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Corporate Information

Directors

Ivan Hammerschlag (appointed on 19 October 2006)
Michael Cooper
Michael Hirschowitz (appointed on 19 October 2006)
David Gordon (appointed on 19 October 2006)
Hilton Brett (appointed on 19 December 2006)
Stephen Kulmar (appointed on 14 August 2007)
Julia King (resigned on 19 October 2006)
William Bartlett (resigned on 19 October 2006)
Michael Hale (resigned on 7 July 2006)
Peter Thomas (appointed 15 September 2006 and
resigned on 19 October 2006)

Company Secretary

Howard Knapp

Registered and Administration Office

Unit 7, 29 Bridge Road
Stanmore NSW 2048
Telephone: 02 8594 9292
Fax: 02 9550 3573
E-mail: investors@retailcube.com.au

Share Registry

Computershare Investor Services Pty Limited ACN 078 279 277
GPO Box 2975, Melbourne VIC 3001
Telephone: 1300 850 505

Auditors

PKF
Level 10, 1 Margaret Street,
Sydney NSW 2000

Bankers

Westpac Banking Corporation

Stock Exchange Listing

Australian Stock Exchange
(ASX Code: RCG)

The name of the company was changed from Retail Cube Limited to RCG Corporation Limited on 22 December 2006.



Dear fellow shareholder

The 2007 financial year was one in which RCG Corporation Limited (RCG) underwent substantial change which ultimately resulted in your Company finishing the financial year in a much stronger position than the one in which it began the year.

I became a director and the Chairman of RCG on 19 October 2006. On that same day, three of the four former directors resigned and a new board was installed with a new vision for the future of your Company.

At the time of the new board's appointment, RCG operated three businesses. The Athlete's Foot was, and continues to be, a strong, growing and profitable business. This was subsidising both the Amazing Paints and King of Knives businesses, both of which were losing money.

As its first and overriding task, the new board set itself three objectives: The first was to immediately recapitalise the business to ensure it had sufficient funds to operate unimpeded. The second objective was to turn around or divest the group of all loss making divisions by the end of the financial year. The third objective was to identify and implement ways of improving the profitability of The Athlete's Foot.

It is with great pleasure that I am able to report that each of these ambitious objectives has been achieved and we enter the new financial year with the anticipation of making real, sustainable and growing profits for the first time in RCG's short history.

The detail behind how each of these objectives was achieved can best be summed up by considering the impact on each of the group's business units.

The Athlete's Foot

The Athlete's Foot is an exceptionally strong business with an experienced and dedicated management team. By continuing to focus on and reinforce its market position, the brand has continued to go from strength to strength. Its sales results, both on a comparative store and

aggregate basis, continue to grow faster than other similar businesses and it is consistently outperforming the retail sector as a whole.

The Athlete's Foot sales from all stores was \$127.5m for the year, which was 17% up on the previous financial year. Store sales were 16% up on a comparative store basis. The Athlete's Foot reported earnings before interest and tax for the year of \$4.2m, which is an increase of 66% on the previous year.

During FY2008, The Athlete's Foot is expected to open 10 new stores and achieve double digit sales growth. These factors, together with strategies that have already been implemented, are expected to deliver a further substantial increase in earnings.

Going forward, The Athlete's Foot has been decentralised and now operates as a standalone business with its dedicated CEO Michael Cooper and highly experienced management team. The Athlete's Foot's executive, together with the board is exploring a range of strategic opportunities that will allow The Athlete's Foot to grow organically and by acquisition.

King of Knives

King of Knives is a business that has undergone significant restructuring and rebuilding. Despite this, the business made an operating loss for the year. By the start of the fourth quarter the board recognised that whilst there was considerable opportunity to improve the business, the implementation timeframes and resource requirements to deliver acceptable improvements presented the group with substantial opportunity cost, both in terms of human and financial resources.

As a result of this, on the 5 August 2007 we announced that RCG had entered into an agreement to sell the King of Knives business for \$4.47m, effective from 1 July 2007. The agreement, which is subject to shareholder approval, is expected to complete by the end of October 2007.

RCG Corporation has no further exposure arising from the operations of King of Knives and it will have no future financial impact on your Company.

Amazing Paints

Amazing Paints was placed into voluntary administration immediately after the appointment of the new board in October 2006, stopping the devastating impact on RCG's financial performance. As a result of this action, RCG Corporation not only protected its ongoing operations from future exposure, but also ensured that all Amazing Paints employees and secured creditors were paid in full. In addition, whilst the administration process has not yet been completed, the unsecured creditors of Amazing Paints will receive a substantial proportion of their claims.

RCG Corporation has no further exposure arising from the operations of Amazing Paints and it will have no future financial impact on your Company.

RCG Corporation Corporate

Between December 2006 and May 2007 the company raised \$4.1m in fresh capital via placements of \$1.8m and a rights issue of \$2.3m. This cash has enabled the company to execute its business plan.

Going forward, a corporate structure is in place consisting of two full time executive directors, Hilton Brett and Michael Hirschowitz who, together with me and the other non-executive directors, will focus on strategic acquisitions and the future growth of the company.

Profits from Continuing Operations

The profits from the continuing operations of the business for the 2007 and 2006 financial years are as follows:

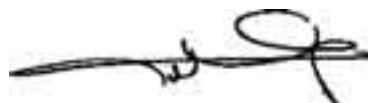
	2007	2006	%Chg
The Athlete's Foot trading profit before finance costs	4,280	2,564	66.9%
Corporate overhead before finance costs	(1,874)	(1,780)	(5.3%)
Trading profit from continuing operations	2,406	784	206.9%
Add back normalisations: Restructure and Option amortisation expense	541	27	-
Normalised trading profit from continuing operations	2,947	811	263.4%

The Future

Since the formation of the new board in October 2006, the debilitating impact of Amazing Paints and King of Knives have both been eliminated. In addition, strategies for significant growth have been implemented in The Athlete's Foot, and the balance sheet has been substantially strengthened.

On this basis, RCG's future looks bright and we expect 2008 to be a strong and profitable year.

Your board would like to take this opportunity to thank RCG's dedicated staff members for an exceptional effort in the year just gone and to thank you for your support in the initiatives that we undertook during the year.



Ivan Hammerschlag
Chairman

27 August 2007



This Corporate Governance Statement outlines the Company's main corporate governance practices as at 27 August 2007. Unless otherwise stated, they also reflect the practices in place throughout the financial year ended 1 July 2007.

This Corporate Governance Statement also indicates the Company's conformance with the "Principles of Good Corporate Governance" issued by the Australian Stock Exchange (ASX) on 31 March 2003.

The Company has posted copies of its corporate governance practices to its website in accordance with the ASX Corporate Governance Council's recommendations.

BOARD

1. Introduction

1.1 The role of the Board is to oversee the management of the Company as well as providing strategic guidance. We have adopted a Board Charter which formally sets out the functions and responsibilities of the Board, and enables them to perform their role more effectively. It creates a system of checks and balances to provide a balance of authority.

2. Directors

2.1 The names of the directors of the Company in office at the date of this statement are set out in the Directors' Report together with information regarding:

- (1) the directors' relevant skills and experience;
- (2) the names of the directors considered to be independent directors; and
- (3) the term of office held by each director

2.2 The number of directors as specified in the Company's constitution is a minimum of three. At no relevant time has the Company had less than this number. The current number of directors is six.

2.3 Retirement and rotation of directors is governed by the Corporations Act 2001 and the Company's constitution. At each Annual General Meeting, any director who has held office for three years, and any director who is appointed by the directors in the preceding year, must retire and is then eligible for re-appointment. In addition, the constitution requires the longest serving one-third of directors to retire at each annual general meeting. Retiring directors may then stand for reappointment.

2.4 In order to facilitate independent judgement in decision making each director has the right to seek independent professional advice at the Company's expense.

ASX Best Practice Recommendation 2.5

3. Responsibilities

3.1 The responsibilities of the Board include:

- (1) oversight of the Company, including its control and accountability systems;
- (2) appointing and removing the CEO (or equivalent) including approving remuneration of the CEO and remuneration policy and succession plans for the CEO;
- (3) approving the strategic direction and related objectives of the Company;
- (4) monitoring financial operations and solvency;
- (5) approving the annual business plan and budgets;
- (6) reviewing the appointment and removal, by the CEO, of senior executives reporting to the CEO;
- (7) setting senior executive managements' performance targets, remuneration levels and succession plans;

- (8) monitoring performance by executive management and the achievement of business objectives and financial performance;
- (9) ensuring business risks are identified, monitored and managed and that there is a robust system of internal controls to safeguard the assets of the Company;
- (10) ensuring the Company's Code of Conduct is implemented and observed by all employees, contractors and professionals who have a business association with the Company;
- (11) approving the operating and capital expenditure levels of authority granted to the CEO and the senior executives and authorising any expenditure in excess of these levels;
- (12) authorising the release to the ASX of interim and final results and dividend declarations and other information;
- (13) authorising any issue of the Company's securities including options;
- (14) reviewing safety and environment issues; and
- (15) reviewing industrial relations issues and quality assurance

3.2 Management of the business of the Company is conducted by the CEO (or equivalent) as designated by the Board and by officers and employees to whom the management function is delegated by the CEO (or equivalent). The responsibilities delegated by the Board to the Company's management include managing day-to-day operations, developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives.

ASX Best Practice Recommendation 1.1

4. Structure

4.1 The Board's current structure is that three of the directors are non-executive directors but only one of the directors can technically be regarded as independent. Up to 19 October 2006 two of the then total of four directors were independent non-executive directors. By "independent" we mean that they are independent of management and free of any business or other relationship that could materially interfere with the exercise of independent judgement (see further point 5 below).

Whilst the current structure does not comply with ASX Best Practice Recommendation 2.1, the current board is comprised of members with strong retailing, financial and corporate experience and is considered to be appropriate given the size and nature of activities of the company

4.2 The current Chairman of the Board is not an independent director. Mrs Julia King, an executive director, resigned as Chairman on 19 October 2006 and Mr Ivan Hammerschlag was appointed Chairman in her place. Whilst the appointment did not comply with ASX Best Practice Recommendation 2.2, the appointment of Mr Hammerschlag was considered to be in the best interests of the Company given the size of the Company, the need to optimise its financial and human resources, the desire to further strengthen the retailing skills at Board level and the necessity for the Chairman to play a strong and active role in setting the strategic direction for the Company. It is expected the present arrangement will continue for the immediate future.



4.3 The role of CEO is not currently filled. The functions that would normally be performed by a CEO are carried out by a number of executive directors. The roles of Chairperson and CEO are therefore not exercised by the same individual.

ASX Best Practice Recommendations 2.1, 2.2, 2.3

5. Independent Directors

5.1 A director is deemed to be independent if they are a non-executive director and:

- (1) is not a substantial shareholder;
- (2) has not been employed in an executive capacity in the Company in the last three years;
- (3) is not a member of management of the Company or its related entities;
- (4) has not been a material consultant to the Company in the last three years;
- (5) is not a material supplier or customer of the Company;
- (6) has no material contractual relationship with the Company;
- (7) is not an executive director of the Company or its related entities; and
- (8) is free from any interest which could materially interfere with their ability to act in the best interests of the Company.

5.2 We assess the materiality thresholds referred to above on a case-by-case basis. The independence of each director is reviewed regularly by the Board

5.3 Notwithstanding the existence of any director relationship defined above, the Board recognises that a non-executive director may still, in appropriate circumstances, be considered by the Board to be independent.

5.4 Only one of the directors (Stephen Kulmar) technically satisfies the test of independence listed

above. Michael Cooper, Michael Hirschowitz and Hilton Brett are all executives of the Company and Ivan Hammerschlag and David Gordon are substantial shareholders. However, for a number of reasons including those given in 4.1 above, the Board considers that there is neither the necessity nor the capacity to appoint further directors as independent directors at this time.

ASX Best Practice Recommendations 2.1 and 2.5

6. Establishment of Committees

6.1 The Board has established the following committees:

- (1) Audit Committee - to protect the integrity of financial reports, (further details of which are discussed in point 9 below).

ASX Best Practice Recommendation 4.2

- (2) Remuneration Committee - to ensure that the Company remunerates fairly and responsibly (further details of which are discussed in point 17 below).

ASX Best Practice Recommendation 9.2

6.2 The Board has not established a Nomination Committee to make recommendations for the appointment and removal of directors. The Board considers that this practice would not be an efficient and appropriate mechanism for the needs of the Company, having regard to its size.

ASX Best Practice Recommendation 2.4

7. Composition of Committees

7.1 The Directors' Report sets out:

- (1) the names of the members of the Audit Committee and Remuneration Committee; and
- (2) each member's record of attendance at the meetings of the Committees.

ASX Best Practice Recommendations 2.5, 4.5, 9.5

FINANCIAL REPORTING

8. CEO & CFO Assurances

8.1 As part of our structure of financial review and authorisation both the CEO (or equivalent, in this case Finance Director) and CFO are required to provide written assurances to the Board that the financial reports present a true and fair view of the Company's financial position in all material respects and are in accordance with relevant accounting standards. This is designed to raise the level of management accountability for financial reporting.

ASX Best Practice Recommendation 4.1

9. Internal Auditing

9.1 An independent Audit Committee has been established by the Board to protect the integrity of financial reports as well as to monitor and review the effectiveness of the Company's structures in the areas of operational risk and legal and regulatory compliance. The importance of an Audit Committee is universally recognised in the practice of good corporate governance and plays a key role in focusing the Board on matters relevant to the integrity of financial reporting.

In order to give the Audit Committee the ability to exercise a degree of independent judgement it is structured so that its Chairman is a non-executive director who is not also the Chairman of the Board.

9.2 Although the Committee currently has 3 members and its Chairman is not the Chairman of the Company, the Company does not otherwise anticipate that it will comply with ASX Best Practice Recommendation 4.3 for the year ending 30 June 2008.

9.3 The Board considers that the composition of the Audit Committee is appropriate to properly and efficiently carry out the duties of the Committee having regard to the size of the Company and the current structure of the Board.

ASX Best Practice Recommendation 4.3

9.4 Up to 19 October 2006 the Committee comprised all Board members with Mr William Bartlett as Chairman. Presently the Audit Committee consists of:

- (1) Mr David Gordon as Chairman; and
- (2) Mr Michael Hirschowitz and Mr Hilton Brett as the other members.

ASX Best Practice Recommendation 4.5

9.5 Charter of the Audit Committee

The charter of the Audit Committee sets out its role and responsibilities, structure and membership requirements.

Responsibilities

The responsibilities of the Audit Committee include:

- (1) reviewing the Company's financial reporting and accounting policies and processes to ensure their accuracy and usefulness;
- (2) reviewing the system of internal control and management of financial and business risks;
- (3) recommending the appointment and removal of auditors, approving the audit plan and the audit process;
- (4) evaluating the audit report and recommend any appropriate consequent actions;



- (5) reviewing and reporting to the Board on the annual and half year reports and financial statements; and
- (6) reviewing the Company's process for monitoring compliance with laws and regulations.

Meetings

The Committee will meet as frequently as required and at least twice a year.

Expertise

Every member of the Committee is able to read and understand financial statements and is required to obtain an understanding of the responsibilities of the Committee as well as the Company's business, operations and risks and at least one member is a qualified accountant or other financial professional with experience of financial and accounting matters.

Reporting

The Committee reports to the Board at the first Board meeting subsequent to each Committee meeting. Each report contains all matters relevant to the Committee's role and responsibilities.

ASX Best Practice Recommendations 4.4, 4.5, 7.1

10. External Auditing

- 10.1 The Board, subject to approval by members, is responsible for the appointment of external auditors and the terms of their engagement. The Audit Committee reviews the performance of the external auditors and annually reviews the Company's policy on maintaining the independence of the external auditor. The independent external auditor reports directly to this Committee and the Board.

ASX Best Practice Recommendation 4.5

RISK MANAGEMENT

11. CEO & CFO Assurances

- 11.1 In order to create an environment for identifying and capitalising on opportunities, the Board has established a sound system of risk oversight and management. To encourage management accountability in this area both the CEO (or equivalent, in this case the Finance Director) and CFO are required to provide written assurances to the Board (together with their assurances under point 8.1 above) that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

ASX Best Practice Recommendations 7.2.1, 7.2.2

12. Risk Management Policy

- 12.1 In order to recognise and manage risk we have established an internal compliance system allowing risks to be identified, assessed, monitored and managed. The Board oversees the establishment and implementation of the risk management system.

Risk Profile and Risk Management Process

All material risks affecting the Company, including both financial and non-financial matters, have been compiled into a risk profile. All directors and senior management are encouraged to review the profile on an on-going basis and to raise at each Board meeting for consideration by the Board any risk issues of concern. Such profile and the review and submission process forms the basis for the risk management system.

The Company requires controls at the Company and operating Group levels that are designed to safeguard the Company's interests and ensure the integrity of its reporting. These include accounting,

financial reporting, safety, health and environment and other internal policies and procedures, which are directed at ensuring the Company fully complies with all regulatory requirements and community standards.

Comprehensive practices are in place such that:

- (1) capital expenditure and revenue commitments above a certain size obtain the correct approval;
- (2) financial exposures are controlled;
- (3) safety, health and environment standards and management systems are monitored and reviewed to achieve high standards of performance and compliance; and
- (4) business transactions are properly authorised and executed.

Assessment of Effectiveness

The effectiveness of the risk management system is reviewed by the Board on an on-going basis. The Board is responsible for ensuring that the appropriate senior managers have established and implemented a risk management system throughout the organisation.

ASX Best Practice Recommendations 7.1, 7.3

REMUNERATION AND PERFORMANCE

13. Summary of Performance Evaluation

- 13.1 The performance of the Board and key executives are reviewed at least once a year against both quantitative and qualitative measures.
- 13.2 The non-executive directors are responsible for regularly evaluating the performance of the executive directors. The evaluation is based on specific criteria including the Company's

business performance, short and long term strategic objectives and the achievement of personal objectives by the executive directors.

- 13.3 As the Company has not established a nomination committee, the Remuneration Committee is responsible for evaluating the Board's performance. Performance criteria adopted by the Committee include attendance and participation at meetings and other contributions and, in the case of executive directors, achievement of financial objectives.
- 13.4 The Board is provided with the information it needs to efficiently discharge its responsibilities, including access to the Company Secretary. Management supplies the Board with information in a form, timeframe and quality that enables the Board to effectively discharge its duties. Directors are entitled to request additional information, when they consider the information supplied by management is insufficient for informed decision-making.

ASX Best Practice Recommendation 8.1

14. Remuneration Policy

- 14.1 The Company's Remuneration Policy in relation to its directors and key executives is disclosed in the Remuneration Report.
- 14.2 The Remuneration Policy is designed to ensure that the level and composition of remuneration is both competitive and reasonable. Remuneration is intimately connected to performance and is intended to be appropriate for the results delivered. Our policies are designed to attract and maintain talented and motivated directors and employees as well as raising the level of performance of the Company.

ASX Best Practice Recommendations 9.1, 9.5



14.3 The Board has the discretion to reward eligible employees with the payment of bonuses, share options and other incentive payments. These incentive payments are designed to link reward to performance against budget and market and are determined by both financial and non-financial imperatives.

ASX Best Practice Recommendation 9.5

14.4 The amount of remuneration, including all monetary and non-monetary components, for each executive directors, CFO and the company secretary is in the Remuneration Report. This does not comply with ASX Best Practice Recommendation 9.5, however its is considered appropriate given the size of the company and its management structure.

ASX Best Practice Recommendation 9.5

15. Remuneration of Non-Executive Directors

15.1 Non-executive directors do not participate in the schemes designed for the remuneration of executives, nor do they receive bonus payments or any retirement benefits other than statutory superannuation. A Director Option Plan has been established in which non-executive directors are entitled to participate, but any issue of options under that Plan must first be approved by shareholders.

ASX Best Practice Recommendation 9.3

15.2 There are no retirement benefits paid to non-executive directors.

ASX Best Practice Recommendation 9.5

16. Equity Based Remuneration

16.1 Two equity based executive remuneration plans have been approved by shareholders – an Executive Long Term Incentive Plan in November 2005 and an Employee Option Plan in December

2006. The Remuneration Committee is responsible for ensuring that any equity-based executive remuneration is made in accordance with the thresholds approved by shareholders in those Plans.

ASX Best Practice Recommendation 9.4

17. Remuneration Committee

17.1 The role of the Remuneration Committee is to review the remuneration policies and practices of the Company to ensure that they remunerate fairly and responsibly and:

- (1) set the remuneration of the executive directors of the Company; and
- (2) demonstrate that the remuneration of the executive directors and other senior executives is set by the Committee whose members have no personal interest in the outcome of the decisions of that Committee and who will have due regard to the interests of shareholders.

17.2 Composition

Up to 19 October 2006 the Committee consisted of three members, two of whom were independent non-executive directors. The Chairman of the Committee was Peter Thomas and the other member William Bartlett and Julia King. On that date all three members resigned as directors and the Committee presently consists of David Gordon as Chairman and Ivan Hammerschlag and Michael Cooper as members.

17.3 The Company has not complied with ASX Best Practice Recommendation 9.2 as the Remuneration Committee does not presently consist of a majority of independent directors and it is not chaired by an independent director.

17.4 The Board considers that having regard to the size of the Company and the structure of the Board, the present composition of the Remuneration Committee is appropriate to allow it properly and effectively carry out the duties of the Committee.

The members of the Committee have an appropriate understanding of the principles of corporate governance, the disclosure requirements under the Corporations Act 2001 and the complexities involved in negotiating and determining executive remuneration packages.

17.5 Responsibilities

The Committee's responsibilities include providing the Board with advice and recommendations relating to:

- (1) the basic salary paid to the executive directors of the Company and any recommendations made by the Chairman for changes to that salary;
- (2) the remuneration and terms of employment of prospective executive directors of the Company;
- (3) any bonuses to be paid to the executive directors of the Company and in respect of any element of remuneration of an executive director which is performance-related, formulate suitable performance-related criteria and monitor their operation and consider any recommendations of the executive directors regarding bonuses or performance-related remuneration; and
- (4) all performance-related remuneration to the directors of the Company, including the terms of their service contracts and changes to those contracts.

17.6 Meetings

The Committee will meet as frequently as required and no less than once a year.

ASX Best Practice Recommendation 9.2

CODE OF CONDUCT

18. Summary of Code of Conduct

18.1 The Company seeks to be recognised as an organisation committed to the highest ethical standards in business. The Code of Conduct provides an outline of the standards of ethical behaviour expected of company directors, executives and all staff and provides for the accountability of unethical practices.

18.2 The key elements of the Code address:

- (1) compliance with law and regulations;
- (2) honest and professional conduct;
- (3) appropriate use of office;
- (4) conflicts of interest;
- (5) protection of the Company's interests;
- (6) discrimination and harassment;
- (7) abuse of inside information;
- (8) share trading policy;
- (9) protection of information privacy;
- (10) confidentiality of Company information;
- (11) action within delegated authority;
- (12) improper benefits; and
- (13) misappropriation of funds or property.

As part of the active promotion of ethical behaviour any behaviour that does not comply with this code must be duly reported.

Protection will be provided for those who report violations in good faith.

ASX Best Practice Recommendations 3.1, 3.3, 10.1



POLICIES

19. Summary of the Provisions of the Trading Policy

19.1 We have prepared a policy on the trading of Company securities by potential 'insiders' designed to promote ethical and responsible decision making. This policy is published on the Company's website in the spirit of transparency and it complements the laws prohibiting insider trading. It also complies with the disclosure provisions of the Australian Stock Exchange Listing Rules.

This policy applies constraints on a class of designated officers which include both directors and other executives of the Company.

Notification

Designated officers are required to notify the Chairman (in the case of directors) or an executive director (in the case of management or other designated employees) of their intention to trade Company securities.

Communication

Designated officers are prohibited from communicating price sensitive information to a person who may deal in securities of the Company. External advisors must be bound by confidentiality agreements.

Black-Outs

Designated officers are not permitted to trade during the following black-outs:

- (1) until at least 1 business day after the release of relevant information to the ASX or after a shareholder meeting; and
- (2) within the period one month prior to the release of the annual or half-yearly report.

ASX Best Practice Recommendations 3.2, 3.3

20. Summary of ASX and Shareholder Communication Policy

20.1 The Company's communications strategy is designed to empower shareholders by giving them access to balanced and understandable information on the Company. The Company is required under the Corporations Act 2001 and the listing rules of the Australian Stock Exchange to keep the market fully informed of all information that could materially effect the value of its securities.

Regular Shareholder Communication

The Company is committed to maintaining direct, open and timely communications with all shareholders. The Board's policy is that shareholders are informed of all material developments that impact on the Company.

Information is communicated to shareholders by the Company through:

- (1) the annual and interim financial reports (for those shareholders who have requested a copy);
- (2) disclosures to the ASX and ASIC;
- (3) notices and explanatory memoranda of annual general meetings;
- (4) shareholder updates from the board to specifically inform shareholders of key matters of interest issued on a needs basis;
- (5) presentations to analysts and other major announcements are placed on the Company's website and released to ASX;
- (6) the annual general meeting.

Meetings

Part of the communication strategy involves making it easier for shareholders to participate in general meetings. All shareholders will be invited to

attend the AGM and the Chairperson's report will be forwarded to all shareholders.

The Company will also request that the external auditor attend the AGM and be available to answer shareholder questions about the audit and the preparation and content of the audit reports.

ASX Best Practice Recommendations 6.1, 6.2

Continuous Disclosure Policy

The purpose of the continuous disclosure policy is to ensure that there are mechanisms in place to provide all investors with equal and timely access to material information concerning the Company. Such information must be presented in a clear and balanced way so as not to omit any material information.

These policies are designed to ensure that the Company meets its continuous disclosure obligations under the ASX Listing Rules.

The continuous disclosure process carried out by the Company are that:

- (1) the Board requires all management to review their business on an ongoing basis and advise the board of any significant events;
- (2) management identifies significant events from ongoing reviews of business and financial reports;
- (3) monthly review of operations from each division are conducted and a CEO/CFO review of operations to the Board is conducted;
- (4) presentations to analysts are subject to the continuous disclosure policy, and must be released to the market prior to any presentation;

- (5) regular reviews of procedures are undertaken to ensure timely identification of disclosure material and materiality thresholds; and
- (6) all ASX releases are approved by the Board. The Company Secretary has standing authority to approve releases that deal with a change in director shareholdings, general meeting address and voting results and any DRP shares issued.

Accountability

Contravening the continuous disclosure obligations can result in a series of penalties under the Corporations Act 2001 ranging from civil penalties to criminal liability.

ASX Best Practice Recommendations 5.1, 5.2



The directors submit their report together with the financial report of RCG Corporation Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the financial year ended 1 July 2007, together with the auditors' report thereon.

Directors

The names of the Company's Directors in office at the date of this report are as below:

IVAN HAMMERSCHLAG

CHAIRMAN, MEMBER OF REMUNERATION COMMITTEE

Appointed on 19 October 2006

Ivan Hammerschlag has had over 25 years of specialist retail experience, including as CEO and shareholder in Freedom Furniture prior to its IPO, growing the business from a small group of stores to a national chain. He has also chaired, managed and invested in a number of other successful retail and other businesses.

DAVID GORDON

NON-EXECUTIVE DIRECTOR, CHAIRMAN OF AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Appointed on 19 October 2006

David Gordon was formerly a partner of Freehills and is now the principal of Lexicon Partners Pty Limited, a boutique advisory and investment business.

HILTON BRETT

EXECUTIVE DIRECTOR, MEMBER OF AUDIT COMMITTEE

Appointed on 19 December 2006

Hilton has extensive retailing and franchising experience and proven skills in maximizing opportunities in acquiring, growing, re-engineering and selling businesses. Hilton was the former Chief Executive Officer of Vivien's Jewellers

and has managed and invested in a number of other successful business. Hilton is furthermore a non executive director of Soda Brands Ltd.

MICHAEL COOPER

EXECUTIVE DIRECTOR, MEMBER OF REMUNERATION COMMITTEE

Michael has been with The Athlete's Foot since 1988, fulfilling a number of operational roles including management of store operations and the merchandising function. He is largely responsible for establishing the product direction of The Athlete's Foot and relationships with all major suppliers and was appointed Managing Director of The Athlete's Foot in March 2002.

MICHAEL HIRSCHOWITZ

EXECUTIVE DIRECTOR, MEMBER OF AUDIT COMMITTEE

Appointed 19 October 2006 (Formerly an alternate director)

Michael joined The Athlete's Foot in 1996 and worked in various capacities becoming Commercial Director in 2002. On the formation of RCG Corporation he became Chief Financial Officer. Early in 2005 he took over responsibility for Business Development and Franchising for the Group before assuming the role of Managing Director of King of Knives on 1 August 2005. From 1 July 2006 he has occupied the position of Finance Director.

STEPHEN KULMAR

NON-EXECUTIVE DIRECTOR

Appointed on 14 August 2007

Steve is the CEO and Chairman of Ideaworks which is recognized as the pre-eminent retail marketing services company in Australasia. IdeaWorks is part of WPP – one of the world's largest marketing services groups. Steve has over 30 years experience in advertising and has extensive experience in retail strategy, brand strategy, channel to

market strategy, business re-engineering and new retail business development. With his experience and expertise, Steve adds immense value to RCG and will be integral in the growth and strategic direction of the group.

The names of directors who held office during the year are as below:

JULIA KING

EXECUTIVE CHAIRMAN

Resigned on 19 October 2006

WILLIAM BARTLETT

NON-EXECUTIVE DIRECTOR

Resigned on 19 October 2006

MICHAEL HALE

NON-EXECUTIVE DIRECTOR

Resigned on 7 July 2006

PETER THOMAS

NON-EXECUTIVE DIRECTOR

Appointed on 15 September 2006 and resigned on 19 October 2006

Company Secretary

HOWARD KNAPP

Howard has over 20 years experience as a company secretary of both public and private companies in Australia and New Zealand. He also has extensive experience as a senior executive and legal counsel of property based companies with retail and commercial property interests. Howard was appointed company secretary on 1 March 2005.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) held during the financial year were:

Board or Committee	Number of meetings
Full Board	16
Audit Committee	3
Remuneration Committee	2

The Audit Committee consisted of all directors up to 19 October 2006. After that date David Gordon, Ivan Hammerschlag and Michael Hirschowitz were the members of the committee. On 23 January 2007 Hilton Brett replaced Ivan Hammerschlag on the Audit Committee. The Company has a Remuneration Committee which, at 1 July 2006, comprised non-executive directors William Bartlett and Michael Hale. Following Michael Hale's resignation Peter Thomas and Julia King joined the Committee. After 19 October 2006 David Gordon, Ivan Hammerschlag and Michael Cooper were the members of the Committee. Full details of the responsibilities of these Committees are set out in the Corporate Governance Statement.

The attendance of directors at meetings of the Board and its committees were:



Name	Full Board		Audit Committee		Remuneration Committee	
	Eligible to attend	Attendance	Eligible to attend	Attendance	Eligible to attend	Attendance
Ivan Hammerschlag	10	10	-	-	1	1
David Gordon	10	10	2	2	1	1
Hilton Brett	5	4	2	2	-	-
Michael Cooper	16	14	1	1	-	-
Michael Hirschowitz	16	16	3	3	-	-
Julia King	6	6	1	1	1	1
William Bartlett	6	6	1	1	1	1
Michael Hale	1	1	-	-	-	-
Peter Thomas	4	4	-	-	1	1

Principal Activities

RCG Corporation is an investment holding company. It currently owns The Athlete's Foot, a well established mid sized specialty retailer, which has a distinctive position and competitive advantage in its market.

On 5 August 2007, the company signed an agreement to sell its King of Knives business. The transaction is subject to shareholders approval which will be sought at the annual general meeting.

Amazing Paints, which was also a part of the group, was placed in Voluntary Administration on 20 October 2006 due to continued poor performance.

Operating Results

The net loss for the financial year ended 1 July 2007 of the consolidated entity after providing for income tax was \$8.46 million. The consolidated entity made a net profit from continuing operations of \$1.94 million.

Review of Operations

An overview of the operations of the group is provided in the Chairman's review on page 1 of this report.

Dividends

The Company has not declared or paid a dividend during or since the end of the financial year.

Significant Changes in State of Affairs

During the financial year, Amazing Paints, which was part of the group, was placed into Voluntary Administration due to continued poor performance.

During the financial year, the company raised \$4.14 million by way of a share placement and a rights issue.

Other than the above, there were no significant changes in the state of affairs of the consolidated entity during the financial year.

Significant Events after Balance Sheet Date

The company entered into an agreement to sell the King of Knives group on 5 August 2007. The agreement, which is subject to shareholder approval, is expected to complete by the end of October 2007 with settlement deferred until 30 September 2008.

There has not been any matter of consequence, other than that referred to above, in the financial statements or notes thereto, that have arisen in the interval between the end of the financial year and the date of this report which 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 subsequent financial years.

Environmental Issues

The consolidated entity operates primarily within the retail sector and conducts its business activities with respect for the environment while continuing to meet the expectations of shareholders, customers, employees and suppliers.

During the year under review, the directors are not aware of any particular or significant environmental issue which have been raised in relation to the consolidated entity's operations.

Future developments

Disclosure of information regarding likely developments in the operation of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Remuneration Report

1. Directors and Key Management Personnel

The following persons acted as directors during or since the end of the financial year:

Ivan Hammerschlag
(Chairman) – appointed 19 October 2006

Michael Cooper
(Managing Director, The Athlete's Foot)

David Gordon
(Non-Executive Director) – appointed 19 October 2006

Michael Hirschowitz
(Director Finance) – appointed 19 October 2006

Hilton Brett
(Executive Director) – appointed 19 December 2006

Stephen Kulmar

(Non-Executive Director) – appointed
14 August 2007

Julia King

(Executive Chairman) – resigned 19 October 2006

William Bartlett

(Non-Executive Director) – resigned 19 October 2006

Peter Thomas

(Non-Executive Director) – appointed
15 September 2006, resigned 19 October 2006

The company and group executives for the 2007 financial year, who were not directors during the year, were:

Suresh Kumar (Chief Financial Officer)

Howard Knapp (Company Secretary)

2. Remuneration policy for directors and Key Management Personnel

(a) The Remuneration Committee

Remuneration policy is determined and executed on behalf of the board by the Remuneration Committee. The Remuneration Committee consists of David Gordon (Chairman) and Ivan Hammerschlag, both non-executive directors, and Michael Cooper, an executive director. The Remuneration Committee makes recommendations to the Board on matters relating to remuneration for the entities within the consolidated group. The Remuneration Committee considers recruitment, retention and termination policies and procedures; non executive director's remuneration; executive directors and senior management's remuneration and incentive policy and awards; and contractual arrangements with senior managers and executives.



The Company's remuneration reviews take place in the first quarter of each financial year. Prior to this, the executive directors make recommendations to the Remuneration Committee regarding the remuneration of each of their direct reports and the overall remuneration framework for all employees. The Remuneration Committee, while all executive directors are absent, meets to discuss the remuneration of the executive directors

(b) Aim of the Remuneration Policy

RCG Corporation's remuneration policy is designed to attract, motivate and retain employees, while ensuring that the interests of employees are in line with the interests of shareholders.

RCG Corporation's Board recognises that the success of the company hinges on the performance and abilities of its employees. Therefore, as a matter of policy, RCG Corporation remunerates employees on the following basis:

- Base remuneration which, in the main is set at average remuneration for the industry, provides fixed remuneration on a total cost-to-company basis, which includes any fringe benefits tax to employee benefits and Superannuation at 9% of the base remuneration. Senior managers can nominate to have their base remuneration paid in cash or other benefits including superannuation and motor vehicles.
- Short Term Incentive (STI) arrangements that enable employees to be paid on a sliding scale based on performance up to 75th percentile. (i.e. top performers will be paid up to the top 25% for like roles in similar companies). The STI's are set each year and, if achieved, are paid in cash, net of the appropriate taxation. Employees may elect to receive any STI earned as a Superannuation contribution.

In addition, the board had put in place a Long Term Incentive (LTI) plan for certain key executives and other employees. The LTI is in the form of share options in accordance with the Company's Employee Option Plan as approved by the Company's shareholders at the 19 December 2006 Extraordinary General Meeting.

The Board believes that the remuneration policies in place align the interests of all employees with those of the Company's shareholders while at the same time enabling the Group to retain a high quality team of executives.

3. The remuneration setting process

(a) Non-Executive Directors

On an annual basis the Remuneration Committee considers the fees payable to non-executive directors. When considering the level of fees, the Committee undertakes a survey of the market and accesses independent advice as well as drawing on the knowledge and experience of its members. The remuneration committee makes recommendations on non-executive director fees to the Board. Non-executive directors can choose, subject to certain restrictions, the amount of their fees allotted to Superannuation.

(b) Executive Directors and other Senior Employees

The company's remuneration policy applies to remuneration arrangements for senior management and other key persons employed by the Group and its entities (other than non-executive directors).

4. Short Term Incentives

STI's are based on individual and Company performance. Senior executives have a greater portion of their incentive based on the total company performance. The Board may grant discretionary bonuses to any employee for exceptional performance.

The major driver for the award of a STI is specific profit performance, although building long term wealth also plays a role. The company will review the success of the STI next year and if appropriate, refine it for future years.

5. Long Term Incentives

The shareholders approved an Employee Option Plan (EOP) at the Extraordinary General Meeting on 19 December 2006. The purpose of the plan is to encourage employees to share in the ownership of the company, in order to promote the long-term success of the company as a goal shared by the employees and to align employees' interest to that of shareholders.

The salient features of the EOP are as follows:

- Each full time, part time and casual employee of the Company group, and each director of the Company, is eligible to participate in the EOP.
- Participation in the EOP will be determined by the Board. However, under the Listing Rules, any grant of options to a director of the Company under the Employee Option Plan must be approved by Shareholders.
- The exercise price for each Employee Option will be determined by the Board at the time when that option is issued.
- Each Employee Option will expire 5 years after the day upon which it is issued.
- The Board may include in the terms of an Employee Option that specified vesting conditions or performance hurdles may need to be satisfied before the Employee Option can be exercised.
- The Board may determine that an option fee is payable as consideration for the issue of a Employee Option.
- Each Employee Option will confer a normal right to receive bonus shares upon exercise if the Company has conducted a bonus issue prior to the date of exercise, but will not confer any right to participate in a rights issue by the Company before the options are exercised.
- Employee Options will be subject to the normal adjustments prescribed by the Listing Rules if the Company implements a reconstruction of its share capital.
- An Employee Option cannot be dealt with in any way by the optionholder without the prior consent of the Board, other than to participate in a takeover or scheme of arrangement of the Company or any similar event.
- Where the Board determines that an option fee is payable upon the issue of any Employee Option, the Board may offer the participating employee a loan for the amount of that option fee. The terms of any such loan will be as follows:
 - the loan amount may only be used to pay the option fee of the Employee Option;
 - the loan will be interest free;
 - the loan must be repaid as and when the employee disposes of any shares received upon exercise of the Employee Option, or if the employee disposes of the Employee Option in a manner permitted under the plan;
 - the loan is limited recourse, which means that if the net proceeds of sale of options or the shares into which they convert are less than the outstanding balance of the loan, the Company will forgive that shortfall;



- if a vesting condition or performance hurdle applies to the exercise of an Employee Option, and the Employee Option lapses due to non-satisfaction of that vesting condition or performance hurdle, then the Company will refund the amount of the initial option fee paid for the cancelled Employee Option. The refunded amount will be directed to repay the amount of any loan provided by the Company to the participating employee to the extent it was applied to pay the initial option fee for that lapsed Employee Option; and
- the Company may demand repayment of the outstanding balance of the loan if the participant ceases to be an employee of the Company group. In that event the participant may elect to repay the loan or relinquish the underlying securities in full repayment of the loan.

21,600,000 Employee Options have been issued under the EOP since the plan was adopted by the company.

6. Remuneration of Key Management Personnel

The following table sets out the details of the remuneration of Key Management Personnel of the company:

2007	Short-term benefits			Post-employment benefits		Share based payment	Total
	Cash, salary and fees	Cash Bonus	Other Monetary Benefits	Super-annuation	Retirement Benefits	Issue of Shares (LTI)	
Key Management Person	\$	\$	\$	\$	\$	\$	\$
Ivan Hammerschlag ^(a)	39,900	-	-	3,591	-	37,605	81,096
David Gordon ^(b)	33,250	-	-	2,992	-	37,605	73,847
Michael Cooper	251,135	30,000	14,820	25,302	-	101,367	422,624
Michael Hirschowitz	243,167	30,000	14,820	24,585	-	101,367	413,939
Hilton Brett ^(c)	22,158	-	-	1,994	-	61,893	86,045
Julia King ^(d)	270,071	-	-	9,681	-	-	279,752
Robert Estcourt ^(e)	117,319	-	-	2,458	-	-	119,777
Michael Hale ^(f)	845	-	-	-	-	-	845
William Bartlett ^(g)	18,472	-	-	1,663	-	-	20,135
Peter Thomas ^(h)	6,210	-	-	175	-	-	6,385
Suresh Kumar	135,180	-	14,820	12,166	-	2,284	164,450
Howard Knapp	110,825	-	10,000	9,974	-	1,142	131,941
Total	1,248,532	60,000	54,460	94,581	-	343,263	1,800,836

(a) Ivan Hammerschlag was appointed on 19 October 2006

(b) David Gordon was appointed on 19 October 2006

(c) Hilton Brett was appointed on 19 December 2006

(d) Julia King resigned on 19 October 2006

(e) Robert Estcourt left the employment of the company on 10 July 2006

(f) Michael Hale resigned on 7 July 2006

(g) William Bartlett resigned on 19 October 2006

(h) Peter Thomas was appointed on 15 September 2006 and resigned on 19 October 2006

2006	Short-term benefits			Post-employment benefits		Share based payment	Total
	Cash, salary and fees	Cash Bonus	Other Monetary Benefits	Super-annuation	Retirement Benefits	Issue of Shares (LTI)	
Key Management Person	\$	\$	\$	\$	\$	\$	\$
Julia King ^(a)	105,857	-	-	9,527	-	-	115,384
Eric Melman ^(b)	29,615	-	-	2,665	-	-	32,280
Robert Estcourt	157,692	-	-	14,192	-	20,900	192,784
William Bartlett	41,284	-	-	3,716	-	-	45,000
Michael Hale	51,250	-	-	-	-	-	51,250
Michael Cooper	209,488	30,000	14,820	18,854	-	19,000	292,162
Michael Hirschowitz	211,201	30,000	15,029	21,708	-	19,000	296,938
Chris Zournazidis ^(c)	103,333	-	-	9,300	-	9,500	122,133
Maurice Joffe ^(d)	146,911	-	5,173	20,461	-	-	172,545
Suresh Kumar	134,703	10,000	14,820	12,123	-	9,500	181,146
Mike Sayers ^(e)	5,081	-	-	457	-	-	5,538
Howard Knapp	110,826	-	10,000	9,974	-	5,700	136,500
Total	1,307,241	70,000	59,842	122,977	-	83,600	1,643,660

(a) Julia King commenced her employment on 3 January 2006

(b) Eric Melman resigned on 3 January 2006.

(c) Chris Zournazidis was employed until 24 February 2006.

(d) Maurice Joffe was employed until 31 January 2006.

(e) Mike Sayers commenced his employment on 5 June 2006.



7. Shares held by Key Management Personnel

The number of shares in which the key management personnel of the company held a relevant interest on 1 July 2007, are set out in the following table.

Key Management Person	Opening Balance	Net Change	Closing Balance
Ivan Hammerschlag ^(a)	-	7,142,857	7,142,857
David Gordon ^(b)	-	7,142,856	7,142,856
Michael Cooper	2,919,098	2,976,883	5,895,981
Michael Hirschowitz	2,919,098	2,976,883	5,895,981
Hilton Brett ^(c)	-	4,166,666	4,166,666
Julia King ^(d)	250,000	-	250,000
Robert Estcourt ^(e)	747,848	-	747,848
Michael Hale ^(f)	200,000	-	200,000
William Bartlett ^(g)	291,189	-	291,189
Peter Thomas ^(h)	-	-	-
Suresh Kumar	266,000	76,000	342,000
Howard Knapp	150,000	42,857	192,857
Total	7,743,233	24,525,002	32,268,235

Closing balances for key management personnel who left the company's employ during the financial year are those at the date of their termination. All other balances are at 1 July 2007.

- (a) Ivan Hammerschlag was appointed on 19 October 2006
- (b) David Gordon was appointed on 19 October 2006
- (c) Hilton Brett was appointed on 19 December 2006
- (d) Julia King resigned on 19 October 2006
- (e) Robert Estcourt left the employment of the company on 10 July 2006
- (f) Michael Hale resigned on 7 July 2006
- (g) William Bartlett resigned on 19 October 2006
- (h) Peter Thomas was appointed on 15 September 2006 and resigned on 19 October 2006

8. Options held by Key Management

Personnel

The number of options in which the key management personnel of the company held a relevant interest on 1 July 2007, are set out in the following table.

Name	Issue date	Vesting date	Exercise Date No. of years from issue date	Exercise Price \$	Number of Options		Number of Options	
					Outstanding		Vested	
					2007	2006	2007	2006
Ivan Hammerschlag	12/01/2007	12/01/2007	5 years	0.120	9,444,445	-	9,444,445	-
Ivan Hammerschlag	19/12/2006	19/12/2006	5 years	0.154	2,300,000	-	2,300,000	-
David Gordon	12/01/2007	12/01/2007	5 years	0.120	9,444,445	-	9,444,445	-
David Gordon	19/12/2006	19/12/2006	5 years	0.154	2,300,000	-	2,300,000	-
Hilton Brett	30/04/2007	30/04/2007	5 years	0.154	2,300,000	-	2,300,000	-
Hilton Brett	30/04/2007	31/01/2008	5 years	0.169	2,000,000	-	-	-
Michael Cooper	12/01/2007	12/01/2007	5 years	0.120	2,833,332	-	2,833,332	-
Michael Cooper	19/12/2006	19/12/2007	5 years	0.154	2,000,000	-	-	-
Michael Cooper	19/12/2006	19/12/2008	5 years	0.154	2,000,000	-	-	-
Michael Cooper	19/12/2006	19/12/2009	5 years	0.154	2,000,000	-	-	-
Michael Cooper	19/12/2006	19/12/2010	5 years	0.154	2,000,000	-	-	-
Michael Hirschowitz	12/01/2007	12/01/2007	5 years	0.120	2,833,332	-	2,833,332	-
Michael Hirschowitz	19/12/2006	19/12/2007	5 years	0.154	2,000,000	-	-	-
Michael Hirschowitz	19/12/2006	19/12/2008	5 years	0.154	2,000,000	-	-	-
Michael Hirschowitz	19/12/2006	19/12/2009	5 years	0.154	2,000,000	-	-	-
Michael Hirschowitz	19/12/2006	19/12/2010	5 years	0.154	2,000,000	-	-	-
Suresh Kumar	30/06/2007	30/07/2008	5 years	0.172	100,000	-	-	-
Suresh Kumar	30/06/2007	30/07/2009	5 years	0.172	100,000	-	-	-
Suresh Kumar	30/06/2007	30/07/2010	5 years	0.172	100,000	-	-	-
Suresh Kumar	30/06/2007	30/07/2011	5 years	0.172	100,000	-	-	-
Howard Knapp	30/06/2007	30/07/2008	5 years	0.172	50,000	-	-	-
Howard Knapp	30/06/2007	30/07/2009	5 years	0.172	50,000	-	-	-
Howard Knapp	30/06/2007	30/07/2010	5 years	0.172	50,000	-	-	-
Howard Knapp	30/06/2007	30/07/2011	5 years	0.172	50,000	-	-	-
Robert Estcourt	07/07/2004	Various	Various	Various	-	1,200,000	-	500,000
					50,055,554	1,200,000	31,455,554	500,000

(a) Robert Estcourt left the company's employment on 10 July 2006 and all his outstanding and vested options lapsed.

(b) The aggregate number of outstanding options is 53,055,554 options, including the 50,055,554 above. The total amount receivable by the company should all the options be exercised is \$6.91 million.



9. Other transactions with specified employees and personally related entities

Transactions if any with specified employees and their personally related entities are conducted on arm's length terms and conditions. There are also transactions which are deemed trivial or domestic in nature being in the nature of shopping in our company stores.

Directors', Officers' and Auditors' Indemnities and Insurance

During the financial year, the parent entity paid premiums of \$59,107 in respect of directors' and officers' liability insurance contracts for all directors of the Company named in this report, and other officers of the Company and its controlled entities.

These policies insure persons who are directors or officers of the Company and its controlled entities against certain liabilities incurred as such by an officer or director, while acting in that capacity. The premiums have not been determined on an individual entity, officer or director basis. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contracts.

No other agreements to indemnify directors, officers or auditors have been entered into, nor have any payments in relation to indemnification been made, during or since the end of the financial year, by the Company.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services by PKF during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The amounts paid or accrued for non-audit services during the year were \$50,138 in relation to tax and accounting advisory services. The directors are satisfied that these did not compromise the external auditor's independence because the nature of the services provided do not compromise the general principles relating to auditor independence as set out in code of conduct APES 110: Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of RCG Corporation Limited support and have adhered to the principles of corporate governance. The Company's Corporate Governance Statement is set out in page 3.

Auditors' Independence Declaration

The auditors' independence declaration has been received and can be found on page 24 of the directors' report.

Rounding off of Amounts

The Company is a company of the kind referred to in ASIC, class order 98/100, dated 10 July 1998, and in accordance with that class order amounts in the directors' report and in the financial report are rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the Board of directors for and on behalf of the directors by:



Ivan Hammerschlag
Chairman

27 August 2007



Michael Hirschowitz
Finance Director

27 August 2007



AUDITOR'S INDEPENDENCE DECLARATION

**To: The Directors
RCG Corporation Limited**

As lead engagement partner for the audit of RCG Corporation Limited for the year ended 1 July 2007, I declare that, to the best of my knowledge and belief, there have been:

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

This document is in respect of RCG Corporation Limited and its controlled entities.

**Tim Sydenham
Partner
Sydney Office**

**PKF
Dated this 27th day of August 2007**

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income statement

For the financial year ended 1 July 2007

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Continuing operations					
Revenue	2	18,940	17,497	106	37
Cost of sales		(6,393)	(6,608)	-	-
Employee benefits expense		(5,302)	(4,988)	(943)	(926)
Rental expenses on operating leases		(1,623)	(2,101)	-	-
Advertising and promotion expenses		(78)	(265)	-	-
Share based payment expense		(380)	(27)	(380)	(27)
Depreciation and amortisation expense		(241)	(272)	(7)	(13)
Provision for doubtful debts		(36)	(77)	-	-
Debts from wholly owned subsidiaries written off		-	-	(3,400)	(6,206)
Finance costs		(372)	(487)	(343)	(457)
Other expenses		(2,481)	(2,374)	(1,276)	(850)
Profit/(Loss) before impairment and income tax	3	2,034	298	(6,243)	(8,442)
Impairment of tangible assets	3	(131)	-	-	-
Profit/(Loss) before income tax expense	3	1,903	298	(6,243)	(8,442)
Income tax benefit	4	33	1,053	29	644
Profit/(Loss) for the period from continuing operations		1,936	1,351	(6,214)	(7,798)
Discontinued operations					
King of Knives					
Impairment of assets	3	(5,278)	(18,728)	(4,527)	(17,980)
Loss for the year from discontinued operations	31(b)	(775)	(909)	-	-
Impairment loss on net assets held for sale	31(b)	(1,059)	-	-	-
Amazing Paints					
Loss for the year from discontinued operations	31(a)	(455)	(1,777)	-	-
Loss from discontinued operations placed in voluntary administration	31(a)	(2,830)	-	-	-
Loss attributable to members of the parent entity		(8,461)	(20,063)	(10,741)	(25,778)
Earnings per share					
From continuing and discontinued operations:					
Basic earnings per share (cents per share)	22	(8.33)	(23.29)		
From continuing operations:					
Basic earnings per share (cents per share)	22	1.90	1.57		
From discontinued operations:					
Basic earnings per share (cents per share)	22	(10.23)	(24.86)		

The accompanying notes form an integral part of these Financial Statements.

balance sheet

As at 1 July 2007

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current Assets					
Cash and cash equivalents	5	2,435	36	157	-
Trade and other receivables	6	1,382	1,602	504	4,438
Inventories	7	1,269	9,996	-	-
Other current assets	8	348	252	76	54
Assets classified as held for sale	31(b)	8,835	-	-	-
Total current assets		14,269	11,885	737	4,492
Non-current Assets					
Financial assets	9	-	-	15,115	19,642
Property, plant and equipment	10	782	7,968	30	35
Intangible assets	11	9,661	14,958	-	-
Deferred tax assets	12	1,254	1,371	308	279
Other non-current assets	13	-	82	-	-
Total non-current assets		11,697	24,379	15,453	19,956
TOTAL ASSETS		25,966	36,264	16,190	24,448
Current Liabilities					
Trade and other payables	14	4,296	7,741	7,284	3,161
Short-term borrowings	15	437	4,915	400	5,742
Current tax liabilities	16	-	309	-	-
Short-term provisions	17	156	353	14	-
Liabilities associated with assets classified as held for sale	31(b)	4,362	-	-	-
Total current liabilities		9,251	13,318	7,698	8,903
Non-current Liabilities					
Long-term borrowings	15	1,073	2,939	1,000	1,400
Long-term provisions	17	35	153	17	31
Total non-current liabilities		1,108	3,092	1,017	1,431
TOTAL LIABILITIES		10,359	16,410	8,715	10,334
NET ASSETS		15,607	19,854	7,476	14,114
Equity					
Issued capital	18	43,240	39,517	43,240	39,517
Reserves	19	418	(86)	408	27
Accumulated losses		(28,050)	(19,577)	(36,171)	(25,430)
TOTAL EQUITY		15,607	19,854	7,476	14,114

The accompanying notes form an integral part of these Financial Statements.



statement of changes in equity

For the financial year ended 1 July 2007

	Issued Capital	Issued Capital	Foreign Currency Reserves	Share Reserve	Retained Earnings/ (Accumulated Losses)	Total
Consolidated Entity	No. in '000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2005	84,217	39,186	-	-	486	39,672
Shares issued during the year						
Executive Long Term Share Incentive Plan	3,160	-	-	27	-	27
Writeback of Transaction costs relating to issue of shares	-	331	-	-	-	331
Exchange differences on translation of foreign operations	-	-	(113)	-	-	(113)
Loss for the year	-	-	-	-	(20,063)	(20,063)
Sub-total	87,377	39,517	(113)	27	(19,577)	19,854
Dividends paid or provided for	-	-	-	-	-	-
Balance at 30 June 2006	87,377	39,517	(113)	27	(19,577)	19,854
Balance at 1 July 2006	87,377	39,517	(113)	27	(19,577)	19,854
Shares issued during the year						
Rights issue	26,013	2,341	-	-	-	2,341
Placement of shares	18,611	1,800	-	-	-	1,800
Executive Long Term Share Incentive Plan	(490)	-	-	20	-	20
Directors and Employees Options Plan	-	-	-	361	-	361
Transaction costs relating issue of shares	-	(418)	-	-	-	(418)
Exchange differences on translation of foreign operations	-	-	123	-	(12)	111
Loss for the year	-	-	-	-	(8,461)	(8,461)
Sub-total	131,511	43,240	10	408	(28,050)	15,607
Dividends paid or provided for	-	-	-	-	-	-
Balance at 1 July 2007	131,511	43,240	10	408	(28,050)	15,607

The accompanying notes form an integral part of these Financial Statements.

statement of changes in equity

For the financial year ended 1 July 2007

	Issued Capital	Issued Capital	Foreign Currency Reserves	Share Reserve	Retained Earnings/ (Accumulated Losses)	Total
The Company	No. in '000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2005	84,217	39,186	-	-	348	39,534
Shares issued during the year						
Executive Long Term Share Incentive Plan	3,160	-	-	27	-	27
Transaction costs relating to issue of shares	-	331	-	-	-	331
Loss for the year	-	-	-	-	(25,778)	(25,778)
Sub-total	87,377	39,517	-	27	(25,430)	14,114
Dividends paid or provided for	-	-	-	-	-	-
Balance at 30 June 2006	87,377	39,517	-	27	(25,430)	14,114
Balance at 1 July 2006	87,377	39,517	-	27	(25,430)	14,114
Shares issued during the year						
Rights Issue	26,013	2,341	-	-	-	2,341
Placement of shares	18,611	1,800	-	-	-	1,800
Executive Long Term Share Incentive Plan	(490)	-	-	20	-	20
Directors and Employees Options Plan	-	-	-	361	-	361
Transaction costs relating issue of shares	-	(418)	-	-	-	(418)
Loss for the year	-	-	-	-	(10,741)	(10,741)
Sub-total	131,511	43,240	-	408	(36,171)	7,476
Dividends paid or provided for	-	-	-	-	-	-
Balance at 1 July 2007	131,511	43,240	-	408	(36,171)	7,476

The accompanying notes form an integral part of these Financial Statements.



cash flow statement

For the financial year ended 1 July 2007

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and franchisees		49,088	57,457	(190)	32
Interest received		63	49	63	-
Payments to suppliers and employees		(38,628)	(49,777)	(1,485)	(1,541)
Payments for operating leases		(6,568)	(7,986)	-	-
Income tax refund/(paid)		(35)	229	(35)	602
Finance costs paid		(458)	(512)	(343)	(458)
Net cash provided by/(used in) operating activities	27(b)	3,462	(540)	(1,990)	(1,365)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property		1,950	-	1,950	-
Cash funds in discontinued operation		(261)	-	-	-
Payment for property, plant and equipment		(287)	(635)	(2)	(30)
Net cash provide by/(used in) investing activities		1,403	(635)	1,948	(30)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of Borrowings		(2,350)	1,800	(2,350)	1,800
Lease payments		(695)	(485)	-	-
Capital raising		4,141	-	4,141	-
Listing costs		(418)	(460)	(418)	(460)
Intercompany loans		-	-	2,218	(3)
Net cash provided by financing activities		678	855	3,591	1,337
Net increase/(decrease) in cash held		5,542	(320)	3,549	(58)
Cash at beginning of the financial year		(1,857)	(1,537)	(3,392)	(3,334)
Cash at end of the financial year	27(a)	3,685	(1,857)	157	(3,392)

The accompanying notes form an integral part of these Financial Statements.

forming part of the financial statements for the financial year ended 1 July 2007

1. Significant Accounting Policies

The financial report of RCG Corporation Limited covering the period from 1 July 2006 to 1 July 2007 was authorised for issue in accordance with a resolution of the Board of Directors on 24 August 2007.

Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001. The financial report complies with Australian equivalents to International Financial Reporting Standards (AIFRSs) in their entirety.

The financial report covers the consolidated entity of RCG Corporation Limited and controlled entities, and RCG Corporation Limited as an individual parent entity. RCG Corporation Limited is a listed public company incorporated and domiciled in Australia.

The financial report has been prepared on an accrual basis and is based on historical costs modified by the revaluation of certain non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Principles of Consolidation

A controlled entity is any entity controlled by the Company. Control exists where the Company has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of the Company. The consolidated entity comprises the Company and its controlled entities. A list of controlled entities is contained in Note 9 to the notes to the financial statements.

All intercompany balances and transactions between the entities in the consolidated entity, including any unrealised profits or losses have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Financial Assets and Financial Liabilities

Financial assets and financial liabilities are initially recognised at cost on the balance sheet when the Company becomes party to the contractual provisions of the financial instrument. Subsequent to initial recognition these instruments are measured as set out below.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method.

Available-for-sale financial assets include other financial assets, comprising investments in subsidiaries, not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities comprise of trade and other payables, provisions and borrowings are measured at amortised cost using the effective interest method.

Trade accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or doubtful collections.

Inventories

Finished goods and raw materials are stated at lower of cost and net realisable value. Costs are calculated on "first-in first-out" or "weighted average" basis as appropriate for each business segment and include duty and other inward charges. The cost of manufactured stock includes direct labour, direct materials and an appropriate amount of fixed and variable overhead expenses, net of settlement discounts.

Property, plant and equipment

Property, plant and equipment is recorded at cost, less where applicable any accumulated depreciation or impairment loss. The fair value of freehold land and building is the amount for which the asset could be exchanged between knowledgeable willing parties in



an arms length transaction. It is the policy of the consolidated entity to have an independent valuation every three years, with annual appraisals being made by the directors. The revaluation of land and building has taken into account the potential capital gains tax.

The profit and loss on disposal of all property, plant and equipment is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds thereof and is included in the profit before income tax in the income statement in the year of disposal.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows, which will be reviewed from the assets employed and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

Depreciation

Items of property, plant and equipment are depreciated at rates based upon its expected economic life using the straight line method. The depreciation or amortisation rates used for each class of assets are as follows:

Plant and equipment	12.5%-33%
Property	1.25%

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Where substantially all the risks and benefits incidental to the ownership of a leased fixed asset, but not the legal ownership, are transferred to the company, these leases are classified as finance leases. Finance leases are capitalised as an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value is brought to account. Leased assets are amortised on a straight line basis over their estimated useful lives where it is likely that the company will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the lease interest expense for the period and the reduction of the lease liability.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is RCG Corporation Limited's functional and presentation currency.

Transaction and balances

Foreign currency transactions are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

Income Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

forming part of the financial statements for the financial year ended 1 July 2007

The charge for current income tax expenses is based on the profit for the year adjusted for any non assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax Consolidation

The company and its wholly owned Australian subsidiaries are part of a tax consolidated group under Australian taxation law. The tax consolidated group does not have a tax sharing and funding agreement in place.

Employee Entitlements

Provision has been made for the entity's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at amounts expected to be paid when the liability crystallises plus related on-costs. Other employee entitlements including long service leave payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made to an employee superannuation fund and are charged as expenses when incurred.

Impairment of assets

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such indication exists, the recoverable amount of the asset, being the higher of asset's fair value less cost to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable value is expensed to the income statement. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate.

Intangibles

Goodwill

Goodwill and goodwill on consolidation, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is recognised as an asset and not amortised, but tested for impairment annually and wherever there is an indication that the goodwill may be impaired any impairment is recognised immediately in the income statement.

Trademarks

Trademarks are recognised at cost of acquisition. Trademarks have an infinite life and are carried at cost less any accumulated amortisation and any impairment loss. Trademarks are tested for impairment annually and wherever there is an indication that it may be impaired, any impairment is recognised immediately in the income statement.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, cash in banks and market investments convertible readily to cash within two working days, net of outstanding bank overdrafts.

Dividends

A provision for dividend is only recognised at the reporting date where the dividends are declared, determined or publicly recommended prior to the reporting date.



Revenue*Sale of Goods*

This comprises revenue earned from sale of goods to customers, net of actual returns, and is recognised at the point of sale when control of the goods passes to the customer. Lay-by sales are recognised after the final payment is received from the customer.

Franchise Royalty Income

Franchise royalty income is recognised as income in the period the sales are recorded by the franchisees.

Franchise Fees

Franchise fees are recognised upon exchange of the franchise agreement as all services are considered to be substantially performed.

Settlement Discount

Settlement discounts were previously recorded as other income from operating activities, and have now been disclosed as a reduction in inventory.

All revenue is stated net of the amount of goods and service tax (GST).

Contributed Equity

Issued and paid up capital is recognised at the fair value of consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Receivables

Receivable amounts include sales/royalty receipts not yet collected from customers and purchase rebates due from suppliers, which remain unpaid at balance date, and are carried at the nominal amount. Amounts outstanding are generally recovered within sixty days of invoicing and the collectibility of unpaid amounts is assessed at balance date to determine whether a provision for doubtful debts is required. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

Payables

Liabilities for trade creditors and other amounts are recognised at cost, which is the fair value of the consideration to be paid in the future for the inventories and other goods or services received, whether or not billed to the consolidated entity at balance date. Trade accounts payable are non-interest bearing and are normally settled on due dates.

Investments

Investments in controlled entities are measured on the cost basis. The carrying amounts of investments are reviewed annually by directors to ensure they are not in excess of the recoverable amounts of these assets. Dividend revenue is recognised on a receipt basis.

Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members of the company, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends)
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from dilution of potential ordinary shares

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Share-Based Payments

Share-based payments are provided to directors and employees through issue of shares and options.

forming part of the financial statements for the financial year ended 1 July 2007

Issue of Shares

Share-based compensation benefits are provided to employees via the RCG Corporation Executive Long Term Incentive Plan.

The fair value of shares granted under the RCG Corporation Executive Long Term Incentive Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares.

The fair value at grant date is independently determined using a Black-Scholes Binomial convergence pricing model that takes into account the exercise price, the term of the share, the vesting and performance criteria, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk-free interest rate for the term of the share.

Issue of options

The fair value of options is recognised as a benefit to directors/employees. The fair value is measured at the grant date and recognised over the period during which the options vest to the directors/employees.

The fair value at the grant date is independently determined using Monte Carlo simulation pricing model for the directors' options and Black-Scholes binomial convergence model for the employee's options. These models take into account the exercise price, the life of the option, the current price of the underlying share, the expected volatility of the share price, dividends expected on the share and the risk-free interest rate for the life of the option.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from tax authorities. In these circumstances, the GST is recognised as part of the acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the tax authorities are included as a current asset or a liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, and or payable to, the tax authorities are classified as operating cash flows.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in income in the period in which they are incurred.

Borrowings

Bank loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

Rounding of amounts

The Company is a company of the kind referred to in ASIC, class order 98/100, dated 10 July 1998, and in accordance with that class order amounts in the directors' report and in the financial report are rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Comparative figures

When required by accounting standards comparative figures have been adjusted to confirm to changes in presentation for the current financial year.

Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.



forming part of the financial statements for the financial year ended 1 July 2007

Key Estimates – Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Adoption of new and revised accounting standards

As at the date of this report there are a number of new accounting standards and Interpretations that have been issued but are not yet effective as detailed below:

AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 8 'Operating Segments' and consequential amendments to other accounting standards resulting from its issue	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 101 'Presentation of Financial Statements' - revised standard	Effective for annual reporting periods beginning on or after 1 January 2007
Interpretation 10 'Interim Financial Reporting and Impairment'	Effective for annual reporting periods beginning on or after 1 November 2006
Interpretation 11 'Group and Treasury Share Transactions' and consequential amendments to other accounting standards resulting from its issue	Effective for annual reporting periods beginning on or after 1 March 2007
Interpretation 12 'Service Concession Arrangements' and consequential amendments to other accounting standards resulting from its issue	Effective for annual reporting periods beginning on or after 1 January 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the consolidated entity. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect the consolidated entity's previously reported results and accordingly, there will be no impact to these financial statements on adoption of the Interpretation.

The application of AASB 101 (revised), AASB 7 and AASB 2005-10 will not affect any of the amounts recognised in the financial statements, but will change the disclosure presently made in relation to the consolidated entity's financial statements and the objectives, policies and processes for managing capital.

These Standards and Interpretations will be first applied in the financial report of the consolidated entity that relates to the annual reporting period beginning after the effective date of each pronouncement.

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
2. Revenue				
Sale of goods	10,391	9,604	-	-
Royalties and other franchise related income	7,651	6,371	-	-
Profit from sale of operations to franchisees	26	355	-	-
Interest received				
wholly owned subsidiaries	-	-	-	24
Other persons	79	49	63	-
Other revenue	793	1,118	43	13
Total Revenue	18,940	17,497	106	37

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
3. Profit/(loss) for the year:				
(a) Expenses				
Depreciation and amortisation expense				
Property, plant and equipment	113	237	7	4
Depreciation of leased assets	128	26	-	-
Others	-	9	-	9
	241	272	7	13
Impairment of intangible assets				
Goodwill	-	8,404	-	-
Trademarks	5,278	10,324	-	-
	5,278	18,728	-	-
Impairment in investment in subsidiaries	-	-	4,527	17,980
Impairment of tangible assets				
Property, plant and equipment	131	-	-	-
<i>Impairment of assets tangible denotes a write down based on an assessment of the realisable value of tangible assets in the Athletes Foot.</i>				
External Finance costs				
Interest on finance leases	29	30	-	-
Interest on bank borrowings	343	457	343	457
	372	487	343	457
Rental expense relating to operating leases				
Minimum lease payments	1,623	2,101	-	-
Obsolescence of inventory	488	125	-	-
Doubtful debts - trade receivables	36	77	-	-
Advertising and promotion expenses	78	265	-	-
Net loss on disposal of plant and equipment	-	196	-	-



	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
4. Income Tax				
Major components of income tax benefit				
Current income tax expense (benefit)	-	-	-	-
Deferred income tax expense (benefit)	117	(787)	(29)	208
Overprovision in respect of prior years	(150)	(266)	-	(852)
	(33)	(1,053)	(29)	(644)
(a) Reconciliation between income tax expense/(benefit) and prima facie tax on accounting profit/(loss)				
Prima facie income tax payable on profit/(loss) before income tax at 30% (2006: 30%)	(2,548)	(6,335)	(3,231)	(7,927)
Add/ (less) income tax effect of:				
Other members of the income tax consolidated group net of intercompany transactions	-	-	721	770
Allowable items	(199)	(179)	(77)	-
Non-deductible impairment writedown	1,583	2,521	-	-
Writedown to recoverable amounts	1,101	3,097	2,378	7,256
Over provision from previous year	(150)	(266)	-	(852)
Losses not tax effected	180	109	180	109
Income tax expense/(benefit) attributable to entity	(33)	(1,053)	(29)	(644)
	%	%	%	%
Weighted Average Tax Rate	(0.4)	(5.0)	(0.3)	(2.4)

Applicable tax rate

The applicable tax rate is the national tax rate in Australia of 30%

forming part of the financial statements for the financial year ended 1 July 2007

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(b) Deferred tax asset comprises:				
Analysis of deferred tax assets:				
Provision for doubtful accounts	75	67	-	-
Provision for shrinkage & stock obsolescence	22	105	-	-
Employee entitlements	254	385	54	37
Other Provisions	62	52	15	15
Accruals	381	380	(56)	(68)
Lease Liability	337	525	-	-
Difference in accounting and tax depreciation	106	186	-	-
Listing expenses	296	295	295	295
Landlord and Supplier contribution	135	107	-	-
Others	-	-	-	-
	1,668	2,102	308	279
Analysis of deferred tax liabilities				
WDV of Leased Assets	396	707	-	-
Establishment Cost	18	24	-	-
Borrowing Cost	-	-	-	-
	414	731	-	-
Net Deferred Tax Asset	1,254	1,371	308	279

The movement in above analysis in deferred tax assets and liabilities for each temporary difference during the year is debited / credited to the income statement

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur

Tax losses:

operating losses	180	109	180	109
capital losses	7,201	5,618	8,614	7,256
	7,381	5,727	8,794	7,365

5. Cash and Cash Equivalents

Cash on hand	5	36	-	-
Cash in bank	2,430	-	157	-
	2,435	36	157	-

Refer note 28 for further details.



	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
6. Trade and Other Receivables				
Current				
Trade receivables	1,221	1,577	218	7
Provision for doubtful debts	(200)	(224)	-	-
Tax receivable	361	249	286	251
	1,382	1,602	504	258
Amounts receivable from:				
wholly owned subsidiaries	-	-	3,400	10,386
Doubtful debts written off ^(a)	-	-	(3,400)	(6,206)
	-	-	-	4,180
	1,382	1,602	504	4,438

(a) An intercompany balance with King of Knives amounting to \$2,065,665 was written off during year in contemplation of the sale of the business. An amount of \$286,809 (2006: \$6,205,542) owing by Amazing Paints was written off during the year.

7. Inventories

Current				
Finished goods - at cost	1,341	9,842	-	-
Raw materials - at cost	-	308	-	-
	1,341	10,150	-	-
Less: Provision for obsolescence	(72)	(154)	-	-
	1,269	9,996	-	-

8. Other Current Assets

Security deposits	23	24	-	-
Prepayments	108	92	76	36
Others	217	136	-	18
	348	252	76	54

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
9. Financial Assets				
Classified as available for sale				
Unlisted Investment - at cost				
Shares in controlled entities				
Investment in The Athlete's Foot	-	-	10,642	10,642
Impairment of investment	-	-	-	-
	-	-	10,642	10,642
Investment in King of Knives	-	-	9,000	16,346
Impairment of investment	-	-	(4,527)	(7,346)
	-	-	4,473	9,000
Investment in Amazing Paints	-	-	-	10,635
Impairment of investment	-	-	-	(10,635)
	-	-	-	-
	-	-	15,115	19,642

The Cash Generating Unit (CGU) of RCG Corporation Limited is The Athlete's Foot. On 5 August 2007, the company entered into an agreement to sell its King of Knives business, subject to shareholder approval. The value of the investment in King of Knives has been written down to reflect the recoverable amount arising from the sale of the business. (refer to note 31(b) for additional details).

Amazing Paints was placed into voluntary administration during the current year. The investment in Amazing Paints had been fully impaired in the previous financial year.

The valuation of the CGU was based on a discounted value of projected earnings over a 10 year time frame, which is considered acceptable considering the growth and expansion plans of the business. Other assumptions used for the valuation are as follows:

Annual growth rate	5%
Economic growth rate	2.5%
Discount rate	12%

Companies must assess at each reporting date whether there is any indication that the asset may be impaired and, if so, perform an impairment test. The impairment testing carried out on 1 July 2007 does not indicate any reasons for impairment of assets.



The ultimate parent entity is RCG Corporation Limited.

Subsidiaries of RCG Corporation Limited are categorised by business segments

	Ownership Interest	
	2007	2006
The Athlete's Foot		
The Athlete's Foot Australia Pty Limited	100%	100%
TAF Constructions Pty Limited	100%	100%
King of Knives^(b)		
King of Knives Pty Limited	100%	100%
King of Knives Limited	100%	100%
King of Knives Franchising Pty Limited	100%	100%
The Outback Unit Trust	100%	100%
Amazing Paints^(c)		
Amazing Paints Discounts Pty Limited	-	100%
Robertson & Co Pty Limited	-	100%
Barrojest Pty Limited	-	100%
Toveken Pty Limited	-	100%
Monto Pty Limited	-	100%
Aymtold Pty Limited	-	100%
Brynex Pty Limited	-	100%
Heritage Paints Pty Limited	-	100%
Other		
HMC Imports Pty Limited ^(d)	100%	-

(a) Except for King of Knives Limited and The Outback Unit Trust, which were incorporated in New Zealand, all other entities were incorporated in Australia. All controlled entities were acquired during the 2004-05 financial year.

(b) On 5 August 2007, the company entered into an agreement to sell its King of Knives business, subject to shareholder approval (refer note 31(b)).

(c) The Amazing Paints Group companies were placed into Voluntary Administration on 20 October 2006. (refer note 31(a)).

(d) HMC Imports Pty Limited was incorporated on 16 May 2007.

forming part of the financial statements for the financial year ended 1 July 2007

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
10. Property, Plant and Equipment				
Property - at cost	-	1,866	-	-
Less: Accumulated depreciation	-	(12)	-	-
	-	1,854	-	-
Plant and equipment - at cost	2,452	9,345	42	40
Less: Accumulated depreciation	(1,660)	(5,726)	(12)	(5)
	792	3,619	30	35
Less: Impairment of assets ^(a)	(131)	-	-	-
	661	3,619	30	35
Plant and equipment under finance lease - at cost	157	2,846	-	-
Less: Accumulated depreciation	(47)	(488)	-	-
	110	2,358	-	-
Assets under construction	11	137	-	-
	782	7,968	30	35

(a) Impairment of assets denotes a write down based on an assessment of the realisable value of tangible assets in The Athlete's Foot.

Movements in carrying amounts

Property, plant and equipment - at cost

At cost

Balance at beginning of period	11,211	11,656	40	14
Assets from discontinued operations	(8,999)	-	-	-
Balance at beginning of period from continuing operations	2,212	11,656	40	14
Additions	358	657	2	26
Disposals	(118)	(1,102)	-	-
Balance at end of period	2,452	11,211	42	40

Accumulated depreciation

Balance at beginning of period	5,738	5,479	5	1
Accumulated depreciation from discontinued operations	(4,253)	-	-	-
Balance at beginning of period from continuing operations	1,485	5,479	5	1
Depreciation expense	218	824	7	5
Impairment of tangible assets	131	-	-	-
Disposals	(43)	(565)	-	(1)
Balance at end of period	1,791	5,738	12	5
	661	5,473	30	35



	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Plant and equipment under finance lease				
At cost				
Balance at beginning of period	2,846	1,395	-	-
Assets from discontinued operations	(2,567)			
Balance at beginning of period from continuing operations	279	1,395	-	-
Additions	-	1,475	-	-
Disposals	(122)	(24)	-	-
Balance at end of period	157	2,846	-	-
Accumulated depreciation				
Balance at beginning of period	488	106	-	-
Accumulated depreciation from discontinued operations	(441)	-	-	-
Balance at beginning of period from continuing operations	47	106	-	-
Depreciation expense	23	382	-	-
Disposals	(23)	-	-	-
Balance at end of period	47	488	-	-
	110	2,358	-	-
Assets under construction	11	137	-	-
Net book value	782	7,968	30	35

11. Intangibles

Trademark

Trademarks at cost

Trademark - The Athlete's Foot	3,466	3,466	-	-
Accumulated impairment write-down	-	-	-	-
	3,466	3,466	-	-
Trademark - King of Knives	9,655	9,655	-	-
Accumulated impairment write-down	(9,655)	(4,377)	-	-
	-	5,278	-	-
Trademark - Amazing Paints	5,947	5,947	-	-
Accumulated impairment write-down	(5,947)	(5,947)	-	-
	-	-	-	-
	3,466	8,744	-	-

forming part of the financial statements for the financial year ended 1 July 2007

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
11. Intangibles (continued)				
Goodwill				
Purchased goodwill - at cost	94	113	-	-
Goodwill on consolidation				
Goodwill - The Athlete's Foot	6,101	6,101	-	-
Accumulated impairment write-down	-	-	-	-
	6,101	6,101	-	-
Goodwill - King of Knives	2,330	2,330	-	-
Accumulated impairment write-down	(2,330)	(2,330)	-	-
	-	-	-	-
Goodwill - Amazing Paints	6,074	6,074	-	-
Accumulated impairment write-down	(6,074)	(6,074)	-	-
	-	-	-	-
	6,195	6,214	-	-
Total Intangibles	9,661	14,958	-	-

Movements in intangibles

	2007	2007	2006	2006
	Goodwill \$'000	Trademarks \$'000	Goodwill \$'000	Trademarks \$'000
Balance at the beginning of the year	6,214	8,744	14,618	19,068
Additions	-	-	-	-
Disposals	(19)	-	-	-
Impairment losses	-	(5,278)	(8,404)	(10,324)
Balance at the end of the year	6,195	3,466	6,214	8,744

The Cash Generating Unit (CGU) of RCG Corporation Limited is The Athlete's Foot. On 5 August 2007, the company entered into an agreement to sell its King of Knives business, subject to shareholder approval. The value of the investment in King of Knives has been written down to reflect the recoverable amount arising from the sale of the business. (refer to note 31(b) for additional details).

Amazing Paints was placed into voluntary administration during the current year. The investment in Amazing Paints had been fully impaired in the previous financial year.

The valuation of the CGU was based on a discounted value of projected earnings over a 10 year time frame, which is considered acceptable considering the growth and expansion plans of the business. Other assumptions used for the valuation are as follows:

Annual growth rate	5%
Economic growth rate	2.5%
Discount rate	12%



AASB 136 states that an impairment test must be performed annually for goodwill and other indefinite life intangible assets. Further, companies must also assess at each reporting date whether there is any indication that the asset may be impaired and, if so, perform an impairment test. The impairment test carried out at 1 July 2007 does not indicate any reason for impairment of the remaining intangible assets. The Company considers that its investment in The Athlete's Foot has an indefinite useful life because it foresees no impediment to its ability to continue to own and operate the business for the foreseeable future.

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
12. Deferred Tax Assets				
Future tax benefit (refer note 4 (b))	1,254	1,371	308	279

13. Other Non-current Assets

Capitalised borrowing and establishment costs	-	311	19	19
Accumulated amortisation	-	(229)	(19)	(19)
	-	82	-	-

14. Trade and Other Payables

UNSECURED LIABILITIES				
Current				
Trade creditors	833	4,427	108	78
Other creditors and accruals	3,463	3,314	1,202	497
Amounts payable to:				
wholly owned subsidiaries	-	-	5,974	2,586
	4,296	7,741	7,284	3,161

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
15. Borrowings				
Secured, at amortised cost				
Current				
Bank bill facility ^(a)	400	2,350	400	2,350
Hire purchase ^(c)	-	164	-	-
Finance lease ^(c)	37	508	-	-
Bank overdraft ^(b)	-	1,893	-	3,392
	437	4,915	400	5,742
Non-current				
Bank bill facility ^(a)	1,000	1,400	1,000	1,400
Hire purchase ^(c)	-	296	-	-
Finance lease ^(c)	73	1,243	-	-
	1,073	2,939	1,000	1,400
Total Current and non-current secured liabilities	1,510	7,854	1,400	7,142

- a) The company has a bank bill facility of \$1,400,000 secured by a fixed and floating charge over the company's assets which as at the end of the financial year include assets held for sale of \$9.474 million. and other group assets of \$7.11 million.
- b) The entity has access to a bank overdraft facility of \$3,900,000 in Australia and NZ\$115,000 in New Zealand. This is secured by a fixed and floating charge of the company's assets of \$16.85 million which includes \$9.474 million of assets held for sale and an interlocking joint and several guarantee from group companies. As at the balance sheet date, the full amount of these facilities remained undrawn.
- c) Hire Purchase and Finance Leases are secured by the assets under finance.

16. Tax Liabilities

Current				
GST payable	-	327	-	-
Income tax	-	-	-	-
Others	-	(18)	-	-
	-	309	-	-



	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
17. Provisions				
Current				
Employee benefits	156	353	14	-
Non-current				
Employee benefits	35	153	17	31
Aggregate employee benefits provision	191	506	31	31
	No.	No.	No.	No.
Number of full time equivalent employees at year end	123	356	27	19
Long Service Leave Movement				
Balance at beginning of period	506	545	31	-
Discontinued operations	(333)	-	-	-
Balance at the beginning of period from continuing operations	173	545	31	-
Additional provision	65	98	18	31
Amounts used	(47)	(137)	(18)	-
Balance at end of period	191	506	31	31

A provision has been recognised for employee entitlements relating to long service leave. The calculation of the present value of future cash flows in respect of long service leave is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

	The Company	
	2007 \$'000	2006 \$'000
18. Issued Capital		
Balance at beginning of period	39,517	39,186
Issued during the year:		
Rights Issue ^(b)	2,341	-
Placement of shares ^(c)	1,800	-
Transaction costs relating to the issue of shares	(418)	-
Writeback of transaction costs relating to the issue of shares	-	331
Balance at end of period	43,240	39,517
	No. of Shares (Fully Paid)	
	('000)	('000)
Balance at beginning of period	87,377	84,217
Issued during the year:		
Rights Issue ^(b)	26,013	-
Placement of shares ^(c)	18,611	-
Executive Long Term Share Incentive Plan ^(d)	(490)	3,160
Balance at end of period	131,511	87,377

forming part of the financial statements for the financial year ended 1 July 2007

- (a) *Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.*
- At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.*
- (b) *The Company issued 26,013,145 shares at 0.09 cents through a Rights Issue on 30 March 2007.*
- (c) *The Company issued 14,444,444 shares on 12 January 2007 at 0.09 cents and 4,166,666 on 1 May 2007 at 0.12 cents with Directors.*
- (d) *490,000 shares under the Executive Long Term Share Incentive Plan were cancelled during the year due to the resignation of the employees to whom they were issued. (refer note 24 for details)*

19. Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Share Reserve

The share reserve records items recognised as expenses on valuation of employee share options.

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
20. Dividends				
Dividends paid or declared by the Company	-	-	-	-
Dividend Franking Account				
The amount of franking credits available for the subsequent financial year are:	5,354	5,106	5,354	5,106
	5,354	5,106	5,354	5,106



	Consolidated		The Company	
	2007 \$	2006 \$	2007 \$	2006 \$
21. Auditors' Remuneration				
Amount received or due and receivable by the auditors of the parent entity				
PKF				
Audit and review of the financial reports	155,100	140,525	-	-
Tax compliance services	40,788	49,676	49,676	49,676
Accounting advice	9,350	1,975	-	-
	205,238	192,176	49,676	49,676
Haines Norton (previous auditors of the parent entity)				
Audit and review of the financial reports	17,600	-	-	-
Accounting advice	-	16,652	-	-
	17,600	16,652	-	-
	222,838	208,828	49,676	49,676

	Consolidated	
	2007 \$'000	2006 \$'000
22. Earnings Per Share		
Earnings used for calculation of basic earnings per share		
From continuing operations	1,936	1,351
From discontinued operations	(10,397)	(21,413)
Total basic earnings per share	(8,461)	(20,063)
	Number of shares	
	'000	'000
Weighted average number of shares used in the calculation of basic earnings per share	101,630	86,174
	Cents per share	
Basic earnings per share		
From continuing operations	1.90	1.57
From discontinued operations	(10.23)	(24.86)
Total basic earnings per share	(8.33)	(23.29)

Diluted earnings per share have not been calculated because the company made a loss for the year. The company issued 53,055,554 options during the year and 1,200,000 options on issue at the beginning of the year lapsed. The company currently has 53,055,054 options on issue.

forming part of the financial statements for the financial year ended 1 July 2007

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
23. Employee Benefits				
Aggregate Employee Benefits, Including On-costs				
Provision for employee benefits				
- Current	156	353	14	24
- Non-current	35	153	17	7
Accruals for wages, salaries and bonuses included in "other payables"	404	508	25	34
	595	1,014	56	65
<i>Number of Employees</i>	No.	No.	No.	No.
Number of full-time equivalent employees at balance sheet date	123	356	27	19

24. Share Options

Share-based payments: Employee and Director Option plans

The Group operates an ownership-based compensation scheme for directors, executives and other senior employees of the Group. Share options have been issued to non-executive directors under the Director Option Plan and to executives and senior employees under the Employee Option Plan (collectively the Option Plans), both of which were approved by the shareholders at the extraordinary general meeting of 19th December 2006.

All options issued under the Option Plans convert into one ordinary share of RCG Corporation Limited on exercise. All options issued thus far under the Option Plans have an exercise price \$0.12. In addition an option fee is payable for all options issued thus far under the Option Plans. The option fees vary depending on the date on which the options were issued, but have all been calculated with reference to the Volume Weighted Average Price of RCG's shares on the ASX for the seven days leading up to the date on which the options were issued.

Options issued to former CEO Robert Estcourt were issued under a different plan. Mr Estcourt left the Group's employ in July 2006 and all his options lapsed at that time, rendering the plan under which those options were issued defunct.

The following series' of options were issued under the Option Plans during the current reporting period:

Option Series	Number of options	Grant date	Expiry date	Exercise Price \$	Option Fee \$	Fair Value at grant date \$
Series 1: Director Options	4,600,000	19-Dec-06	19-Dec-11	0.120	0.034	0.016
Series 2: Employee Options	16,000,000	19-Dec-06	19-Dec-11	0.120	0.034	0.048
Series 3: Director Options	2,300,000	30-Apr-07	30-Apr-12	0.120	0.034	0.016
Series 4: Employee Options	2,000,000	30-Apr-07	30-Apr-12	0.120	0.049	0.055
Series 5: Employee Options	3,600,000	17-Apr-07	17-Apr-12	0.120	0.052	0.064

The weighted average fair value of the share options granted during the financial year is \$0.043. Director Options were valued using a combination of Monte Carlo Simulation and the Binomial Option Pricing Model. Employee Options were valued using the Black-Scholes Option Pricing Model. Where relevant, the expected life of the options was calculated as the mid point between the vesting date of the options and the expiry of the options. Because there are insufficient data points to directly measure RCG's share price volatility, where relevant the expected volatility is based on the adjusted average volatility for a basket of small and mid-cap retail stocks.



The following variables were used to calculate the fair value of the Options

Inputs into the Model	Series 1	Series 2	Series 3	Series 4	Series 5
Spot price at grant date	0.14	0.14	0.14	0.18	0.175
Exercise price	0.154	0.154	0.154	0.1688	0.172
Expected volatility	40%	40%	40%	30%	30%
Option life	Various	Various	Various	Various	Various
Dividend yield	-	-	-	-	-
Risk free rate	6.17%	6.09%	6.17%	6.10%	6.10%

Placement Options

As part of the recapitalisation plan of Group approved by the shareholders at the extraordinary general meeting of 19th December 2006, entities associated with four of the directors subscribed for 14.4m new shares in the company. Each of the relevant subscribers received 1.7 Placement Options for each share subscribed, resulting in a total of 26.6m Placement Options being issued. Each Placement Option confers the right to acquire one share in the company for \$0.12c. There is no option fee payable for the Placement Options. Unexercised Placement Options will lapse five years after the grant date. To the date of this report, none of the Placement Options have been exercised.

Option Movements	2007	2006
Description	No.	No.
On issue at the beginning of the financial year	1,200,000	1,200,000
Exercised during the financial year	-	-
Lapsed during the year	(1,200,000)	-
Issued during the financial year	53,055,554	-
On issue at the end of the financial year	53,055,554	1,200,000

forming part of the financial statements for the financial year ended 1 July 2007

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
25. Commitments				
a. Capital Expenditure Commitments				
Estimated capital expenditure contracted for at reporting date, but not provided for in the financial statements and payable pertaining to plant and equipment expenditure				
- not later than one year	290	1,227	-	-
b. Operating Lease Commitments				
Future operating lease rentals (minimum lease payments) of premises, plant and equipment not provided for in the financial statements and payable under non-cancellable operating leases.				
- not later than one year	1,520	6,595	-	-
- later than one year but not later than five years	3,621	15,220	-	-
- later than five years	96	-	-	-
	5,237	21,815	-	-
<i>Operating lease commitments predominantly relate to stores being leased. Operating lease commitments for the current year excludes lease commitments for King of Knives stores which amount to \$12.20 million in aggregate.</i>				
c. Finance Lease Commitments				
Finance lease rentals are payable as follows:				
- not later than one year	45	812	-	-
- later than one year but not later than five years	88	1,758	-	-
- later than five years	-	-	-	-
Minimum finance lease payments	133	2,570	-	-
Deduct future finance charges	(23)	(359)	-	-
	110	2,211	-	-
<i>Finance leases predominantly relate to leasehold improvements. Finance lease commitments for the current year excludes finance lease commitments for King of Knives which amount to \$1.01 million in aggregate. Finance leases on plant and equipment are generally over a 4 year period.</i>				
Disclosed as follows:				
Current (Note 15)	37	672	-	-
Non-current (Note 15)	73	1,539	-	-
	110	2,211	-	-



26. Related Party Disclosures

a. Parent entity

The parent entity and ultimate parent entity of the group is RCG Corporation Limited.

b. Subsidiaries

Subsidiaries are detailed in Note 9 to the financial statements.

c. Key management personnel

Remuneration of Key Management Personnel

The following table sets out the details of the remuneration of Key Management Personnel of the company:

2007	Short-term benefits			Post-employment benefits		Share based payment	Total
	Cash, salary and fees	Cash Bonus	Other Monetary Benefits	Super-annuation	Retirement Benefits	Issue of Shares/ Options	
Key Management Person	\$	\$	\$	\$	\$	\$	\$
Ivan Hammerschlag ^(a)	39,900	-	-	3,591	-	37,605	81,096
David Gordon ^(b)	33,250	-	-	2,992	-	37,605	73,847
Michael Cooper	251,135	30,000	14,820	25,302	-	101,367	422,624
Michael Hirschowitz	243,167	30,000	14,820	24,585	-	101,367	413,939
Hilton Brett ^(c)	22,158	-	-	1,994	-	61,893	86,045
Julia King ^(d)	270,071	-	-	9,681	-	-	279,752
Robert Estcourt ^(e)	117,319	-	-	2,458	-	-	119,777
Michael Hale ^(f)	845	-	-	-	-	-	845
William Bartlett ^(g)	18,472	-	-	1,663	-	-	20,135
Peter Thomas ^(h)	6,210	-	-	175	-	-	6,385
Suresh Kumar	135,180	-	14,820	12,166	-	2,284	164,450
Howard Knapp	110,825	-	10,000	9,974	-	1,142	131,941
Total	1,248,532	60,000	54,460	94,581	-	343,263	1,800,836

(a) Ivan Hammerschlag was appointed on 19 October 2006

(b) David Gordon was appointed on 19 October 2006

(c) Hilton Brett was appointed on 19 December 2006

(d) Julia King resigned on 19 October 2006

(e) Robert Estcourt left the employment of the company on 10 July 2006

(f) Michael Hale resigned on 7 July 2006

(g) William Bartlett resigned on 19 October 2006

(h) Peter Thomas was appointed on 15 September 2006 and resigned on 19 October 2006

forming part of the financial statements for the financial year ended 1 July 2007

2006	Short-term benefits			Post-employment benefits		Share based payment	Total
	Cash, salary and fees	Cash Bonus	Other Monetary Benefits	Super-annuation	Retirement Benefits	Issue of Shares (LTI)	
Key Management Person	\$	\$	\$	\$	\$	\$	\$
Julia King ^(a)	105,857	-	-	9,527	-	-	115,384
Eric Melman ^(b)	29,615	-	-	2,665	-	-	32,280
Robert Estcourt	157,692	-	-	14,192	-	20,900	192,784
William Bartlett	41,284	-	-	3,716	-	-	45,000
Michael Hale	51,250	-	-	-	-	-	51,250
Michael Cooper	209,488	30,000	14,820	18,854	-	19,000	292,162
Michael Hirschowitz	211,201	30,000	15,029	21,708	-	19,000	296,938
Chris Zournazidis ^(c)	103,333	-	-	9,300	-	9,500	122,133
Maurice Joffe ^(d)	146,911	-	5,173	20,461	-	-	172,545
Suresh Kumar	134,703	10,000	14,820	12,123	-	9,500	181,146
Mike Sayers ^(e)	5,081	-	-	457	-	-	5,538
Howard Knapp	110,826	-	10,000	9,974	-	5,700	136,500
Total	1,307,241	70,000	59,842	122,977	-	83,600	1,643,660

(a) Julia King commenced her employment on 3 January 2006

(b) Eric Melman resigned on 3 January 2006.

(c) Chris Zournazidis was employed until 24 February 2006.

(d) Maurice Joffe was employed until 31 January 2006.

(e) Mike Sayers commenced his employment on 5 June 2006.

Shares held by Key Management Personnel

The number of shares in which the key management personnel of the company held a relevant interest on 1 July 2007, are set out in the following table.

Key Management Person	Opening Balance	Net Change	Closing Balance
Ivan Hammerschlag ^(a)	-	7,142,857	7,142,857
David Gordon ^(b)	-	7,142,856	7,142,856
Michael Cooper	2,919,098	2,976,883	5,895,981
Michael Hirschowitz	2,919,098	2,976,883	5,895,981
Hilton Brett ^(c)	-	4,166,666	4,166,666
Julia King ^(d)	250,000	-	250,000
Robert Estcourt ^(e)	747,848	-	747,848
Michael Hale ^(f)	200,000	-	200,000
William Bartlett ^(g)	291,189	-	291,189
Peter Thomas ^(h)	-	-	-
Suresh Kumar	266,000	76,000	342,000
Howard Knapp	150,000	42,857	192,857
Total	7,743,233	24,525,002	32,268,235

Closing balances for key management personnel who left the company's employ during the financial year are those at the date of their termination. All other balances are at 1 July 2007.



forming part of the financial statements for the financial year ended 1 July 2007

- (a) Ivan Hammerschlag was appointed on 19 October 2006
- (b) David Gordon was appointed on 19 October 2006
- (c) Hilton Brett was appointed on 19 December 2006
- (d) Julia King resigned on 19 October 2006
- (e) Robert Estcourt left the employment of the company on 10 July 2006
- (f) Michael Hale resigned on 7 July 2006
- (g) William Bartlett resigned on 19 October 2006
- (h) Peter Thomas was appointed on 15 September 2006 and resigned on 19 October 2006

Options held by Key Management Personnel

The number of options in which the key management personnel of the company held a relevant interest on 1 July 2007, are set out in the following table.

Name	Issue date	Vesting date	Exercise Date No. of years from issue date	Exercise Price \$	Number of Options		Number of Options	
					Outstanding		Vested	
					2007	2006	2007	2006
Ivan Hammerschlag	12/01/2007	12/01/2007	5 years	0.120	9,444,445	-	9,444,445	-
Ivan Hammerschlag	19/12/2006	19/12/2006	5 years	0.154	2,300,000	-	2,300,000	-
David Gordon	12/01/2007	12/01/2007	5 years	0.120	9,444,445	-	9,444,445	-
David Gordon	19/12/2006	19/12/2006	5 years	0.154	2,300,000	-	2,300,000	-
Hilton Brett	30/04/2007	30/04/2007	5 years	0.154	2,300,000	-	2,300,000	-
Hilton Brett	30/04/2007	31/01/2008	5 years	0.169	2,000,000	-	-	-
Michael Cooper	12/01/2007	12/01/2007	5 years	0.120	2,833,332	-	2,833,332	-
Michael Cooper	19/12/2006	19/12/2007	5 years	0.154	2,000,000	-	-	-
Michael Cooper	19/12/2006	19/12/2008	5 years	0.154	2,000,000	-	-	-
Michael Cooper	19/12/2006	19/12/2009	5 years	0.154	2,000,000	-	-	-
Michael Cooper	19/12/2006	19/12/2010	5 years	0.154	2,000,000	-	-	-
Michael Hirschowitz	12/01/2007	12/01/2007	5 years	0.120	2,833,332	-	2,833,332	-
Michael Hirschowitz	19/12/2006	19/12/2007	5 years	0.154	2,000,000	-	-	-
Michael Hirschowitz	19/12/2006	19/12/2008	5 years	0.154	2,000,000	-	-	-
Michael Hirschowitz	19/12/2006	19/12/2009	5 years	0.154	2,000,000	-	-	-
Michael Hirschowitz	19/12/2006	19/12/2010	5 years	0.154	2,000,000	-	-	-
Suresh Kumar	30/06/2007	30/07/2008	5 years	0.172	100,000	-	-	-
Suresh Kumar	30/06/2007	30/07/2009	5 years	0.172	100,000	-	-	-
Suresh Kumar	30/06/2007	30/07/2010	5 years	0.172	100,000	-	-	-
Suresh Kumar	30/06/2007	30/07/2011	5 years	0.172	100,000	-	-	-
Howard Knapp	30/06/2007	30/07/2008	5 years	0.172	50,000	-	-	-
Howard Knapp	30/06/2007	30/07/2009	5 years	0.172	50,000	-	-	-
Howard Knapp	30/06/2007	30/07/2010	5 years	0.172	50,000	-	-	-
Howard Knapp	30/06/2007	30/07/2011	5 years	0.172	50,000	-	-	-
Robert Estcourt	07/07/2004	Various	Various	Various	-	1,200,000	-	500,000
					50,055,554	1,200,000	31,455,554	500,000

- (a) Robert Estcourt left the company's employment on 10 July 2006 and all his outstanding and vested options lapsed.
- (b) The aggregate number of outstanding options is 53,055,554 options, including the 50,055,554 above. The total amount receivable by the company should all the options be exercised is \$6.91 million.
- (c) Additional disclosures relating to key management personnel are set out in the remuneration report contained in the Director's report.

forming part of the financial statements for the financial year ended 1 July 2007

d. Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		The Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Shared Services charged back to the subsidiaries	-	-	1,122,710	606,640
Services supplied by related parties ^(a)	28,574	-	28,574	-
	28,574	-	1,151,284	606,640

(a) Lexicon Partners Pty Limited, a company associated with David Gordon, Non-Executive Director, provided consultancy services to the company during the year. These services were provided on arms length basis.

e. Loans to related parties

The following loan transactions occurred with related parties:

Loans to subsidiaries

Beginning of the year	-	-	4,180,413	7,162,537
Loans advanced	-	-	1,046,850	5,061,609
Loan repayment received	-	-	(1,827,938)	(1,838,191)
Loans written off in income statement ^(a)	-	-	(3,399,324)	(6,205,542)
Interest charged	-	-	-	24,000
Interest received	-	-	-	(24,000)
End of year	-	-	-	4,180,413

(a) Intercompany loans of \$3,112,516 to King of Knives and \$ 286,809 to Amazing Paints made by the parent entity were written off during the financial year.

Loans from subsidiaries

Beginning of the year	-	-	(2,585,624)	633,571
Loans advanced	-	-	-	-
Loan received from subsidiaries	-	-	(3,388,804)	(3,219,195)
Interest charged	-	-	-	-
Interest received	-	-	-	-
End of year	-	-	(5,974,428)	(2,585,624)

Loans to/from subsidiaries are not on commercial terms and normally do not attract interest. Outstanding balances on this account are unsecured and repayable in cash.



	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
27. Cash Flow Information				
(a) Reconciliation of cash at the end of the financial year				
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:				
Cash and cash equivalents (refer note 5)	2,435	36	157	-
Bank overdrafts (refer note 15)	-	(1,893)	-	(3,392)
Cash in discontinued operation held for sale (refer note 31)	1,250	-	-	-
Cash at the end of the financial year	3,685	(1,857)	157	(3,392)
(b) Reconciliation of cash flow from operations with Profit/(Loss) after income tax				
Profit/(Loss) after income tax	(8,461)	(20,063)	(10,741)	(26,422)
Non-cash flows in profit/(loss)				
Depreciation and amortisation	241	1,224	7	4
Depreciation of assets from discontinued operations	884	-	-	-
Impairment writedowns	5,278	18,728	4,527	17,980
Writeoff of intercompany balances	-	-	3,400	6,202
Loss on disposal of assets from discontinued operations	3,262	-	-	-
Changes in assets and liabilities				
Receivables	(389)	238	(236)	-
Inventories	217	232	-	-
Prepayments and other assets	-	(677)	-	126
Trade creditors and provisions	1,641	573	1,117	144
Tax assets and liabilities	(1,143)	(795)	(64)	601
Changes in assets and liabilities of discontinued operations	1,932	-	-	-
Cash provided by operating activities	3,462	(540)	(1,990)	(1,365)

(c) Discontinued operations

The only cash impact arising from the disposal of the discontinued operations (as detailed in note 31) is the loss of control over \$262,000 in Amazing Paints as a result of placing the business into voluntary administration.

28. Financial Instruments

The consolidated entity does not engage in any significant transactions that are speculative in nature.

a. Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Weighted Average Interest Rate %	Floating Interest Rate \$'000	Fixed Interest Maturing in:			Total \$'000
				One Year or Less \$'000	One to Five Years \$'000	Non- Interest Bearing \$'000	
				As at 1 July 2007			
Financial Assets							
Cash and cash equivalents	5	6%	2,435	-	-	-	2,435
Receivables	6,8	0%	-	-	-	1,599	1,599
			2,435	-	-	1,599	4,034

As at 30 June 2006

Financial Assets							
Cash and cash equivalents	5	0%	35	-	-	-	35
Receivables	6,8	0%	-	-	-	1,489	1,489
			35	-	-	1,489	1,524

	Note	Weighted Average Interest Rate %	Floating Interest Rate \$'000	Fixed Interest Maturing in:			Total \$'000
				One Year or Less \$'000	More than one Year \$'000	Non- Interest Bearing \$'000	
				As at 1 July 2007			
Financial Liabilities							
Bank Bill facility	15	8.20%	-	400	1,000	-	1,400
Bank Overdraft	15	9.50%	-	-	-	-	-
Payables	14	0%	-	-	-	4,296	4,296
Finance Lease Liabilities	15	8.20%	-	37	73	-	110
			-	437	1,073	4,296	5,806

As at 30 June 2006

Financial Liabilities							
Bank Bill facility	15	7.10%	-	2,350	1,400	-	3,750
Bank Overdraft	15	8.45%	-	1,893	-	-	1,893
Payables	14	0%	-	-	-	7,741	7,741
Finance Lease Liabilities	15	8.20%	-	672	1,539	-	2,211
			-	4,915	2,939	7,741	15,595



b. Credit risk exposures

Credit risk represents the loss that would be recognised if counter-parties failed to perform as contracted.

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised on the Balance Sheet are the carrying amount, net of provisions for doubtful debts.

The consolidated entity minimises concentration of credit risk by undertaking relatively small value transactions with a large number of customers in Australia and the majority of transactions are cash, cheque or credit card based. The consolidated entity is not materially exposed to any individual customer.

c. Foreign currency exposure

The company has operations in New Zealand. These operations do not constitute a significant proportion of the company's total business. The company does not have any other foreign currency exposure.

d. Net Fair Values of Financial Assets and Liabilities

The carrying amount of the consolidated entity's identified financial assets and liabilities represents materially their net fair value.

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts as disclosed in the statement of financial position and note forming part of the financial statements.

29. Segment Information**a. Accounting policies**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable, employee entitlements, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

b. Business Segments

The consolidated entity is organised into the following business units:

Continuing operations**The Athlete's Foot**

Retailers of general sports footwear.

Corporate

Provides company secretarial, legal, financial, human resources management, investor and public relations.

Discontinued operations**King of Knives**

Retailers of cutting and sharpening instruments.

Amazing Paints

Manufacturers and retailers of paint and related accessories

c. Geographical Segments

The consolidated entity operates in two identified geographical areas.

Australia

The home of the parent entity and its material subsidiaries.

New Zealand

The entities trade as branch operations in New Zealand.

d. Primary Reporting – Business Segments

	KOK	TAF	APD	RCG	Consolidated Entity
Year ended 1 July 2007	\$'000	\$'000	\$'000	\$'000	\$'000
Continuing operations					
Sales to external customers	-	10,391	-	-	10,391
Other revenue	-	8,443	-	106	8,549
Total segment revenue	-	18,834	-	106	18,940
Direct costs and overheads	-	(14,320)	-	(1,973)	(16,293)
Segment profit before interest, impairment, tax, depreciation and amortisation	-	4,514	-	(1,867)	2,647
Depreciation and amortisation	-	(234)	-	(7)	(241)
Segment result before interest and impairment	-	4,280	-	(1,874)	2,406
Finance costs	-	(29)	-	(343)	(372)
Segment result before impairment, discontinued operations and income tax expense	-	4,251	-	(2,217)	2,034
Impairment of tangible assets	-	(131)	-	-	(131)
Profit/(Loss) before income tax expense	-	4,120	-	(2,217)	1,903
Income tax benefit	-	-	-	33	33
Profit/(Loss) for the period from continuing operations	-	4,120	-	(2,184)	1,936
Discontinued operations					
Impairment of assets	(5,278)	-	-	-	(5,278)
Loss for the year from discontinued operations	(775)	-	(455)	-	(1,230)
Impairment loss on net assets held for sale	(1,059)	-	-	-	(1,059)
Loss from placing discontinued operations into voluntary administration	-	-	(2,830)	-	(2,830)
Profit/(Loss) after income tax expense	(7,112)	4,120	(3,285)	(2,184)	(8,461)
Segment assets	8,835	5,555	-	11,576	25,966
Segment liabilities	4,362	2,830	-	3,167	10,359



notes to the financial statements

forming part of the financial statements for the financial year ended 1 July 2007

	KOK	TAF	APD	RCG	Consolidated Entity
Year ended 30 June 2006	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to external customers	26,586	10,814	12,132	-	49,532
Other revenue	699	6,644	512	39	7,894
Total segment revenue	27,285	17,458	12,644	39	57,426
Direct costs and overheads	(27,390)	(14,636)	(14,121)	(1,805)	(57,952)
Segment profit before interest, impairment, tax, depreciation and amortisation	(105)	2,822	(1,477)	(1,766)	(526)
Depreciation and amortisation	(728)	(258)	(224)	(14)	(1,224)
Segment result before interest and impairment	(833)	2,564	(1,701)	(1,780)	(1,750)
Finance costs	(75)	(30)	(76)	(457)	(638)
Segment result before impairment	(908)	2,534	(1,777)	(2,237)	(2,388)
Impairment of intangibles	(6,707)	-	(12,021)	-	(18,728)
Profit/(Loss) before income tax	(7,615)	2,534	(13,798)	(2,237)	(21,116)
Income tax (expense) / benefit	-	-	-	1,053	1,053
Profit/(Loss) after income tax expense	(7,615)	2,534	(13,798)	(1,184)	(20,063)
Segment assets	9,710	3,551	6,903	16,100	36,264
Segment liabilities	3,599	1,729	2,162	8,920	16,410

e. Secondary Reporting – Geographical Segments

Year ended 1 July 2007	Australia \$'000	New Zealand \$'000	Consolidated Entity \$'000
Continuing operations			
Sales to external customers	8,482	1,909	10,391
Other revenue	8,308	241	8,549
Total segment revenue	16,790	2,150	18,940
Direct costs and overheads	(14,120)	(2,173)	(16,293)
Segment profit before interest, impairment, tax, depreciation and amortisation	2,670	(23)	2,647
Depreciation and amortisation	(203)	(38)	(241)
Segment result before interest and impairment	2,467	(61)	2,406
Finance costs	(372)	-	(372)
Segment result before impairment, discontinued operations and income tax expense	2,095	(61)	2,034
Impairment of tangible assets	(131)	-	(131)
Profit/(Loss) before income tax expense	1,964	(61)	1,903
Income tax benefit	33	-	33
Profit/(Loss) for the period from continuing operations	1,997	(61)	1,936
Impairment of assets	(5,278)	-	(5,278)
Loss for the year from discontinued operations	(1,230)	-	(1,230)
Impairment loss on net assets held for sale	(1,059)	-	(1,059)
Loss from placing discontinued operations into voluntary administration	(2,830)	-	(2,830)
Profit/(Loss) before income tax	(8,400)	(61)	(8,461)
Segment assets	25,355	611	25,966
Segment liabilities	10,063	296	10,359



	Australia	New Zealand	Consolidated Entity
Year ended 30 June 2006	\$'000	\$'000	\$'000
Sales to external customers	45,006	4,528	49,534
Other revenue	7,920	(28)	7,892
Total segment revenue	52,926	4,500	57,426
Direct costs and overheads	(53,246)	(4,706)	(57,952)
Segment profit before interest, impairment, tax, depreciation and amortisation	(320)	(206)	(526)
Depreciation and amortisation	(1,075)	(149)	(1,224)
Segment result before interest and impairment	(1,395)	(355)	(1,750)
Finance costs	(633)	(5)	(638)
Segment result before impairment	(2,028)	(360)	(2,388)
Impairment of intangibles	(18,728)	-	(18,728)
Profit/(Loss) before income tax	(20,756)	(360)	(21,116)
Income tax (expense) / benefit	1,053	-	1,053
Profit/(Loss) after income tax expense	(19,703)	(360)	(20,063)
Segment assets	34,506	1,758	36,264
Segment liabilities	16,087	323	16,410

30. Subsequent events

The company entered into an agreement to sell the King of Knives group on 5 August 2007. The agreement, which is subject to shareholder approval, is expected to complete by the end of October 2007 with settlement deferred until 30 September 2008.

There has not been any matter of consequence, other than that referred to above, in the financial statements or notes thereto, that have arisen in the interval between the end of the financial year and the date of this report which 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 subsequent financial years.

31. Discontinued operation

a. Disposal of Amazing Paints group

On 20 October 2006, Amazing Paints Discount (APD) group consisting of the following companies was placed into Voluntary Administration.

Amazing Paints Discounts Pty Limited
Robertson & Co Pty Limited
Barrojest Pty Limited
Toveken Pty Limited
Heritage Paints Pty Limited
Monto Pty Limited
Aymtold Pty Limited
Brynex Pty Limited

The profit/(loss) for the period from the discontinued operation is analysed as follows:

	Amazing Paints Group	
	Period ended 20 Oct 2006 \$'000	Year ended 30 June 2006 \$'000
Loss of APD Group for the period	(455)	(1,777)
Loss from placing discontinued operations into voluntary administration	(2,624)	-
Provision for additional expenses arising from voluntary administration	(206)	-
	(3,285)	(1,777)

The following were the results for the APD Group for the period:

Revenue	3,087	12,644
Direct costs and overheads	(3,436)	(14,121)
Depreciation and amortisation expense	(75)	(224)
Finance costs	(31)	(76)
Loss before income tax expense	(455)	(1,777)

The net assets of APD Group provided in the income statement at the date of Voluntary Administration are as follows:

Cash and cash equivalents	262	-
Receivables	205	-
Inventories	2,959	-
Other current assets	36	-
Property, plant and equipment	3,059	-
Other non-current assets	151	-
Intangibles	18	-
Payables	(1,248)	-
Interest bearing liabilities	(403)	-
Provisions	(186)	-
Other liabilities	(279)	-
	4,574	-
Proceeds from sale of property	(1,950)	-
Provision for additional expenses on voluntary administration	206	-
Loss provided in the income statement	2,830	-



forming part of the financial statements for the financial year ended 1 July 2007

	Period ended 20 Oct 2006 \$'000	Year ended 30 June 2006 \$'000
31. Discontinued operation (continued)		
Cash flows from operating activities		
Receipts from customers and franchisees	3,053	12,809
Payments to suppliers and employees	(2,732)	(12,320)
Payments for operating leases	(363)	(1,238)
Interest paid	(10)	(76)
Net cash used by operating activities	(53)	(826)
Cash flows from investing activities		
Payment for property, plant and equipment	-	114
Net cash used in investing activities	-	114
Cash flows from financing activities		
Lease payments	(69)	(309)
Loans from parent company	286	914
Net cash provided by financing activities	217	605
Net increase/(decrease) in cash held	165	(107)
Cash at beginning of the financial year	96	377
Cash at end of the financial year	261	270

forming part of the financial statements for the financial year ended 1 July 2007

b. Disposal of King of Knives group

The company entered into an agreement to sell the King of Knives group on 5 August 2007. The agreement, which is subject to shareholder approval, is expected to complete by the end of October 2007 with settlement deferred until 30 September 2008.

The profit/(loss) for the period from the discontinued operation is analysed as follows:

	King of Knives Group	
	Year ended 1 July 2007 \$'000	Year ended 30 June 2006 \$'000
Loss of King of Knives for the financial year	(775)	(909)
Impairment loss on assets held for sale	(639)	-
Provision for additional expenses on sale of operation	(420)	-
	(1,834)	(909)
The following were the results for King of Knives for the financial year:		
Revenue	27,370	27,285
Direct costs and overheads	(26,919)	(27,390)
Depreciation and amortisation expense	(661)	(728)
Finance costs	(105)	(75)
Impairment of tangible assets	(461)	-
Loss before income tax expense	(775)	(909)

Details of Net Assets and loss on sale of King of Knives

Assets

Cash and cash equivalents	1,250	-
Receivables	216	-
Inventories	4,461	-
Other current assets	48	-
Property, plant and equipment	3,440	-
Other non-current assets	59	-
Assets classified as held for sale	9,474	-

Liabilities

Payables	3,214	-
Interest bearing liabilities	1,015	-
Provisions	109	-
Other liabilities	24	-
Liabilities associated with assets classified as held for sale	4,362	-

Net assets held for sale

5,112 -

Loss from disposal of discontinued operations

Net assets held for sale	5,112	-
Proceeds from sale of King of Knives	(4,473)	-
Impairment loss on disposal of King of Knives	(639)	-
Additional expenses relating to sale of King of Knives	(420)	-
Loss provided in the income statement	(1,059)	-



31. Discontinued operation (continued)

Cash flow statement for discontinued operations

	Year ended 1 July 2007 \$'000	Year ended 30 June 2006 \$'000
Cash flows from operating activities		
Receipts from customers and franchisees	27,542	27,304
Payments to suppliers and employees	(21,215)	(22,711)
Payments for operating leases	(4,582)	(4,640)
Interest paid	(105)	(75)
Net cash provided/(used) by operating activities	1,640	(121)
Cash flows from investing activities		
Payment for property, plant and equipment	(253)	(1,016)
Net cash used in investing activities	(253)	(1,016)
Cash flows from financing activities		
Lease payments	(512)	(435)
Loans from parent company	(322)	1,187
Net cash provided/(used) by financing activities	(834)	752
Net increase/(decrease) in cash held	553	(385)
Cash at beginning of the financial year	697	1,081
Cash at end of the financial year	1,250	696

32. Contingent Liabilities

- a) The bank guarantees outstanding as of 1 July 2007 amounted to approximately \$569,423 (\$583,185 in 2006)
- b) The subsidiaries of the company have entered into operating lease commitments with landlords in their capacity as head lessors for stores operated by the franchisees. However, the franchisees have simultaneously undertaken to meet the rental commitments through back-to-back licence agreements. In addition, some franchisees have provided bank guarantees (generally for a maximum period of 3 months rent) and in some instances personal guarantees to the landlords of the properties. The company and its subsidiaries would become liable in the event of a default by any franchisee. The maximum possible exposure would be \$32.6 million (less than one year \$11.1 million; between one and two years \$8.7 million; between 2 and 5 years \$12.7 million and more than 5 years \$0.1 million). This would arise only in the event that all franchisees defaulted at the same time. These figures only relate to The Athlete's Foot subsidiaries as the King of Knives contingent liabilities will be transferred to the purchaser.

33. Company Details

The registered office and principal place of business is:

RCG Corporation Limited
7/29, Bridge Road
Stanmore NSW 2048
AUSTRALIA

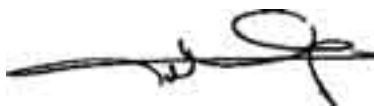
In accordance with a resolution of the board of directors of RCG Corporation Limited, we declare that:

In the opinion of the directors:

- (a.) the financial statements and notes of the Company and the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 1 July 2007 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b.) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c.) the audited remuneration disclosures set out on pages 16 to 23 of the Director's report comply with Accounting Standard AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.



Ivan Hammerschlag
Chairman



Michael Hirschowitz
Finance Director

Sydney, 27 August 2007





INDEPENDENT AUDITOR'S REPORT

To the members of RCG Corporation Limited

Report on the Financial Report and AASB 124 remuneration disclosures contained in the directors' report.

We have audited the accompanying financial report of RCG Corporation Limited, which comprises the balance sheet as at 1 July 2007, the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising RCG Corporation Limited (the company) and the entities it controlled (the consolidated entity) at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about remuneration of directors and executive ('remuneration disclosures') required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in pages 18 to 22 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the directors' report.

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures included in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures included in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

Auditor's Opinion

In our opinion:

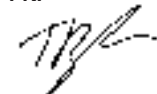
- (a) the financial report of RCG Corporation Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 1 July 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in pages 18 to 22 of the directors' report comply with Accounting Standard AASB 124.

PKF

PKF



Tim Sydenham
Dated 27th August 2007
Sydney



Top 20 holders of ordinary shares

Rank	Name	Shares	%
1	Citicorp Nominees Pty Limited	15,657,057	11.91
2	Rosedale Road Pty Ltd	13,490,913	10.26
3	Tidereef Pty Limited	7,142,857	5.43
4	Omniday Pty Limited	5,253,124	3.99
5	John Westwood	4,302,115	3.27
6	Rastana Holdings Pty Limited	4,166,666	3.17
7	Rivan Pty Ltd	3,571,428	2.72
8	Rivan Pty Ltd	3,571,428	2.72
9	Vamico Pty Ltd	3,110,268	2.37
10	Meltrust Pty Ltd	2,752,457	2.09
11	Roycam Investments Pty Ltd	2,239,225	1.70
12	Vamico Pty Ltd	2,142,856	1.63
13	Bond Street Custodians Limited	2,142,795	1.63
14	Dandara Pty Ltd	2,073,511	1.58
15	Cartoon Castle Pty Ltd	2,072,857	1.58
16	ANZ Nominees Limited	1,530,000	1.16
17	Christopher Hext	1,455,440	1.11
18	R & R Super Pty Ltd	1,421,100	1.08
19	Andask Pty Ltd	1,285,714	0.98
20	R & R Super Pty Ltd	1,103,957	0.84
Total		80,485,768	61.22

Distribution of schedule of ordinary shares

Range	Total holders	Shares	%
1 -1,000	21	7,512	0.01
1,001 – 5,000	298	1,143,421	0.87
5,001 – 10,000	221	1,490,163	1.13
10,001 – 100,000	327	10,904,922	8.29
100,001 and over	142	117,965,250	89.70
Total	1,009	131,511,268	100.00

Unmarketable parcels

The number of shareholders holding less than a marketable parcel of shares is 63

Substantial shareholders

The following substantial holder notices have been received by the company:

Name	Number of shares in which the holder and its associates have relevant interest
Rosedale Road Pty Limited	13,500,266
Hunter Hall Investment Management Ltd	11,975,489
Tidereef Pty Limited	5,555,556
Rivan Pty Limited	5,555,556
RCG Corporation Limited	14,912,013

Voting Rights

All ordinary shares carry one vote per share without restriction

Restricted Securities

There are no restricted securities or securities subject to voluntary escrow on issue

On-market buy-back

There is not a current on-market buy-back



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