Retail Food Group Limited

(formerly RFG Investments (VIC) Pty Ltd)

ABN 31 106 840 082

Special purpose financial report for the half-year ended 31 December 2005

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Directors' report

The Directors of Retail Food Group Limited submit herewith the special purpose financial report for the half-year ended 31 December 2005.

The names of the Directors of the company during or since the end of the half-year are:

Name
Mr A.J. Alford
Mr G.J. Best
Mr N.N. Norman
Mr J.T. Cowley
Mr C.C. Archer

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

Mr C.C. Archer – appointed 12 April 2006

Mr G.J. Best – resigned 12 April 2006

Review of operations

The principal activities of the consolidated entity during the half-year were franchising options. A review of the operations of the consolidated entity during the half-year and the results of those operations found that the consolidated entity had exceeded budgeted profit for the half-year. No significant change in the nature of these activities occurred during the half-year.

Subsequent events

On 23 January 2006, all 'A Class' shares on issue were converted to ordinary shares in the parent entity.

On 7 March 2006, the Directors changed the name of the company to Retail Food Group Limited, with the company becoming a public company in anticipation of a public listing on the Australian Stock Exchange.

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the half-year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Auditor's independence declaration

The auditor's independence declaration is included on page 2 of the half-year special purpose financial report

Rounding off of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of Directors.

On behalf of the Directors

Mr A.J. Alford
Director
~~Southport~~, 9th May 2006
Brisbane

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

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

DX 115
Tel: +61 (0) 7 3308 7000
Fax: +61 (0) 7 3308 7001
www.deloitte.com.au

Deloitte

The Board of Directors
Retail Food Group Limited
PO Box 1549
Southport Qld 4215

9 May 2006

Dear Board Members

Retail Food Group Limited

I am pleased to provide the following declaration of independence to the directors of Retail Food Group Limited.

As lead audit partner for the review of the financial statements of Retail Food Group Limited for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

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Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

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

DX 115
Tel: +61 (0) 7 3308 7000
Fax: +61 (0) 7 3308 7001
www.deloitte.com.au

Independent review report to the members of Retail Food Group Limited

Scope

The financial report and directors' responsibility

The financial report, being a special purpose financial report, comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, selected explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 5 to 20. The consolidated entity comprises both Retail Food Group Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies used and described in Note 1 to the financial statements are appropriate to meet the needs of the members. The directors' responsibility also includes maintenance of adequate financial 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 financial report.

The financial report has been prepared for distribution to the members to satisfy the directors' financial reporting requirements.

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the accounting policies described in Note 1 to the financial statements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows. These policies do not require the application of all Accounting Standards in Australia. No opinion is expressed as to whether the accounting policies used, and described in Note 1, are appropriate to the needs of the members.

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Member of
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Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. 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.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Retail Food Group Limited does not present fairly the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date, in accordance with the accounting policies described in Note 1 to the financial statements.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants
Brisbane, 9 May 2006

Directors' declaration

The directors have determined that the company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the Directors' opinion, the attached financial statements and notes thereto comply with accounting standards as described in Note 1 to the financial statements and presents fairly the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date, in accordance with the accounting policies described in Note 1 to the financial statements.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Mr A.J. Alford
Director

~~Southport~~ Brisbane

Date: 9th MAY 2006

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-Year Ended 31 December 2005
	A$'000
Revenue	3,253
Cost of sales	(2,378)
Gross profit	**875**
Other income	10,898
Selling expenses	(982)
Marketing expenses	(2,125)
Occupancy expenses	(632)
Administration expenses	(1,363)
Operating expenses	(1,087)
Finance costs	(541)
Other expenses	(995)
Profit before income tax expense	**4,048**
Income tax expense	(1,227)
Profit after income tax expense	**2,821**

The consolidated income statement is to be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	31 December 2005
	A$'000
Current assets	
Cash	2,250
Receivables	3,935
Inventories	158
Other financial assets	23
Other	292
Total current assets	**6,658**
Non-current assets	
Property, plant and equipment	474
Intangibles	42,052
Deferred tax assets	3
Other	183
Total non-current assets	**42,712**
Total assets	**49,370**
Current liabilities	
Payables	821
Interest-bearing liabilities	1,900
Current tax liabilities	649
Provisions	140
Other	596
Total current liabilities	**4,106**
Non-current liabilities	
Deferred tax liabilities	376
Interest-bearing liabilities	16,625
Total non-current liabilities	**17,001**
Total liabilities	**21,107**
Net assets	**28,263**
Equity	
Issued capital	30,238
Accumulated losses	(1,975)
Total equity	**28,263**

The consolidated balance sheet is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2005

	Issued Capital	Retained Earnings	Total Equity
	A$'000	A$'000	A$'000
Balance at 30 June 2005	**30,238**	**4,976**	**35,214**
Effect of changes in accounting policy	-	(376)	(376)
As restated	30,238	4,600	34,838
Net income recognised directly in equity	-	-	-
Profit for half-year	-	2,821	2,821
Total recognised income and expense for the half-year	-	2,821	2,821
Dividends	-	(9,396)	(9,396)
Balance at 31 December 2005	**30,238**	**(1,975)**	**28,263**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-Year Ended 31 December 2005
	A$'000
Cash flows from operating activities	
Receipts from customers	14,322
Payments to suppliers and employees	(10,169)
Interest and other costs of finance paid	(551)
Income tax paid	(1,494)
Net cash provided by operating activities	2,108
Cash flows from investing activities	
Amounts advanced to related parties and employees	(115)
Proceeds from sale of investments	30
Payment for property, plant and equipment	(119)
Proceeds from sale of property, plant and equipment	18
Net cash used in investing activities	(186)
Cash flows from financing activities	
Proceeds from borrowings	9,287
Repayment of borrowings	(1,431)
Proceeds from repayment of amounts advanced	816
Dividends paid	(9,396)
Net cash used in financing activities	(724)
Net increase in cash and cash equivalents	1,198
Cash and cash equivalents at 30 June 2005	1,052
Cash and cash equivalents at 31 December 2005	2,250

The consolidated cash flow statement is to be read in conjunction with the accompanying notes.

Notes to the financial statements for the half-year ended 31 December 2005

1. Summary of accounting policies

Basis of preparation

The financial report is a special purpose financial report which has been prepared for the benefit of the Directors in order to satisfy the financial report preparation requirements of the Australian Stock Exchange pursuant to the prospectus application requirements of Retail Food Group Limited.

The financial report 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"). The financial report does not include all notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

For the purpose 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 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 cash flows is discussed in Note 7.

The accounting policies set out below under the sub-heading "Significant Accounting Policies" have been applied in preparing this financial report.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(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.

1. Summary of accounting policies (con't)

(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.

<u>Loans and receivables</u>

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

1. Summary of accounting policies (con't)

(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.

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.

1. Summary of accounting policies (con't)

(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.

1. Summary of accounting policies (con't)

(j) Income tax (con't)

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.

<u>Current and deferred tax for the period</u>

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.

<u>Tax consolidation</u>

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.

1. Summary of accounting policies (con't)

(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.

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.

1. Summary of accounting policies (con't)

(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

1. Summary of accounting policies (con't)

(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 cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

2. Assets pledged as security

In accordance with the security arrangements on 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.

3. Issued capital

	Number of Shares	31 December 2005
	No '000	A$'000
Fully paid ordinary shares		
Balance as at 31 December 2005	1,499	30,237
'A Class' shares		
Balance as at 31 December 2005	150	1
Total issued capital		30,238

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

4. Dividends

	Cents Per Share	31 December 2005
		A$'000
<u>**Recognised Amounts**</u>		
Fully paid ordinary shares (1,499,409)		
Interim dividend	620	9,296
'A Class' shares (149,942)		
Interim dividend	67	100
		9,396

5. Contingent liabilities

	31 December 2005
	A$'000
Rental guarantees to ANZ bank (i)	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.

6. Subsequent events

On 23 January 2006, all 'A Class' shares on issue were converted to ordinary shares in the parent entity.

On 7 March 2006, the Directors changed the name of the company to Retail Food Group Limited, with the company becoming a public company in anticipation of a public listing on the Australian Stock Exchange.

7. Impacts of the adoption to 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.

The 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 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. 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 is currently no indication of any such changes. Any such changes would be fully disclosed in subsequent 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 consolidated entity for the year ended 30 June 2005 or the half-year ended 31 December 2005.