparatives for FY2005 are required to be restated. In principle the majority of any A-IFRS transitional adjustments are to be made retrospectively against retained earnings at 1 July 2004.

The Directors of Retail Food Group have completed their assessment of the effects of the transition to A-IFRS and changes to accounting policies. The impact of the alternative treatments and elections under AASB 1 has been considered where applicable.

As of the date of this Prospectus, the Directors consider that there will be no material variances in the application of the recognition and measurement principles prescribed in A-IFRS as compared to AGAAP treatment, other than as noted below regarding income tax. As such, the application of the recognition and measurement principles prescribed by A-IFRS, as reflected in the accounting policies of the Company in Appendix A to this Prospectus, has not resulted in any financial adjustments to the Pro forma Adjusted Historical Income Statements, the Pro forma Adjusted Historical Cash Flow Statements, the Pro forma Adjusted Balance Sheet or the Forecast Financial Information, other than as noted below regarding the deferred income tax adjustment.

Potential investors and readers of this Prospectus should note however, that the Directors' assessment could change if there are any amendments by standard setters to the current A-IFRS or interpretations of A-IFRS requirements change from the continuing work of the Company's management. There are currently no indication of any such changes. Any such changes would be fully disclosed in subsequent statutory financial reports.

The Pro forma Adjusted Historical Financial Information and Forecast Financial Information have been presented in accordance with the recognition and measurement principles prescribed by A-IFRS and the accounting policies of the Company as disclosed in Note 1 of Appendix A to this Prospectus.

**Income tax**

Under previous AGAAP, the 'income statement approach' was utilised in calculating tax balances whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS deferred tax is determined using the 'balance sheet liability method' in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for accounting purposes and their corresponding tax bases.

Consequently, a deferred tax liability of $376,000 has been recognised against opening retained earnings upon first time adoption. There has been no impact on the profit of the Company as a result of this adjustment.

# 9 Investigating Accountants' Report

Deloitte.

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

9 May 2006

Dear Sirs

## RETAIL FOOD GROUP LIMITED—INVESTIGATING ACCOUNTANTS' REPORT

We have prepared this Investigating Accountant's Report ('Report') at the request of the Directors of Retail Food Group Limited ('the Company' or 'Retail Food Group') for inclusion in a Prospectus to be dated on or about 9 May 2006 to be issued by the Company regarding the initial public offering of 36,500,000 shares to raise $36,500,000 comprising 34,117,757 existing shares and 2,382,243 million new shares of $1 each.

References to Retail Food Group, the Company, and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus in which this report appears.

## BACKGROUND

Retail Food Group was founded in 1989 and is currently the intellectual property owner and franchisor of the Donut King and bb's café franchise systems. As of 31 March 2006, Retail Food Group has grown the Donut King franchise system to 261 outlets in Australia and the bb's café franchise system to 41 café outlets in Australia and 25 outlets in New Zealand.

## SCOPE

You have requested that Deloitte Touche Tohmatsu prepare a report reviewing the following financial information prepared in accordance with the relevant accounting policies set out in Note 1 of Appendix A to the Prospectus:

(a) the Pro forma Adjusted Historical Income Statements of Retail Food Group for the three financial years ended 30 June 2005 as set out in Table 8.1 of Section 8.4 of the Prospectus after adjustment for the non-recurring items disclosed in Section 8.11 of the Prospectus and presented before interest and income tax and on a basis consistent with the ongoing business to be conducted by Retail Food Group. Table 8.1 of Section 8.4 of the Prospectus includes certain forecast financial information for the financial years ending 30 June 2006 and 30 June 2007 ('Excluded Information') that does not form part of our report and, accordingly, we express no opinion or statement on the Excluded Information in this report;

(b) the Pro forma Adjusted Historical Cash Flow Statements of Retail Food Group for the three financial years ended 30 June 2005 as set out in Table 8.7 of Section 8.9 of the Prospectus after adjustment for the non-recurring items disclosed in Table 8.7 of Section 8.9 of the Prospectus and presented before interest and income tax and on a basis consistent with the ongoing business to be conducted by Retail Food Group. Table 8.7 of Section 8.9 of the Prospectus also includes certain forecast financial information for the financial years ending 30 June 2006 and 30 June 2007 ('Excluded Information') that does not form part of our report and, accordingly, we express no opinion or statement on the Excluded Information in this report;

(c) the Pro forma Adjusted Balance Sheet of Retail Food Group as at 31 December 2005 as set out in Table 8.5 of Section 8.8 of the Prospectus which assumes completion of the proposed pro forma transactions as at that date disclosed in Table 8.6 of Section 8.8 of the Prospectus; and

(d) the Pro forma Adjusted Financial Information for the half-year ended 31 December 2005 as contained in Appendix A to the Prospectus.

Together we refer to the above hereafter as the 'Pro forma Adjusted Historical Financial Information'.

Deloitte Touche Tohmatsu is the auditor of Retail Food Group. The Pro forma Adjusted Historical Financial Information has been extracted from the audited financial statements of Retail Food Group for the financial years ended 30 June 2003, 30 June 2004 and 30 June 2005, which were audited by Deloitte Touche Tohmatsu. The Pro forma Adjusted Historical Financial Information for the half year ended 31 December 2005, included in Appendix A to the Prospectus, is based on the financial statements of Retail Food Group for the half year ended 31 December 2005, which were reviewed by Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu's audit reports on the financial statements of Retail Food Group for the financial years ended 30 June 2003, 30 June 2004 and 30 June 2005 and Deloitte Touche Tohmatsu's review statement for the half year ended 31 December 2005 were unqualified.

The Directors of Retail Food Group are responsible for the preparation of the Pro forma Adjusted Historical Financial Information which has been prepared in accordance with the recognition and measurement principles prescribed by Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted as described in Note 1 of Appendix A to the Prospectus. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the historical financial information.

For the purposes of this report, we have reviewed the Pro forma Adjusted Historical Financial Information of Retail Food Group in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the Pro forma Adjusted Historical Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed by Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Retail Food Group as described in Note 1 of Appendix A to the Prospectus.

Our review of the Pro forma Adjusted Historical Financial Information has been conducted in accordance with Australian Auditing Standard AUS 902 'Review of Financial Reports'. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- Analytical procedures applied to the Pro forma Adjusted Historical Financial Information of Retail Food Group for the relevant historical period;
- Review of work papers, accounting records and other documents;
- Review of the assumptions used to compile the Pro forma Adjusted Historical Financial Information;
- Review of the pro forma adjustments reflected in the Pro forma Adjusted Historical Income Statements of Retail Food Group set out in Section 8.11 of the Prospectus;
- Review of the pro forma transactions reflected in the Pro forma Adjusted Balance Sheet of Retail Food Group set out in Table 8.5 of Section 8.8 of the Prospectus;
- Comparison of consistency in the application of the recognition and measurement principles prescribed by Accounting Standards, other mandatory professional reporting requirements and the accounting policies adopted by Retail Food Group and set out in Note 1 of Appendix A to the Prospectus; and
- Interviews with and enquiries of the management and the Directors of Retail Food Group and its advisors.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Deloitte.

**STATEMENT**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- the Pro forma Adjusted Historical Income Statements of Retail Food Group for the three financial years ended 30 June 2005 as set out in Table 8.1 of Section 8.4 of the Prospectus after adjustment for the non-recurring items disclosed in Section 8.11 of the Prospectus does not present fairly the pro forma historical consolidated financial performance of Retail Food Group for the three financial years ended 30 June 2005;
- the Pro forma Adjusted Historical Cash Flow Statements of Retail Food Group for the three financial years ended 30 June 2005 as set out in Table 8.7 of Section 8.9 of the Prospectus after adjustment for the non-recurring items disclosed in Section 8.11 of the Prospectus does not present fairly the pro forma adjusted historical cashflows of Retail Food Group for the three financial years ended 30 June 2005;
- the Pro forma Adjusted Balance Sheet of Retail Food Group as at 31 December 2005 as set out in Table 8.5 of Section 8.8 of the Prospectus which assumes completion of the proposed pro forma transactions as at that date disclosed in Table 8.6 of Section 8.8 of the Prospectus does not present fairly the pro forma consolidated financial position of Retail Food Group as at 31 December 2005; and
- the Pro forma Adjusted Financial Information for the half year ended 31 December 2005 as contained in Appendix A to the Prospectus does not present fairly the actual and pro forma adjusted financial position, the actual and pro forma adjusted financial performance and the actual and pro forma adjusted historical cashflows of Retail Food Group for the half year ended 31 December 2005,

in accordance with the recognition and measurement principles prescribed by Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Retail Food Group as described in Note 1 of Appendix A to the Prospectus.

**SUBSEQUENT EVENTS**

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief no material transactions or events outside of the ordinary course of business of Retail Food Group have come to our attention that would require comment on, or adjustment to, the information in our report or that would cause such information to be misleading or deceptive.

**INDEPENDENCE OR DISCLOSURE OF INTEREST**

Deloitte Touche Tohmatsu does not have any interest in the outcome of this issue other than the preparation of this Report, Deloitte Corporate Finance Pty Limited's preparation of the Report on the Directors' Forecast Financial Information and participation in the due diligence procedures for which normal professional fees will be received.

Yours faithfully,

**DELOITTE TOUCHE TOHMATSU**

Stephen Stavrou
Partner
Chartered Accountants

Deloitte.

‘Deloitte’ refers to the Australian partnership of Deloitte Touche Tohmatsu and its subsidiaries. Deloitte, one of Australia’s leading professional services firms, provides audit, tax, consulting, and financial advisory services through around 3000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte’s web site at www.deloitte.com.au.

# 10 Review of Directors' Forecast Financial *Information*

**Note:**

**This report consists of both a Financial Services Guide and a Review of Directors' Forecast Financial Information.**

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**Note: This report consists of both a Financial Services Guide and a Review of Directors' Forecast Financial Information**



## PART 1: FINANCIAL SERVICES GUIDE

9 May 2006

### What is a Financial Services Guide?

This Financial Services Guide (FSG) is an important document whose purpose is to assist you in deciding whether to use any of the general financial product advice provided by Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127). The use of 'we', 'us' or 'our' is a reference to Deloitte Corporate Finance Pty Limited as the holder of Australian Financial Services Licence (AFSL) No. 241457.

The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

### Information about us

We have been engaged by the Directors of Retail Food Group Limited ('Retail Food Group') to give general financial product advice in the form of a report to be provided to you in connection with a review of Directors' Forecast Financial Information. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us using the details located above.

Deloitte Corporate Finance Pty Limited is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting, and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

The Australian partnership of Deloitte Touche Tohmatsu is a member firm of the Deloitte Touche Tohmatsu Verein. As the Deloitte Touche Tohmatsu Verein is a Swiss Verein (association), neither it nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names 'Deloitte,' 'Deloitte & Touche,' 'Deloitte Touche Tohmatsu,' or other related names.

The financial product advice in our report is provided by Deloitte Corporate Finance Pty Limited and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

### What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide general financial product advice in respect of:
  - debentures, stocks or bonds to be issued or proposed to be issued by a government
  - interests in managed investment schemes including investor directed portfolio services
  - securities.
- to deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of:
  - debentures, stocks or bonds issued or to be issued by a government
  - interests in managed investment schemes including investor directed portfolio services
  - securities.

### Information about the general financial product advice we provide

The financial product advice provided in our report is known as 'general advice' because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant offer document provided by the issuer of the financial product. The purpose of the offer document is to help you make an informed decision about the acquisition of a financial product. The contents of the offer document will include details such as the risks, benefits and costs of acquiring the particular financial product.

### How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Deloitte Corporate Finance Pty Limited nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee is disclosed in the relevant PDS or offer document prepared by the issuer of the financial product.

All of our employees receive a salary. Our employees are eligible for annual salary increases and bonuses based on overall performance but do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits in connection with our advice.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### Responsibility

The liability of Deloitte Corporate Finance Pty Limited is limited to the contents of this FSG and our report referred to in this FSG.

Deloitte.

**What should you do if you have a complaint?**

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Complaints Officer
Practice Protection Group
PO Box N250
Grosvenor Place
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service ('FICS'). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FICS at:

Financial Industry Complaints Service
PO Box 579
Collins Street West
Melbourne VIC 8007
Telephone: 1300 780 808
Fax: +61 3 9621 2291
Internet: http://www.fics.asn.au

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia ('ICAA'). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

The Institute of Chartered Accountants
GPO Box 3921
Sydney NSW 2001
Telephone: +61 2 9290 1344
Fax: +61 2 9262 1512

Specific contact details for lodging a compliant with the ICAA can be obtained from their website at http://www.icaa.org.au/about/index.cfm.

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

9 May 2006

Dear Sirs

## PART 2: REVIEW OF DIRECTORS' FORECAST FINANCIAL INFORMATION

### Introduction

This report has been prepared at the request of the Directors of Retail Food Group Limited ('the Company' or 'Retail Food Group') for inclusion in a Prospectus to be issued by the Company on, or around, 9 May 2006. Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence for the issue of this report.

References to the Company and other terminology used in this report have the same meaning as defined in the Glossary.

### Scope of Report

The Directors are solely responsible for the preparation and presentation of the financial forecasts of the Company and the information contained therein, including the assumptions on which they are based.

Financial forecasts have been prepared by the Directors:

(a) for the year ending 30 June 2006, on a pro forma basis, and

(b) for the year ending 30 June 2007,

as set out in Tables 8.1 and 8.7 of the Prospectus (collectively the 'Forecast Financial Information').

We have reviewed the Forecast Financial Information together with the assumptions on which it is based as set out in Sections 8.3 and 8.6 of the Prospectus, in order to give a statement thereon to the Directors of the Company.

Our review of the Forecast Financial Information has been conducted in accordance with AUS 902 'Review of Financial Reports' applicable to review engagements. Our review consisted primarily of enquiry, comparison, and analytical review procedures we considered necessary including discussions with management and Directors of the Company of the factors considered in determining their assumptions. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecast Financial Information and the evaluation of accounting policies used in the Forecast Financial Information.

These procedures have been undertaken in order to state whether anything has come to our attention, which causes us to believe that:

i) the Directors' best-estimate assumptions do not provide reasonable grounds for the preparation of the Forecast Financial Information;

ii) in all material respects, the Forecast Financial Information is not properly compiled on the basis of the Directors' best-estimate assumptions, consistent with the accounting policies adopted and used by the Company and in accordance with the recognition and measurement principles prescribed by Accounting Standards and mandatory professional reporting requirements; and

iii) the Directors' Forecast Financial Information itself is unreasonable.

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Our review is substantially less in scope th an an audit examination conducted in accordance with Australian Auditing and Assurance Standards and provides less assurance than an audit. In addition, prospective financial information, such as the Forecast Financial Information, relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the Forecast Financial Information is based, those assumptions are generally future-orientated and therefore speculative in nature. Accordingly, actual financial performance may vary from the prospective financial information presented in the Prospectus and such variations may be material. We have not performed an audit and we do not express an audit opinion on the Forecast Financial Information.

**Directors' Forecast Financial Information**

The Forecast Financial Information has been prepared by management and adopted by the Directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the years ending 30 June 2006 and 30 June 2007. There is a considerable degree of subjective judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties and contingencies which are often outside the control of the Company. The Directors' Forecast Financial Information has been prepared using assumptions summarised in the Prospectus which are based on best-estimate assumptions relating to future events that management expect to occur and actions that management expect to take.

The sensitivity analysis set out in Section 8.7 of the Prospectus demonstrates the impacts on the forecast financial performance of changes in key assumptions. The prospective financial information is therefore only indicative of the financial performance which may be achievable. Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Company, which are detailed in the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly prospective investors should have regard to the investment risks and sensitivities set out in Sections 7 and 8.7 respectively of the Prospectus.

**Statement**

Based on our review of the Forecast Financial Information, which is not an audit, and based on an investigation of the reasonableness of the Directors' best-estimate assumptions which give rise to the Forecast Financial Information, nothing has come to our attention which causes us to believe that:

i) the Directors' best-estimate assumptions, as set out in the Prospectus, do not provide reasonable grounds for the preparation of the Forecast Financial Information

ii) the Forecast Financial Information is not properly compiled on the basis of the Directors' best-estimate assumptions, consistent with the accounting policies adopted and used by the Company and in accordance with the recognition and measurement principles prescribed by Accounting Standards and mandatory professional reporting requirements

iii) the Directors' Forecast Financial Information itself is unreasonable.

Actual financial performance is likely to be different from the Forecast Financial Information since anticipated events frequently do not occur as expected and the variations may be material. Accordingly, we express no opinion as to whether the Forecast Financial Information will be achieved.

We disclaim any responsibility for any reliance on this statement or on the Forecast Financial Information to which it relates for any other purpose than that for which it was prepared.

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**Independence**

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this issue other than the preparation of this Report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the auditor of the Company.

Yours faithfully,

**DELOITTE CORPORATE FINANCE PTY LIMITED**

Andrew Annand

Director

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# 11 Material *Contracts*

**Set out in this Section is a brief summary of the more important provisions of Retail Food Group's material contracts.**

# 11 Material Contracts



The Directors consider that the contracts described below are those which an investor would reasonably regard as material and which they and their professional advisers would reasonably require to make an informed assessment of the Offer or the Priority Offer.

Set out in this Section is a brief summary of the more important provisions of these material contracts.

Copies of the following documents are available for inspection during normal office hours at the registered office of the Company for 13 months after the date of this Prospectus:

- Constitution
- consents to the issue of this Prospectus.

## 11.1 Constitution

A summary of the rights attaching to the Shares and certain provisions of the Constitution are set out below. The summary is not intended to be exhaustive and reliance should not be placed on it. Applicants should read the entire Constitution and satisfy themselves as to the terms thereof.

### Voting rights

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for every fully paid Share held. On a poll, partly paid Shares if any confer a fraction of a vote pro-rata to the amount paid up on the Share.

A poll may be demanded by the chairperson of the meeting, by any five Shareholders present or by any one or more Shareholders with at least 5% of the votes that may be cast on a poll.

### General meetings and notices

Each Shareholder is entitled to receive notice of general meetings of the Company and receive all financial statements, notices and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and the Listing Rules.

### Dividends

Subject to any special rights or restrictions attaching to a Share or class of Shares, the profits of the Company, which the Directors from time to time determine to distribute by way of dividend, are divisible amongst the Shareholders in proportion to the amounts paid up on the Shares held by them.

### Transfer of Shares

Holders of Shares may transfer them electronically by a proper transfer effected in accordance with the ASTC Settlement Rules, the Corporations Act and the Listing Rules or by an instrument in writing in any usual or common form that the Directors approve. The Company will not issue Share certificates to Shareholders.

### Issue of further Shares

The Board may from time to time issue further Shares with preferred, deferred or other special rights, obligations or restrictions in relation to dividends, voting, return of share capital, payment of calls or other matters. All unissued Shares are under the control of the Board, which may grant options on the shares, allot or dispose of the shares on the terms and conditions and for such consideration it thinks fit. This power is subject to contract or any other contrary rules in the Constitution.

### Winding up

Subject to the provisions of the Constitution and any rights or restrictions attaching to any class or classes of Shares on a winding up of the Company, any surplus assets of the Company will be distributed to Shareholders in proportion to the capital paid up on the Shares held by them respectively.

On a winding up of the Company, the liquidator may, with the approval of a special resolution, distribute among the Shareholders the whole or any part of the property of the Company and may determine how such division is to be carried out as between the Shareholders or different classes of Shareholders.

### Proportional takeover provisions

The Constitution contains provisions for Shareholder approval in relation to any proportional takeover scheme. The provision will lapse unless it is renewed by a special resolution of Shareholders in a general meeting within three years from the date of its adoption.

### Dividend plans

The Directors may implement a dividend reinvestment plan, a dividend selection plan, an employee Share plan and employee option plan not being inconsistent with the provisions of the Constitution and may amend, suspend and terminate any of the plans in such manner as the Directors think fit. Details of the Company's dividend reinvestment plan are set out in Section 11.9.



**Directors' indemnity**

The Company, to the extent permitted by law, shall indemnify each Director, Secretary and executive officer against any liability incurred by them by virtue of their holding office, as well as any reasonable costs incurred in defending proceedings in which judgement is given in favour of the person or in which the person was acquitted.

**Alteration of Constitution**

The Constitution can only be amended by a special resolution passed by at least three quarters of members present and voting at a general meeting of the Company.

**Calls**

Subject to the terms upon which Shares may have been issued, the Board may make calls from time to time upon the Shareholders in respect of all moneys unpaid on their Shares. Each Shareholder is liable to pay the amount of each call in the manner, at the time and at the place specified by the Board. Calls may be made payable by instalments.

**Forfeiture**

The Company is empowered to forfeit Shares in relation to any part of allotment monies, instalments, interest and expenses which remains unpaid following a notice sent to the Shareholder. Such forfeiture must occur in accordance with the Constitution, the Corporations Act, the Listing Rules and the ASTC Settlement Rules.

**Directors' remuneration**

Directors are to be paid out of a Company fund as remuneration for their services. Directors' remuneration for their service as Directors is by a fixed sum and not a commission or percentage of profits, and may not be increased except at a general meeting where particulars of the proposed increase have been given to the Shareholders in the notice convening the meeting.

Any Director may be paid a retirement benefit, as determined by the Board, in accordance with the law and the Listing Rules.

A Director is disallowed from voting on any contract or arrangement in which he or she has directly or indirectly any material interest. If a director does vote his or her vote will not be counted nor will his or her attendance be counted in the quorum present at the meeting.

**Election of Directors**

There must be a minimum of three Directors and a maximum of 10 Directors. The Board may appoint any person as a Director, either to fill a casual vacancy or as an addition to the Board. At every annual general meeting, subject to the constitution, one third of the Directors (other than any Managing Director) must retire from office, and may offer themselves for re-election. If the number is not a multiple of three, then the number nearest to but not less than one third must retire from office.

The Directors to retire are the Directors longest in office since last being elected. As between Directors who were elected on the same day the Directors to retire are (in default of agreement between them) determined by ballot.

## 11.2 Franchise grant documentation

Retail Food Group has entered into franchise and outlet licence agreements which govern its relationship with each Franchisee.

Under this documentation, each Franchisee is permitted to carry on business in accordance with systems specified by Retail Food Group and given a licence to use associated intellectual property. Franchisees are also granted the right to occupy premises.

In return, Franchisees are obliged to provide Retail Food Group with the revenue streams described in Section 5.6 and otherwise comply with Retail Food Group's obligations under the relevant lease.

The majority of franchise agreements entered into by Retail Food Group are for an initial term of five years with provision for an additional term of a further five years where Retail Food Group is able to negotiate a new lease and the Franchisee's performance during the initial term is satisfactory. The term of each outlet licence agreement corresponds with the relevant franchise agreement.

## 11.3 Voluntary escrow agreements

On or about the date of this Prospectus, the Continuing Shareholders entered into voluntary escrow agreements with the Company.

Under these agreements, unless otherwise agreed with the Company they will not dispose of, or permit the disposal of, any Existing Shares held after completion of the Offer and the Priority Offer until the date on which the company releases to ASX its preliminary final report for FY2007.

The voluntary escrow agreements to do not prevent the Continuing Shareholders from using their Existing Shares as security for monies loaned.

The total number of Shares held by the Continuing Shareholders which are restricted is 35,191,259 Shares.


# 11 Material *Contracts*



## 11.4 Underwriting Agreement

Retail Food Group and the Underwriter have entered into the Underwriting Agreement for the underwriting of the Offer and the Priority Offer. Pursuant to that agreement, the Company must pay the Underwriter:

- an underwriting commission of 3.5% of the total gross amount raised through the Offer and the Priority Offer
- an incentive fee of up to 0.5% of the total gross amount raised through the Offer and the Priority Offer.

The Underwriter is entitled to receive from Retail Food Group all reasonable costs and disbursements incurred by the Underwriter in relation to the Offer and the Priority Offer and reimbursement of all legal costs and disbursements up to a maximum of $15,000.

Further, the Company agrees to indemnify the Underwriter from all losses incurred directly or indirectly, including losses arising out of or in connection with the preparation for or involvement in investigations conducted by ASIC as a result of or in connection with the Prospectus, the Offer or the Priority Offer.

The Underwriting Agreement contains various representations and warranties made by both Retail Food Group and the Underwriter to each other and additional representations from Retail Food Group to the Underwriter. In addition, the Underwriting Agreement imposes various obligations on Retail Food Group, including that they must offer the Shares in accordance with the Underwriting Agreement and this Prospectus and apply for the Shares to be quoted on ASX.

As is normal for agreements of this nature, the Underwriter may terminate its obligations under the Underwriting Agreement upon the occurrence of a number of events, which may occur before the issue and allotment or transfer of Shares pursuant to this Prospectus. If a termination event occurs, the Underwriter may not terminate unless it reasonably believes that the event has or is likely to have a materially adverse effect on the outcome of the Offer and/or Priority Offer or could give rise to liability for the Underwriter under any law or regulation.

## 11.5 Juice Fusion indemnity

The Continuing Shareholders, their Related Corporations and associates have agreed to indemnify the Company and various other parties in relation to any liability arising out of a prospective claim against Retail Food Group and/or several of its current or former subsidiaries relating to the operation and divestment of the Juice Fusion franchise system.

The indemnity protects the Company from all liability except legal costs which will remain the responsibility of Retail Food Group.

The Directors do not believe that the former Juice Fusion franchisees have a valid claim against Retail Food Group or any of its current or former subsidiaries and it is intended that any claim will be vigorously defended.

## 11.6 Deed poll in favour of guarantors, directors and officers

In the course of the operation of the Company's franchise systems, directors, officers and other employees of both the Company and its subsidiaries have on occasion given personal guarantees in order to secure benefits for Retail Food Group.

Retail Food Group has executed a deed poll indemnifying certain individuals in respect of any claims made against them under such a guarantee.

In addition, to the maximum extent permitted by the Corporations Act, the deed poll indemnifies certain individuals for liabilities incurred in the course of their duties as directors, officers or employees of the Company or its current or former subsidiaries.

## 11.7 Deed of access, insurance and indemnity

The Company has entered into deeds of Access, Insurance and Indemnity with the Directors.

Pursuant to the deeds the Company has undertaken, consistent with the Corporations Act, to indemnify each Director against certain liabilities and legal costs, and to maintain Directors' insurance cover in favour of each Director for seven years after the Director has ceased to be a Director.

Further, the Company has undertaken with each Director to maintain a complete set of the Company's board papers and to make them available to the Director for seven years after the Director has ceased to be a Director.

## 11.8 Executive service contracts

Retail Food Group has entered into executive service agreements with Tony Alford, Nigel Nixon, Gary Best and Karen Walker which contain standard terms and conditions for agreements of this nature, including confidentiality, restraint on competition and retention of intellectual property provisions. The agreements are expressed to cover periods specific to individual appointments, but may generally be terminated by notice by either party, or earlier in the event of certain breaches of the terms and conditions.



The appointment of Tony Alford as CEO and managing director may only be terminated by the Company on six months notice or by Tony Alford on three months notice.

Tony Alford and Nigel Nixon will not receive Directors fees. Details of Directors fees payable to the other Directors are set out in Section 12.

## 11.9 Dividend reinvestment plan

The Directors have adopted but not yet commenced operation of a Dividend Reinvestment Plan ('DRP'). If it commences, it will provide Shareholders with the choice of reinvesting some or all of their dividends in Shares rather than receiving those dividends in cash. The following is a summary of the main features of the DRP.

#### Participation

Eligible shareholders under the DRP may elect to reinvest the dividends on some or all of their Shares. The Board may at any time determine that participation is subject to a maximum or minimum number of Shares. A shareholder may vary or terminate their participation in the DRP by notice to the share registry.

#### Eligibility

Any person registered as the holder of Shares in the Company, whose registered address is in Australia, may participate in the DRP, subject to the Board's discretion. The Board may refuse a Shareholder participation and suspend or withdraw Shares from participation at their discretion.

#### Operation of DRP

The Board in its discretion may in respect of any given dividend, either issue new Shares or cause a broker to arrange for the purchase and transfer of existing Shares to a participant or apply a combination of both options to satisfy the obligations of the Company.

#### Entitlement

The number of Shares to be issued to a participant in the DRP will be determined by dividing the amount available for reinvestment on behalf of that participant by the market price and rounding that number up to the next whole Share.

#### Price of Shares

Shares will be issued or transferred under the DRP at the average of the daily volume weighted average market price of Shares sold on ASX over the five business days immediately preceding the relevant dividend record date, less a percentage discount (if any) determined by the Board from time-to-time. If there has been no trading during this time, the price will be the average price calculated on the last five sales.

#### Variation, suspension and termination by Board

The DRP may be varied, suspended or terminated by the Board at any time by notifying Shareholders by any manner including a notice on the Company's website, announcement to ASX or mailed written notices. If the DRP is varied or suspended and reinstated, then subject to a Shareholder not having varied their participation in the DRP, that Shareholder will participate under the varied or reinstated DRP on the same basis as they participated prior to the variation or suspension.

#### Costs

To the extent permitted by law, the Company will pay any brokerage, commission or other transaction costs, payable by participants in respect of Shares acquired under the DRP.

#### Quotation

The Company will apply promptly to ASX for quotation of Shares issued under the DRP.

#### Commencement

The Directors will consider commencing operation of the DRP at the time they consider the declaration of a dividend.

#### Taxation considerations

The Company does not take any responsibility for advising Shareholders on the taxation implications of participating in the DRP. The Company recommends that if Shareholders have any questions regarding the taxation implications of participating in the DRP, they should consult their financial, legal, accounting, taxation or other professional adviser.

## 11.10 Debt facilities

Retail Food Group has entered into a credit facility agreement with ANZ Banking Corporation.

ANZ Banking Corporation has consented to a variation of the credit facility agreement but this variation has not yet been formally documented. The summary below is based on the credit facility agreement as it will be once the formal variation occurs.

The credit facility agreement provides for a loan facility of up to $19 million as well as several ancillary facilities. The total amount outstanding under the credit facility agreement as at the date of this Prospectus is $18,050,000.

# 11 Material *Contracts*



Interest on the loan facility is charged at a margin above the ANZ Banking Corporation's cost of funds calculated in accordance with the credit facility agreement. Retail Food Group is required to make repayments of the principal outstanding in instalments of $475,000 per quarter.

Retail Food Group has entered into various covenants in relation to its debt facilities with ANZ Banking Corporation. The Directors believe that these covenants are normal for facilities of this nature.

In particular, Retail Food Group has covenanted that:

- it will maintain appropriate financial ratios
- it will not make any acquisition valued at more than $1 million without the consent of ANZ Banking Corporation
- it will not pay a dividend in excess of 70% of NPAT (plus amortisation and any write down of goodwill but less any amount by which abnormal, significant or extraordinary items exceed zero) without the consent of ANZ Banking Corporation
- it will maintain shareholder funds in excess of the shareholder funds shown in the pro forma 2006 forecast balance sheet reduced by $5 million.

Where Retail Food Group is in breach of its obligations under the credit facility agreement, ANZ Banking Corporation may declare all moneys owing to be payable on demand and/or terminate the credit facility agreement.

Retail Food Group's debt facilities are secured by fixed and floating charges over the assets and undertakings of Retail Food Group and some of its subsidiaries.

## 11.11 Executive share option plan

**Eligibility criteria**

The ESOP will be open to eligible executives of the Company.

**Grant of options**

All options are to be offered to eligible executives for no consideration. The offer must be in writing and specify, amongst other things, the number of options for which the eligible executive may apply, the period within which the options may be exercised and any conditions to be satisfied before the option expiry date (as determined by the Board).

**Exercise**

The options may be exercised, subject to any exercise conditions, by the participant giving a signed notice to the Company and paying the exercise price in full. The Company will apply for official quotation on ASX of any Shares issued on exercise of any options.

**Lapse**

The options will lapse upon the earlier of the date specified by the Board or events contained in the ESOP rules, including termination of employment, resignation, death or disablement.

**Rights of participants**

Once Shares are allotted upon exercise of the options the participant will hold the Shares free of restrictions. The Shares will rank for dividends declared on or after the date of issue but will carry no right to receive any dividend before the date of issue.

Should the Company undergo a reorganisation or reconstruction of capital or any other such change, the terms of the options will be correspondingly changed to the extent necessary to comply with the Listing Rules. In the event of a change of control, the Board will have discretion to deal with the options, including allowing accelerated vesting or the issue of options in the substituted corporation. A holder of options is not entitled to participate in a new issue of Shares or other securities made by the Company to Shareholders merely because they hold options.

**Assignment**

The options are not transferable or assignable without the prior written approval of the Board, except in the case of certain 'permitted nominees' such as related bodies corporate or family trusts.

**Administration**

The ESOP will be administered by the Board which has an absolute discretion to determine appropriate procedures for its administration and resolve questions of fact or interpretation and formulate special terms and conditions (subject to the Listing Rules) in addition to those set out in the ESOP.

**Termination and amendment**

The ESOP may be terminated or suspended at any time by the Board. The ESOP may be amended at any time by the Board except where the amendment reduces the rights of the holders of options.

**Options to be granted**

At the date of this Prospectus, the Company has resolved to issue up to 2,552,300 options to purchase Shares on the terms set out below.



### Options to be granted to executives under the ESOP

The following options may, at the discretion of the Board, be granted to Retail Food Group's executives under the ESOP:

| Grant date | Number | Vesting date | Profit hurdle | Last exercise date | Exercise price |
|---|---|---|---|---|---|
| 1 August 2006 | 1,274,000 | 424,667 options vest 1 year after grant date | Nil | 3 years after Vesting Date | $1.00 |
| | | 424,667 options vest 2 years after grant date | | | |
| | | 424,666 options vest 3 years after grant date | | | |
| 1 August 2007 | 343,300 | 114,434 options vest 1 year after grant date | Nil | 3 years after Vesting Date | $1.15 |
| | | 114,433 options vest 2 years after grant date | | | |
| | | 114,433 options vest 3 years after grant date | | | |
| 1 August 2008 | 255,000 | 85,000 options vest 1 year after grant date | Nil | 3 years after Vesting Date | $1.32 |
| | | 85,000 options vest 2 years after grant date | | | |
| | | 85,000 options vest 3 years after grant date | | | |

### Options to be granted to other employees under the ESOP

The following options may, at the discretion of the Board, be granted to other employees of Retail Food Group under the ESOP:

| Grant date | Number | Vesting date | Profit hurdle | Last exercise date | Exercise price |
|---|---|---|---|---|---|
| 1 August 2006 | 226,667 | 226,667 options vest 1 year after grant date | Nil | 3 years after Vesting Date | $1.00 |
| 1 August 2007 | 226,667 | 226,667 options vest 1 year after grant date | Nil | 3 years after Vesting Date | $1.15 |
| 1 August 2008 | 226,666 | 226,666 options vest 1 year after grant date | Nil | 3 years after Vesting Date | $1.32 |

## 11.12 Individual share option deeds

Options granted to Tony Alford, Nigel Nixon, Gavin Nixon and Robert Sutherland will be on like terms to the ESOP, however will be granted under separate deeds.

Details of options to be granted to Tony Alford are set out below:

| Grant date | Number | Vesting date | Profit hurdle | Last exercise date | Exercise price |
|---|---|---|---|---|---|
| 1 August 2006 | 210,000 | 70,000 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.00 |
| | | 70,000 options vest 2 years after grant date | | | |
| | | 70,000 options vest 3 years after grant date | | | |
| 1 August 2007 | 40,000 | 13,334 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.15 |
| | | 13,333 options vest 2 years after grant date | | | |
| | | 13,333 options vest 3 years after grant date | | | |
| 1 August 2008 | 30,000 | 10,000 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.32 |
| | | 10,000 options vest 2 years after grant date | | | |
| | | 10,000 options vest 3 years after grant date | | | |

# 11 Material *Contracts*



Details of options to be granted to Nigel Nixon are set out below:

| Grant date | Number | Vesting date | Profit hurdle | Last exercise date | Exercise price |
|---|---|---|---|---|---|
| 1 August 2006 | 161,000 | 53,667 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.00 |
| | | 53,667 options vest 2 years after grant date | | | |
| | | 53,666 options vest 3 years after grant date | | | |
| 1 August 2007 | 40,000 | 13,334 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.15 |
| | | 13,333 options vest 2 years after grant date | | | |
| | | 13,333 options vest 3 years after grant date | | | |
| 1 August 2008 | 30,000 | 10,000 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.32 |
| | | 10,000 options vest 2 years after grant date | | | |
| | | 10,000 options vest 3 years after grant date | | | |

Details of options to be granted to Gavin Nixon are set out below:

| Grant date | Number | Vesting date | Profit hurdle | Last exercise date | Exercise price |
|---|---|---|---|---|---|
| 1 August 2006 | 141,000 | 47,000 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.00 |
| | | 47,000 options vest 2 years after grant date | | | |
| | | 47,000 options vest 3 years after grant date | | | |
| 1 August 2007 | 40,000 | 13,334 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.15 |
| | | 13,333 options vest 2 years after grant date | | | |
| | | 13,333 options vest 3 years after grant date | | | |
| 1 August 2008 | 30,000 | 10,000 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.32 |
| | | 10,000 options vest 2 years after grant date | | | |
| | | 10,000 options vest 3 years after grant date | | | |

Details of options to be granted to Robert Sutherland are set out below:

| Grant date | Number | Vesting date | Profit hurdle | Last exercise date | Exercise price |
|---|---|---|---|---|---|
| 1 August 2006 | 134,000 | 44,667 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.00 |
| | | 44,667 options vest 2 years after grant date | | | |
| | | 44,666 options vest 3 years after grant date | | | |
| 1 August 2007 | 40,000 | 13.334 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.15 |
| | | 13,333 options vest 2 years after grant date | | | |
| | | 13,333 options vest 3 years after grant date | | | |
| 1 August 2008 | 30,000 | 10,000 options vest 1 year after grant date | Nil | 3 years after vesting date | $1.32 |
| | | 10,000 options vest 2 years after grant date | | | |
| | | 10,000 options vest 3 years after grant date | | | |

## 11.13 Continuing Shareholders sell down

Shares offered under this Prospectus comprise both New Shares and Existing Shares. Retail Food Group has entered into an agreement with the Vendor ('Sell Down Deed') appointing the Company as the agent of the Vendor to coordinate the transfer of the Existing Shares from the Vendor to the Applicants under this Prospectus.

The Sell Down Deed contains a number of representations and warranties given by the Vendor in favour of the Company and the Underwriter, including a warranty that the Vendor has unencumbered title to the Existing Shares, and authority to transfer the Existing Shares to Applicants under the Prospectus. The Sell Down Deed imposes various obligations on the Vendor including to transfer the Existing Shares to Applicants, to cooperate with Retail Food Group and the Underwriter to ensure this Prospectus complies with the Corporations Act, and to comply with the Offer and Priority Offer process.

Other than as set out in Section 2.10, no fee is payable to Retail Food Group by the Vendor. All other costs and expenses of the Offer and the Priority Offer, including underwriting fees, management fees and stamp duty on the transfer of the Existing Shares to Applicants under this Prospectus are payable by the Company.


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# 12 Additional *Information*

# 12 Additional *Information*



## 12.1 Incorporation

The Company was incorporated in Australia and registered in Victoria on 26 October 2003 under the name RFG Investments (Vic) Pty Ltd. On 7 March 2006, RFG Investments (Vic) Pty Ltd changed its name to Retail Food Group Limited.

## 12.2 Company balance date

The statutory accounts of Retail Food Group are prepared for the period ending 30 June annually.

## 12.3 Related party transactions

### Yak Investments Pty Ltd

Retail Food Group leases the CMF premises at Yatala from Yak Investments Pty Ltd. Yak Investments Pty Ltd is a related party of Tony Alford, Gary Best and Alicia Atkinson.

The Board has resolved that this lease is on arm's length terms within the meaning of section 210 of the Corporations Act.

### Alfords Accountants and Business Advisors

Retail Food Group paid a total of $586,118 to its related party, Alfords Accountants and Business Advisors, and associated entities in FY2004 and FY2005 for the provision of professional services and personnel.

It is anticipated that the relationship between Retail Food Group and Alfords Accountants and Business Advisors will be ongoing and further payments will be made in the future. These payments will be on arm's length terms within the meaning of section 210 of the Corporations Act.

Alfords Accountants and Business Advisors also sublease its premises from Retail Food Group but no written lease has been entered into. The Board has resolved that this sublease is on arm's length terms within the meaning of section 210 of the Corporations Act.

### Cranot superannuation fund

The Cranot superannuation fund is associated with Tony Alford.

It is the owner and lessor of premises at which the Retail Food Group archives and stores its records and other business related materials.

The Board has resolved that the use of these premises is on arm's length terms within the meaning of section 210 of the Corporations Act.

### Motor racing sponsorship

Retail Food Group pays monies from the Donut King and bb's café marketing funds towards the sponsorship of motor racing activities. Tony Alford is involved in some of these activities.

In return, Retail Food Group's franchise systems receive signage on race cars and associated media exposure

The Board has resolved that this sponsorship is on arm's length terms within the meaning of section 210 of the Corporations Act.

## 12.4 Directors' interests

Except as set out in this Prospectus, no Director or proposed Director holds or has held at any time during the last two years, any interest in:

- the formation or promotion of Retail Food Group
- any property acquired or proposed to be acquired by Retail Food Group in connection with its formation or promotion or the Offer or the Priority Offer
- the Offer or Priority Offer, other than in their capacity as a Shareholder.

At the time of lodgement of this Prospectus with ASIC, and except as otherwise set out in this Prospectus, no one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit, to any Director or proposed Director:

- to induce that person to become, or qualify as a Director
- for services provided by that person in connection with the formation or promotion of the Company, the Offer or the Priority Offer.


## 12.5 Shareholdings of Directors

Set out below are details of the interests of the Directors in the securities of the Company prior to the issue of Shares under the Offer and the Priority Offer and the intended interests on completion of the Offer and the Priority Offer. Interests include those held directly and indirectly.

| Director | Shares pre Offer and Priority Offer | Shares post Offer and Priority Offer | % interest on completion of the Offer and Priority Offer |
|---|---|---|---|
| Tony Alford[1] | 24,728,094[4] | 17,556,947 | 23.77% |
| Nigel Nixon[2] | 2,980,116 | 2,115,882 | 2.95% |
| John Cowley[3] | – | 300,000 | 0.42% |
| Colin Archer[3] | – | 300,000 | 0.42% |

**Notes:**

(1) Excludes 771,847 Shares (1.08%) held directly or indirectly by Gary Alford
(2) Excludes 2,115,882 Shares (2.95%) held directly or indirectly by Gavin Nixon
(3) John Cowley and Colin Archer or their associates intend to apply for 300,000 Shares each
(4) Excludes 8,196,733 Shares held directly or indirectly by ANZ Banking Corporation.

## 12.6 Directors remuneration

The Constitution provides that the non-executive Directors are entitled to such remuneration as the Directors determine, but the remuneration of non-executive Directors must not exceed in aggregate a maximum amount fixed by the Company in a general meeting for that purpose.

The maximum aggregate amount which has been approved by Retail Food Group's Shareholders for payment to the Directors is $400,000 per annum. An annualised amount equivalent to approximately $160,000 per annum is to be paid to the Directors for FY2006.

A Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

## 12.7 Interests of persons named in this Prospectus

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus and no promoter of the Company:

- has or has had at any time during the last two years, any interest in the formation or promotion of Retail Food Group or the Offer or the Priority Offer; or any property acquired or proposed to be acquired by Retail Food Group in connection with its formation or promotion or the Offer or the Priority Offer; nor
- has been paid or agreed to be paid any amount, nor has been given or agreed to be given any benefit for services provided by the person in connection with the formation or promotion of Retail Food Group or the Offer or the Priority Offer.

The Company has engaged the following professional advisers:

- McCullough Robertson has acted as legal adviser to the Company in relation to the Offer and the Priority Offer and performed work in relation to due diligence enquiries on legal matters. The Company has paid or agreed to pay approximately $165,000 (plus disbursements and GST) for these services and may pay further amounts in accordance with normal time based charges
- Deloitte Touche Tohmatsu has prepared the Investigating Accountants' Report included in this Prospectus. Deloitte Touche Tohmatsu has also provided a range of other services in connection with the Offer and the Priority Offer, including due diligence enquiries on accounting matters. The Company has paid or agreed to pay Deloitte Touche Tohmatsu approximately $235,000 (plus disbursements and GST) for these services and may pay further amounts in accordance with normal time based charges
- Deloitte Corporate Finance Pty Limited has prepared the Review of Directors' Forecast Financial Information included in this Prospectus. Deloitte Corporate Finance Pty Limited has also provided a range of other services in connection with the Offer and the Priority Offer, including due diligence enquiries on accounting matters. The Company has paid or agreed to pay Deloitte Corporate Finance Pty Limited approximately $115,000 (plus disbursements and GST) for these services and may pay further amounts in accordance with normal time based charges
- Wilson HTM has acted as Underwriter to the Offer and the Priority Offer for which it will receive fees as set out in Section 11.4.

# 12 Additional *Information*



## 12.8 Consents

Written consents to be named in this Prospectus have been given and at the time of this Prospectus have not been withdrawn by the following parties:

- Wilson HTM has given, and not withdrawn, its written consent to be named as Underwriter in the form and context in which it is named
- Deloitte Touche Tohmatsu has given, and not withdrawn, its written consent to be named as the Company's auditors and Investigating Accountants to the Offer and the Priority Offer and to the inclusion of the Investigating Accountants' report in the form and context in which it appears
- Deloitte Corporate Finance Pty Limited has given, and not withdrawn, its written consent to be named as Investigating Accountants to the Offer and the Priority Offer and to the inclusion of the Review of Directors' Forecast Financial Information in the form and context in which it appears
- Deloitte Touche Tohmatsu Ltd has given, and not withdrawn, its written consent to be named as taxation advisor in the form and context in which it is named
- McCullough Robertson has given, and not withdrawn, its written consent to be named in the Prospectus as Solicitors to the Offer and the Priority Offer in the form and context in which it is named
- Computershare Investor Services Pty Limited has given, and not withdrawn, its written consent to be named as the share registry of the Company in the form and context in which it is named. Computershare has had no involvement in the preparation of any part of this Prospectus.

## 12.9 ASIC relief

ASIC has granted relief from the takeovers provisions of the Corporations Act in respect of the voluntary escrow agreements described in Section 11.3. The Company applied for this relief because the takeovers provisions would otherwise apply because the Company is a party to those voluntary escrow arrangements under which the Continuing Shareholders agree not to sell their Shares for a certain period.

The Company's ability to enforce the voluntary restriction agreements means that the Company has a relevant interest in its own Shares for the purposes of the takeovers provisions.

## 12.10 Litigation

**bb's café Botany Downs, New Zealand**

The former Franchisee of the bb's cafe outlet at Botany Downs in Auckland, New Zealand has commenced proceedings against bb's New Zealand Limited and others seeking damages of approximately NZ$1,400,000 for, among other things, alleged misrepresentations and/or misleading and deceptive conduct.

Approximately NZ$840,000 of the amount claimed relates to damages for purported loss of earnings.

The claim is in its preliminary stages but the Directors believe that the defendants have strong prospects of success in defending the claim entirely or minimising any settlement or award of damages.

The Directors will make an assessment of any risk posed by this matter before undertaking the consolidation referred to in Section 5.8.



**Juice Fusion**

A number of former Juice Fusion franchisees have foreshadowed a claim against Retail Food Group in relation to various matters associated with the operation and disposition of Juice Fusion.

It has been alleged that Retail Food Group failed to discharge its obligations under certain franchise agreements.

No proceedings have been commenced by the Juice Fusion franchisees however the Company has been threatened with referral to the Australian Competition and Consumer Commission.

The Directors do not believe that the former Juice Fusion franchisees have a valid claim against Retail Food Group or any of its current or former subsidiaries and it is intended that any claim will be vigorously defended, as will any investigation by the Australian Competition and Consumer Commission.

The Continuing Shareholders have indemnified the Company with respect to the claim. Details of the indemnity are set out in Section 11.5.

**Donut King The Hills**

Proceedings have been instituted in the NSW Industrial Relations Commission by a former Franchisee against six respondents, including subsidiaries of Retail Food Group. The proceedings seek relief for an alleged unfair contract that included a franchise agreement and outlet licence agreement for a Donut King outlet.

A deed of understanding has been entered into by the six respondents which effectively makes Retail Food Group liable for only 50% of the costs of the action and any payment of damages.

The applicant has quantified some of the damage at $182,000.

**Other litigation**

To the knowledge of the Directors, there is no other litigation of a material nature pending or threatened that may significantly affect the Company.

## 12.11 Expenses of the Offer and the Priority Offer

The total expenses connected with the Offer and the Priority Offer are set out in Section 2.10.

# 12 Additional Information



## 12.12 Governing Law

This Prospectus and the contracts that arise from the acceptance of the Applications are governed by the laws applicable in Queensland and each Applicant submits to the exclusive jurisdiction of the courts of Queensland.

## 12.13 Electronic Prospectus

This Prospectus may be viewed online at www.rfg.com.au. The Offer and Priority Offer constituted by this Prospectus in electronic form are only available to residents of Australia and New Zealand. Persons who access the electronic version of this Prospectus should ensure they download and read the entire Prospectus. The Corporations Act prohibits any person from passing the Application Form or the Priority Offer Application Form on to another person unless it is attached to a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus. A paper copy of this Prospectus will be provided free of charge to any person who requests a copy by contacting the Underwriter on 1300 133 230 during the period of the Offer or the Priority Offer. Whilst Retail Food Group believes that it is extremely unlikely that during the period of the Offer or the Priority Offer the electronic version of the Prospectus will be tampered with or altered in any way, it can not give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy.

## 12.14 Privacy

If you apply for Shares, you will provide personal information to the Company and the share registry. The Company and the share registry will collect, hold and use your personal information in order to assess your Application, service your needs as an investor, provide facilities and services that you request and carry out appropriate administration. All personal information will be collected in accordance with the National Privacy Principles as set out in the *Privacy Act 1988*. Company and tax law requires some of the information to be collected. If you do not provide the information requested, your Application may not be able to be processed.

The Company and the share registry may disclose your personal information for purposes related to your investment to their agents and service providers, including those listed below, or as otherwise authorised under the *Privacy Act 1988*:

- the Underwriters, in order to assess your Application
- the share registry, for ongoing administration of the register
- the printers and the mailing house, for the purposes of preparation and distribution of statements and for handling of mail.

Under the *Privacy Act 1988*, you may request access to your personal information held by (or on behalf of) the Company and the share registry. You can request access to your personal information by telephoning or writing to the Company through the share registry.



### 12.15 Expiry date

No Shares will be offered on the basis of this Prospectus later than 13 months after the date of this Prospectus.

### 12.16 Consents to Lodgement

Each Director has consented to the lodgement of this Prospectus with ASIC as required by section 720 of the Corporations Act.

### 12.17 Authorisation

Each Director of the Company and each director of the Vendor has consented to lodgement of this Prospectus with ASIC.

Dated 9 May 2006

**John Cowley**

Chairman

Retail Food Group Limited

# 13 Glossary

# 13 Glossary





The following definitions apply throughout the Prospectus, unless the context requires the contrary:

| | |
|---|---|
| **2007 Cash Flow Statement** | the Company's 2007 Cash Flow Statement, as defined in Section 8 |
| **2007 Forecast** | the Company's 2007 Forecast, as defined in Section 8 |
| **$ or A$** | Australian dollars |
| **AGAAP** | Australian Generally Accepted Accounting Principles |
| **A-IFRS** | Australian equivalents to International Financial Reporting Standards |
| **ANZ Banking Corporation** | Australia and New Zealand Banking Group Limited ABN 11 005 357 522, its subsidiaries and Related Corporations |
| **Applicant** | a person or entity applying for Shares in the Offer or Priority Offer by completing the Application Form or Priority Offer Application Form |
| **Application** | applications under the Offer or Priority Offer |
| **Application Form** | the application form attached to or accompanying this Prospectus under which the Offer may be subscribed |
| **Application Monies** | the monies received from persons applying for Shares pursuant to the terms of the Offer or Priority Offer |
| **ASIC** | Australian Securities and Investments Commission |
| **ASTC** | ASX Settlement and Transfer Corporation Pty Limited ABN 49 008 504 532 |
| **ASTC Settlement Rules** | the operating rules of ASTC |
| **ASX** | Australian Stock Exchange Limited ABN 98 008 624 691 |
| **bb's café** | the retail food franchise system identified with the name 'bb's café' |
| **Board** | board of Directors of the Company |
| **CHESS** | Clearing House Electronic Subregister System, operated in accordance with the Corporations Act |
| **Closing Date** | the last date of the offer period or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules may determine |
| **Company** | Retail Food Group Limited ABN 31 106 840 082 and where the context so requires, its subsidiaries and Related Corporations |
| **CMF** | central manufacturing facility |
| **Computershare** | Computershare Investor Services Pty Limited ABN 48 078 279 277 |
| **Constitution** | the constitution of Retail Food Group Limited as amended from time to time |
| **Continuing Shareholders** | Rastus Investments Pty Ltd ACN 083 032 437;<br>C.G.F.H. Holdings Pty Ltd ACN 061 797 653;<br>Alfords Holdings (Qld) Pty Ltd ACN 010 829 722;<br>Brecot Pty Ltd ACN 085 358 176;<br>BHM Enterprises Pty Ltd ACN 101 752 366;<br>Risby Investments Pty Ltd ACN 073 105 129; and<br>Anttra Pty Ltd ACN 104 150 852,<br>as either beneficial owners of Shares or in their capacity as trustee for one or more persons or entities |




| | |
|---|---|
| **Corporations Act** | the *Corporations Act 2001* (Cth) |
| **Directors** | the directors of the Company |
| **Donut King** | The retail food franchising system identified with the name 'Donut King' |
| **EBIT** | earnings before interest and tax |
| **EBITDA** | earnings before interest, tax, depreciation and amortisation |
| **Eligible Priority Offer Participants** | Franchisees and employees and associates of Retail Food Group, or other persons as the Directors may determine |
| **ESOP** | executive share option plan, details of which are provided in Section 11.11 |
| **Existing Shares** | Shares held by the Vendor or the Continuing Shareholders and on issue at the date of this Prospectus |
| **Financial Information** | the Pro forma Adjusted Historical Financial Information and Forecast Financial Information |
| **Forecast Financial Information** | the Pro forma 2006 Forecast, Pro forma 2006 Cash Flow Statement, 2007 Forecast and 2007 Cash Flow Statement |
| **Franchisee** | a party who has been granted a franchise by Retail Food Group in respect of the Donut King or bbs café franchise systems. |
| **Franchising Code** | the mandatory industry code contained in the Trade Practices (Industry Codes Franchising) Regulations 1998 (Cth) |
| **Franchise Revenue** | the Company's total revenue excluding sales of product from Non-Voluntary Company Stores, the trial CMF (discussed in Section 5.9), sales of equipment to Franchisees and Marketing Fund Revenue |
| **FY** | financial year |
| **GST** | Goods and services tax |
| **Historical Financial Information** | the Company's audited historical financial statements |
| **Juice Fusion** | the Juice Fusion franchise system disposed of by Retail Food Group |
| **Listing Rules** | the official listing rules of ASX |
| **Marketing Fund Revenue** | that part of marketing department receipts which is ultimately expensed by Retail Food Group in the form of advertising and promotional activity for the Network |
| **Network** | the network of Donut King and bb's café outlets operating in Australia excluding bb's cafe outlets in New Zealand |
| **Network Sales** | the gross sales derived by the Network (excluding GST) as reported by Franchisees to the Company |
| **New Share** | a Share issued pursuant to this Prospectus |
| **New Shareholder** | an Applicant that is allotted Shares at the conclusion of the Offer or Priority Offer |
| **Non-voluntary Company Stores** | those outlets owned and or managed by Retail Food Group as a consequence of the removal and or abandonment of a Franchisee or otherwise where a Franchisee is unable to be recruited and the outlet is commissioned without a Franchisee |
| **NPAT** | net profit after tax |
| **Offer** | the offer to subscribe for or purchase 35,221,400 Shares (or more if the Priority Offer is not fully subscribed) made pursuant to this Prospectus |
| **Offer Price** | $1.00 per Share |


# 13 Glossary



| | |
|---|---|
| **Other Revenue** | all revenue of the Company except Franchise Revenue and Marketing Fund Revenue |
| **Outlet Average Weekly Sales** | average weekly sales for Donut King and/or bb's café outlets |
| **Priority Offer** | means the offer to subscribe for up to 1,278,600 Shares made to Eligible Priority Offer Participants pursuant to this Prospectus |
| **Priority Offer Application Form** | the priority offer application form attached to or accompanying this Prospectus under which the Priority Offer may be subscribed |
| **Priority Offer Closing Date** | the last date of the priority offer period or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules may determine |
| **Priority Offer Price** | $0.90 per Share |
| **Pro forma 2006 Forecast** | the Company's Pro forma 2006 Forecast, as defined in Section 8 |
| **Pro forma 2006 Cash Flow Statement** | the Company's Pro forma 2006 Cash Flow Statement, as defined in Section 8 |
| **Pro forma Adjusted Balance Sheet** | the Company's Pro forma Adjusted Balance Sheet, as defined in Section 8 |
| **Pro forma Adjusted Historical Cash Flow Statements** | the Company's Pro forma Adjusted Historical Cash Flow Statements, as defined in Section 8 |
| **Pro forma Adjusted Historical Financial Information** | the Pro forma Adjusted Historical Income Statements, Pro forma Adjusted Historical Cash Flow Statements and the Pro forma Adjusted Balance Sheet |
| **Pro forma Adjusted Historical Income Statements** | the Company's Pro forma adjusted historical income statements, as defined in Section 8 |
| **Prospectus** | this document (including the electronic form of this Prospectus) and any supplementary or replacement Prospectus in relation to this document |
| **Related Corporations** | has the definition ascribed to it in the Corporations Act |
| **Retail Food Group** | Retail Food Group Limited ABN 31 106 840 082, its subsidiaries and Related Corporations. |
| **Section** | a section of this Prospectus |
| **Senior Management Team** | the Company's executive directors and senior management team as set out in Section 6 |
| **Share or Shares** | a fully paid ordinary share or shares in the capital of the Company |
| **Shareholder** | holder of a Share |
| **Total Network** | the network of Donut King and bb's café outlets operating in Australia and New Zealand. |
| **Total Network Sales** | the gross sales derived by the Total Network (excluding GST) as reported by Franchisees to the Company in respect of the Australian financial year (30 June) and the New Zealand financial year (31 March) |
| **Underwriter or Wilson HTM** | Wilson HTM Corporate Finance Limited ABN 65 057 547 323 |
| **Underwriting Agreement** | the underwriting agreement, a summary of which is set out in Section 11.4 |
| **Vendor** | Pracing Pty Ltd ACN 119 199 745 |

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# 15 Corporate *Directory*

**Retail Food Group Limited**

RFG House
26 Railway Street
Southport QLD 4215
Phone: (07) 5591 3242
Fax: (07) 5591 9021
Website: www.rfg.com.au

**Underwriter and Lead Manager**

Wilson HTM Corporate Finance Limited
Level 38, Riparian Plaza
71 Eagle Street
Brisbane QLD 4000
Phone: 1300 133 230
Fax: (07) 3212 1002
Website: www.wilsonhtm.com.au

**Co-Manager**

Tricom Equities Limited
Level 9 Exchange House
10 Bridge Street
Sydney NSW 2000
Phone: (02) 9210 7878
Fax: (02) 9247 2222
Website: www.tricom.com.au

**Lawyers**

McCullough Robertson Lawyers
Level 11, 66 Eagle Street
Brisbane QLD 4000
Phone: (07) 3233 8888
Fax: (07) 3229 9949
Website: www.mccullough.com.au

**Investigating accountants**

Deloitte Touche Tohmatsu
Level 25, 123 Eagle Street
Brisbane QLD 4000
Phone: (07) 3308 7000
Fax: (07) 3308 7001
Website: www.deloitte.com.au

Deloitte Corporate Finance Pty Limited
Level 25, 123 Eagle Street
Brisbane QLD 4000
Phone: (07) 3308 7000
Fax: (07) 3308 7001
Website: www.deloitte.com.au

**Taxation advisor**

Deloitte Touche Tohmatsu Ltd
Level 25, 123 Eagle Street
Brisbane QLD 4000
Phone: (07) 3308 7000
Fax: (07) 3308 7001
Website: www.deloitte.com.au

**Share registry**

Computershare Investor Services Pty Limited
GPO Box 523
Brisbane QLD 4001
Phone: 1300 552 270
Fax: (07) 3229 9860
Website: www.computershare.com.au

# 16 Appendix A

## Historical and Pro forma Adjusted Financial Information for the half year ended 31 December 2005

### Consolidated Income Statement for the half-year ended 31 December 2005

| | Actual A$'000 | Pro forma Adjusted A$'000 |
|---|---|---|
| Revenue | 3,253 | 2,390 |
| Cost of sales | (2,378) | (1,783) |
| **Gross profit** | **875** | **607** |
| Other income | 10,898 | 10,889 |
| Selling expenses | (982) | (856) |
| Marketing expenses | (2,125) | (2,006) |
| Occupancy expenses | (632) | (441) |
| Administration expenses | (1,363) | (1,306) |
| Operating expenses | (1,087) | (979) |
| Finance costs (excluding interest) | (35) | (35) |
| Other expenses | (995) | (706) |
| **Profit before interest and income tax expense** | **4,554** | **5,167** |

The consolidated income statement is to be read in conjunction with the accompanying notes.

### Consolidated Balance Sheet as at 31 December 2005

| | Actual A$'000 | Pro forma Adjusted A$'000 |
|---|---|---|
| **Current assets** | | |
| Cash | 2,250 | 2,532 |
| Receivables | 3,935 | 3,935 |
| Inventories | 158 | 158 |
| Other financial assets | 23 | 23 |
| Other | 292 | 292 |
| **Total current assets** | **6,658** | **6,940** |
| **Non-current assets** | | |
| Property, plant and equipment | 474 | 474 |
| Intangibles | 42,052 | 42,052 |
| Deferred tax assets | 3 | 633 |
| Other | 183 | 183 |
| **Total non-current assets** | **42,712** | **43,342** |
| **Total assets** | **49,370** | **50,282** |
| **Current liabilities** | | |
| Payables | 821 | 821 |
| Interest-bearing liabilities | 1,900 | 1,900 |
| Current tax liabilities | 649 | 649 |
| Provisions | 140 | 140 |
| Other | 596 | 596 |
| **Total current liabilities** | **4,106** | **4,106** |
| **Non-current liabilities** | | |
| Deferred tax liabilities | 376 | 376 |
| Interest-bearing liabilities | 16,625 | 16,625 |
| **Total non-current liabilities** | **17,001** | **17,001** |
| **Total liabilities** | **21,107** | **21,107** |
| **Net assets** | **28,263** | **29,175** |
| **Equity** | | |
| Issued Capital | 30,238 | 31,150 |
| Accumulated losses | (1,975) | (1,975) |
| **Total equity** | **28,263** | **29,175** |

The consolidated balance sheet is to be read in conjunction with the accompanying notes.

**Consolidated Cash Flow Statement for the half-year ended 31 December 2005**

| | Actual A$'000 | Pro forma Adjusted A$'000 |
|---|---|---|
| **Cash flows from operating activities before interest and income tax** | | |
| EBITDA | 4,657 | 5,225 |
| Movements in working capital items | (523) | (274) |
| **Net cash provided by / (used in) operating activities before interest and income tax** | **4,134** | **4,951** |
| **Cash flows from investing activities** | | |
| Amounts advanced to related parties and employees | (115) | (84) |
| Proceeds from sale of investments | 30 | 30 |
| Payment for property, plant and equipment | (119) | (119) |
| Proceeds from sale of property, plant and equipment | 18 | 9 |
| **Net cash provided by / (used in) investing activities** | **(186)** | **(164)** |
| **Cash flows from financing activities** | | |
| Proceeds from issues of equity securities | – | 2,382 |
| Payment of share issue costs | – | (2,100) |
| Proceeds from borrowings | 9,287 | 9,287 |
| Repayment of borrowings | (1,431) | (1,431) |
| Proceeds from repayment of amounts advanced | 816 | 607 |
| Dividends paid | (9,396) | (9,396) |
| **Net cash provided by / (used in) financing activities** | **(724)** | **(651)** |
| **Net cash inflow before interest and income tax** | **3,224** | **4,136** |

The consolidated cashflow statement is to be read in conjunction with the accompanying notes.

# Notes to the historical and pro forma financial information for the half year ended 31 December 2005

## 1. Summary of accounting policies

### Basis of Preparation

The Historical and Pro forma Financial Information for the half year ended 31 December 2005 set out in this financial report comprises extracts of the reviewed historical financial statements of Retail Food Group Limited and its controlled entities (together 'Retail Food Group' or 'the consolidated entity') for the half year ended 31 December 2005 and the Pro forma Adjusted Financial Information, as defined in Section 8.1 of the Prospectus (together the 'financial report').

The Historical and Pro forma Financial Information set out in Section 8 of the Prospectus is based on the audited historical financial statements of Retail Food Group for FY2003, FY2004 and FY2005 and the Pro forma Adjusted Financial Information, as defined in Section 8.1 of the Prospectus (together the 'financial report').

This financial report and the Financial Information presented in the Prospectus has been prepared in accordance with the recognition and measurement principles prescribed by Australian equivalents to the International Financial Reporting Standards ('A-IFRS' or 'Accounting Standards'). This financial report and the Financial Information presented in the Prospectus does not include all notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report. Disclosure requirements of Accounting Standards have only been complied with to the extent considered appropriate given the pro forma nature of this financial report and the Financial Information presented in the Prospectus.

For purposes of this financial report and the Financial Information presented in the Prospectus, the consolidated entity has changed its accounting policies as of 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with AASB 1 'First Time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cashflows is discussed in Note 8.

The accounting policies set out below under the sub-heading 'Significant Accounting Policies' have been applied in preparing the Historical and Pro forma Financial Information

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**Basis of Preparation of the Pro forma Adjusted Balance Sheets**

Details of the basis of preparation of the Pro forma Adjusted Balance Sheet is set out in Section 8.2 of the Prospectus.

The Pro forma Adjusted Balance Sheet as at 31 December 2005 has been prepared as if the following proposed transactions had taken place at 31 December 2005:

- Retail Food Group conducts a share split converting 1,649,351 ordinary shares to 69,309,016 ordinary shares
- 34,117,757 of the existing ordinary shares are transferred to new investors at an issue price of $1.00 per share as part of the Offer. This does not give rise to a financial impact in the Company
- Retail Food Group issues 2,382,243 new fully paid ordinary shares at an issue price of $1.00 per share as part of the Offer, raising $2,382,243
- Share issue costs of $2,100,400 are paid and are offset against issued capital, net of tax effect.

The above transactions reflect the intended use of the proceeds. The balance of debt, acquisition, offer and borrowing costs are based on proposed transactions and accordingly, the amounts included in the Pro forma Adjusted Balance Sheet are subject to change.

**Basis of Preparation of the Pro forma Adjusted Historical Income Statements**

The Pro forma Adjusted Historical Income Statements are presented before interest and income tax and on a basis consistent with the ongoing business to be conducted by Retail Food Group.

Details of the basis of preparation of the Pro forma Adjusted Financial Information for FY2003, FY2004 and FY2005 are set out in Section 8.2 of the Prospectus. The Pro forma Adjusted Historical Income Statements for FY2003, FY2004 and FY2005 are set out in Table 8.1 of Section 8.4 of the Prospectus.

The Pro forma Adjusted Historical Income Statement for the half year ended 31 December 2005 reflects the following Pro forma adjustments:

- **Voluntary company stores adjustment:**
  Retail Food Group owned and managed a number of Donut King and bb's café voluntary company stores during FY2003 to FY2005 and the half year to 31 December 2005. These outlets were managed within the company stores division specifically established for this purpose. During the first six months of FY2005, Retail Food Group rationalised voluntary and Non-voluntary Company Stores by closing or selling them to Franchisees. The rationalisation of the voluntary company stores was completed as at 31 December 2005 and the company stores division was closed at this time. This adjustment removes the revenue and expenses incurred by Retail Food Group in owning and managing the voluntary company stores, as well as the revenue and expenses incurred in acquiring and disposing of them, as the commissioning of voluntary company stores is not intended to be part of the ongoing business of Retail Food Group.
- **Juice Fusion system adjustment:**
  Retail Food Group operated the Juice Fusion franchise system during FY2004 and FY2005 and during the half year to 31 December 2005. The Juice Fusion franchise system was sold on 1 September 2005. This adjustment eliminates revenues and costs incurred in operating the Juice Fusion franchise system (including Juice Fusion company stores), as they are not part of the ongoing business of Retail Food Group.

**Basis of Preparation of the Pro forma Adjusted Historical Cash Flow Statements**

The Pro forma Adjusted Historical Cash Flow Statements are presented before interest and income tax and on a basis consistent with the ongoing business to be conducted by Retail Food Group. The operating cashflows are presented on a net basis before interest and tax and after movements in working capital.

Details of the basis of preparation of the Pro forma Adjusted Financial Information for FY2003, FY2004 and FY2005 are set out in Section 8.2 of the Prospectus. The Pro forma Adjusted Historical Cash Flow Statement for FY2003, FY2004 and FY2005 are set out in Table 8.7 of Section 8.9 of the Prospectus.

The Pro forma Adjusted Historical Cash Flow Statement for the half year ended 31 December 2005 reflects the following Pro forma adjustments:

- Increase in net cashflows as a result of the cash flow effects of the two adjustments described above relating to voluntary company stores and the Juice Fusion system
- Receipt of proceeds from the issue of the new fully paid ordinary shares ($2,382,243)
- Payment of share issue costs ($2,100,400).



**Significant Accounting Policies**

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

**(a) Borrowings**

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

Borrowing costs directly attributable to qualifying assets under construction are capitalised as part of the cost of those assets.

**(b) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

**(c) Derivative financial instruments**

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

The notional principal amount of the interest rate swap is $9,000,000. The fair value calculation of the interest rate swap as at 31 December 2005 is $46,056.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The consolidated entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

**(d) Employee benefits**

The directors have elected under s.334(5) of the *Corporations Act 2001* to apply Accounting Standard AASB 119 'Employee Benefits', even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

**(e) Financial assets**

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Loans and receivables*

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

**(f) Financial instruments issued by the company**

*Debt and equity instruments*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

# 16 Appendix A



*Transaction costs on the issue of equity instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

*Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

**(g) Foreign currency**

*Foreign currency transactions*

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

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

- exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

**(h) Goods and services tax**

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

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**(i) Impairment of assets**

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

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.



Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(j) Income tax**

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

*Deferred tax*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

*Tax consolidation*

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Retail Food Group Limited is the head entity in the tax-consolidated group.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Retail Food Group Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

**(k) Intangible assets**

*Intangible assets acquired in a business combination*

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

# 16 Appendix A



*Brand Names and Intellectual Property*

Intangible assets includes brand names and intellectual property. Brand Names and Intellectual Property are recorded at cost and are not amortised on the basis that they have an indefinite life.

The carrying values of the intangible assets are reviewed annually for impairment and carried at cost less impairment losses.

Expenditure incurred in developing, maintaining or enhancing intangible assets is expensed in the period in which it is incurred.

**(l) Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a specific identified basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**(m) Leased assets**

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

*Consolidated entity as lessee*

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs. Refer to note 1(a).

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*Lease incentives*

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**(n) Payables**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

**(o) Principles of consolidation**

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

**(p) Property, plant and equipment**

Plant and equipment, leasehold improvements and any equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the

item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including any freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

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

- Leasehold improvements 4 years
- Plant and equipment 2.5–10 years
- Motor Vehicles 4.5 years

**(q) Provisions**

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

**(r) Revenue recognition**

*Sale of goods*

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

*Rendering of services*

Revenue from a contract to provide services is recognised on an accruals basis in accordance with the substance of the relevant agreement.

*Franchise Income*

Franchise income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

*Dividend and interest revenue*

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

**(s) Share-based payments**

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

# 16 Appendix A



## 2. Pro forma adjustments for the half year ended 31 December 2005

The following adjustments have been made in arriving at amounts included in the Pro forma Adjusted Historical Income Statement for the half year ended 31 December 2005:

| | Pro forma Adjusted A$'000 |
|---|---|
| Actual profit before interest and income tax expense for the half year ended 31 December 2005 | 4,554 |
| Juice Fusion system adjustment | 349 |
| Voluntary company stores adjustment | 230 |
| Miscellaneous items | 34 |
| **Pro forma adjusted profit before interest and income tax for the half year ended 31 December 2005** | **5,167** |

The following adjustments have been made in arriving at amounts included in the Pro forma Adjusted Consolidated Balance Sheet as at 31 December 2005:

| | Pro forma Adjusted A$'000 |
|---|---|
| Actual net assets as at 31 December 2005 | 28,263 |
| Proceeds from issue of new shares | 2,382 |
| Share issue costs, net of tax effect | (1,470) |
| **Pro forma adjusted net assets as at 31 December 2005** | **29,175** |

The following adjustments have been made in arriving at amounts included in the Pro forma Adjusted Consolidated Cash Flow Statement for the half year ended 31 December 2005:

| | Pro forma Adjusted A$'000 |
|---|---|
| Actual net cash inflow before interest and income tax for the half year ended 31 December 2005 | 3,224 |
| Increase in cashflows from operating activities as a result of pro forma adjustments relating to voluntary company stores and the Juice Fusion system | 817 |
| Increase in cashflows from investing activities as a result of pro forma adjustments relating to voluntary company stores and the Juice Fusion system | 22 |
| Increase in cashflows from financing activities as a result of: | |
| • Pro forma adjustments relating to voluntary company stores and the Juice Fusion system | (209) |
| • Proceeds from issue of new shares | 2,382 |
| • Payment of share issue costs | (2,100) |
| **Pro forma adjusted net cash inflow before interest and income tax for the half year ended 31 December 2005** | **4,136** |

## 3. Assets Pledged As Security

In accordance with the security arrangements of the bank loan liabilities, effectively all non-current assets of the consolidated entity, except intangible assets, have been pledged as security. The security is in the form of a mortgage on the consolidated entity's tangible assets.

## 4. Contributed Equity

| | Number of Shares No '000 | A$'000 |
|---|---|---|
| **Fully paid ordinary shares** | | |
| Actual as at 31 December 2005 | 1,499 | 30,237 |
| Conversion of 'A Class' shares into ordinary shares | 150 | 1 |
| Share split (1,649,351 shares into 69,309,016 shares) | 67,660 | – |
| New shares issued | 2,382 | 2,382 |
| Share Issue Costs | – | (2,100) |
| Tax effect of share issue costs | – | 630 |
| **Pro forma adjusted as at 31 December 2005** | **71,691** | **31,150** |
| **'A Class' shares** | | |
| Actual as at 31 December 2005 | 150 | 1 |
| Conversion into ordinary shares | (150) | (1) |
| **Pro forma adjusted as at 31 December 2005** | **–** | **–** |

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

## 5. Dividends

| | Cents Per Share | Actual A$'000 |
|---|---|---|
| **Recognised Amounts** | | |
| **Fully paid ordinary shares (1,499,409)** | | |
| Interim dividend | 620 | 9,296 |
| **'A Class' shares (149,942)** | | |
| Interim dividend | 67 | 100 |
| | | 9,396 |

# 16 Appendix



## 6. Contingent Liabilities

| | Actual A$'000 | Pro forma Adjusted A$'000 |
|---|---|---|
| Rental guarantees to ANZ bank (i) | 257 | 257 |
| | 257 | 257 |

(i) Rental guarantees—the consolidated group is guarantor to a number of leases with franchisees. No liabilities have been recognised as part of these rental guarantees.
(ii) The consolidated entity is currently in dispute with certain lessors of outlet premises leases over a number of minor matters. No liability has been recognised in relation to these matters as the Directors are confident that these matters will be successfully defended.
(iii) The consolidated entity is currently in dispute with certain former franchisees of the Juice Fusion System. No liability has been recognised in relation to these matters as the Directors are confident that these matters will be successfully defended. As part of the Offer as defined in the Prospectus, the Continuing shareholders, their Related Corporations and associates have provided an indemnity in relation to any potential liability arising out of a prospective claim against Retail Food Group and/or several of its current or former subsidiaries relating to the operation and divestment of Juice Fusion.

## 7. Controlled entities

| | Country of Incorporation | Consolidated Entity's Percentage Ownership |
|---|---|---|
| | 31 December 2005 | |
| **Parent Entity** | | |
| Retail Food Group Limited (i) | Australia | 100 |
| **Controlled Entity** | | |
| RFGA Holdings (Aust) Pty Ltd (ii) | Australia | 100 |
| RFGA Holdings Pty Ltd (ii) | Australia | 100 |
| Donut King Holdings Pty Ltd (ii) | Australia | 100 |
| Donut King Franchise Pty Ltd (ii) | Australia | 100 |
| Donut King System Pty Ltd (ii) | Australia | 100 |
| Donut King Australia Pty Ltd (ii) | Australia | 100 |
| Bonanza Blend Pty Ltd (ii) | Australia | 100 |
| RFGA CMF Pty Ltd (ii) | Australia | 100 |
| Regional Franchise Systems Pty Ltd (ii) | Australia | 100 |
| RFGA Management Pty Ltd (ii) | Australia | 100 |
| RFG Finance Pty Ltd (ii) | Australia | 100 |
| RFGA Training Pty Ltd (ii) | Australia | 100 |
| RFGA Master Lease Pty Ltd (ii) | Australia | 100 |
| RFGA Assets Management Pty Ltd (ii) | Australia | 100 |
| Hot Dog Construction Zone (Aust) Pty Ltd (ii) | Australia | 100 |
| BB's Coffee & Bake Australia Pty Ltd (ii) | Australia | 100 |
| BB's Plantation Pty Ltd (ii) | Australia | 100 |
| Cappuccino Frappe Pty Ltd (ii) | Australia | 100 |
| BB's Bagel Pty Ltd (ii) | Australia | 100 |
| Barista Pty Ltd (ii) | Australia | 100 |
| Fuznik Pty Ltd (ii) | Australia | 100 |
| Frapaccino Pty Ltd (ii) | Australia | 100 |
| Frosty Cappuccino Pty Ltd (ii) | Australia | 100 |
| Donut Management Pty Ltd (ii) | Australia | 100 |
| Roasted Beans Pty Ltd (ii) | Australia | 100 |
| Aroma Grande Pty Ltd (ii) | Australia | 100 |
| Donutcino Pty Ltd (ii) | Australia | 100 |
| Equipment Finance Australia Pty Ltd (ii) | Australia | 100 |
| Booming Pty Ltd (ii) | Australia | 100 |
| BB's Café System Pty Ltd (ii) | Australia | 100 |

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

## 8. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

All reporting entities in Australia are required to comply with A-IFRS, as issued by the Australian Accounting Standards Board, for reporting periods commencing on or after 1 January 2005.

Historical financial statements of Retail Food Group until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ('AGAAP'). AGAAP in general, differs to A-IFRS in several respects.

The adoption of A-IFRS will be reflected in Retail Food Group's statutory financial statements for the first time for the year ending 30 June 2006. Nonetheless, for purposes of this financial report, the consolidated entity has changed its accounting policies as of 1 July 2005 to comply with A-IFRS. The transition to A-IFRS has been accounted for in accordance with AASB 1 'First Time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

The directors of Retail Food Group have completed their assessment of the effects of the transition to A-IFRS and changes to accounting policies. The impact of the alternative treatments and elections under AASB 1 has been considered where applicable

The directors have assessed that other than as noted below regarding income tax, there are no material adjustments arising from the application of the recognition and measurement principles prescribed by A-IFRS as compared to previous AGAAP treatment.

Potential investors and readers of this financial report should note however, that the directors' assessment of A-IFRS adjustments could change if there are any amendments by standard setters to the current A-IFRS or interpretations of A-IFRS requirement change from the continuing work of the Company's management. There are currently no indication of any such changes. Any such changes would be fully disclosed in subsequent statutory financial reports.

### Income tax

Under previous AGAAP, the 'income statement approach' was utilised in calculating tax balances whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS deferred tax is determined using the 'balance sheet liability method' in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for accounting purposes and their corresponding tax bases.

A deferred tax liability of $376,000 has been recognised against opening retained earnings upon first time adoption. There has been no impact on the profit of the Company for FY2005 or the half year ended 31 December 2005.

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AUSTRALIAN MADE

FOREST MANAGEMENT

EMS ENVIRONMENTAL MANAGEMENT SYSTEMS

RETAILFOODGROUP

RFG

STRENGTH IN BRANDS


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