



Deacons

Grosvenor Place
225 George Street
Sydney NSW 2000
Australia
GPO Box 3872
Sydney NSW 2001
DX368 Sydney
Tel +61 (0)2 9330 8000
Fax +61 (0)2 9330 8111
www.deacons.com.au
ABN 32 720 868 049

6 March 2008

Other Offices

Brisbane
Canberra
Melbourne
Perth

Assistant Director
Australian Competition & Consumer Commission
GPO Box 3131
CANBERRA ACT 2601

**Independent
Affiliated Firms**
Hong Kong
Indonesia
Malaysia
People's Republic of China
Singapore
Taiwan
Thailand
Vietnam

Attention: Danielle Staltari

Our Ref: 2635709

Dear Danielle

Exclusive Dealing Notification by Jireh International Pty Limited N93224

We refer to our previous communications with you in relation to this matter.

We have been instructed to respond as follows to your questions:

1. **Can franchisees sell other products in addition to the goods required to be obtained from the approved suppliers? What proportion of products generally acquired by franchisees is subject to the notified arrangements?**

There are some products that franchisees will not be required to purchase from approved suppliers. These include products such as milk, Tim Tams, Orio drinks, raisin bread, certain types of sprinkles (other than chocolate powder), jams, honey, condiments, butters, glad wrap, soda water, tomato sauce etc. Depending on the individual franchisee, approximately 80% to 90% of the food products that a franchisee sells will be subject to the notified arrangements.

2. **How were the approved suppliers selected? For example, were the suppliers selected through a tender process?**

The approved suppliers are carefully selected by Jireh International Pty Limited (Jireh) having regard to a range of factors including:

- product quality;
- the extent to which the supplier has quality control systems and procedures; and
- service levels.

2635709/5728907_1

As at 7 January 2008 our new Sydney address is Grosvenor Place, 225 George Street, Sydney. Telephone, postal and DX numbers remain the same.



To this end, Jireh has established detailed quality assurance protocols and a Vendor Quality Assurance Program, which it uses as a basis for monitoring and selecting suppliers. (See comments below.)

3. Are there processes in place to review the goods provided by the approved suppliers to ensure that the claimed public benefits continue to be met?

Jireh conducts reviews of the quality of the goods supplied by approved suppliers. Jireh undertakes quarterly reviews of its approved suppliers during which various matters will be discussed and reviewed including product sampling, delivery and product quality issues, past sales, future orders, customer complaints and current inventory levels. Also, annual reviews are undertaken, which follow a similar format to the quarterly reviews, to make sure that where required by GJCI, the suppliers have maintained certain certifications (for instance, HACCP certification).

Jireh employs a full time Quality Assurance Manager who is responsible for monitoring the quality assurance protocols with Jireh's approved suppliers. Store audits are regularly conducted by Jireh's operations managers, which often involve inspecting the quality of products being sold by franchisees. Franchisees are also expected to regularly monitor the quality of products purchased and sold by them.

Also, the Vendor Quality Assurance Program referred to in point 2 above is designed to help:

- ensure the ingredients and finished products sold at Gloria Jean's Coffees stores are safe and of a consistently high quality;
- prevent incidents of product recall and waste;
- reduce customer complaints and dissatisfaction through quality control of products;
- prevent events that may result in brand devaluation; and
- create consistency across the franchise network increasing consumer satisfaction.

Approved suppliers will be required to comply with the minimum supplier requirements set out in Vendor Quality Assurance Program. The program includes Jireh's guidelines and expectations in relation various matters including:

- Compliance with applicable laws
- Quality control system requirements
- Hazard identification plans
- Hold / Release (controls to prevent the inadvertent shipment by suppliers of non-confirming products and packaging)
- Conformance to Specification
- Supplier Facilities
- Delivery and Transport of Products

- Product Recall
- Record Maintenance
- Traceability

4. **Does Jireh receive a rebate or fee from the approved suppliers? If yes, how much, and will franchisees be informed of the payment of this rebate? How will the rebate be used?**

Jireh may from time to time receive rebates from certain approved suppliers.

The amount of the rebate will vary depending on the commercial arrangements that have been agreed between Jireh and the relevant supplier.

Jireh does not intend to issue a specific communication to the franchise network about this particular rebate. In accordance with clause 9.1(j) of Annexure 1 of the Franchising Code of Conduct franchisees have been informed by Jireh through its Disclosure Document and new franchisees will continue to be informed through its Disclosure Document of the fact that Jireh may receive rebates from time to time.

The supply arrangements negotiated by Jireh with suppliers are not undertaken with the view to obtaining a financial benefit from franchisee's purchases. While it remains at Jireh's discretion, rebates obtained due to supply arrangements are proposed to be used to help pay the costs of franchisee workshops, franchise meetings, conferences, the monitoring of suppliers, in particular, quality auditing, and compliance by franchisees with the Gloria Jean's System and some of the administrative costs.

5. **What are the administrative costs, if any, associated with the proposed arrangement?**

There are some administrative costs incurred by Jireh in connection with the proposed arrangement including costs incurred in selecting and monitoring suppliers, employee salaries for the quality assurance manager, food product development manager and contracts manager, travel costs incurred when visiting suppliers and the costs of investigating any customer complaints.

In Jireh's view the proposed arrangement will not result in additional administrative costs for its franchisees.

6. **Are existing franchisees aware of the notified conduct? What have been their responses, if any, to date?**

On 31 January 2008 franchisees were informed in writing of Jireh's requirement that products to be sold in franchisee's stores be purchased from approved suppliers for product quality control purposes. To date the response to the proposed arrangement has been positive. To date Jireh has not received any complaints from franchisees regarding the approved supplier arrangements.

7. **For existing franchisees, how will the requirements be implemented and are there any transitional arrangements?**

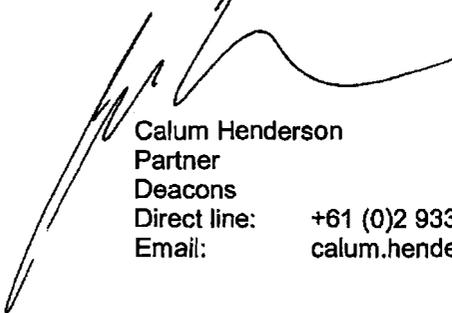
An electronic copy of the list of approved suppliers can be accessed by franchisees on Gloria Jean's intranet. Jireh's support office and franchise managers will work with franchisees to ensure the approved supplier

arrangements are properly implemented and that franchisees understand the purpose of the arrangements.

8. Why has Jireh decided to require franchisees to purchase particular goods from approved suppliers?

Quality control is extremely important to the success and reputation of the brand and ultimately the profitability of Gloria Jean's Coffees stores. In Jireh's experience, the approved supplier arrangements are the most efficient way of ensuring that consistent standards of product quality are maintained throughout the franchise network and reducing the risk of poor quality products being supplied to franchisees. Based on Jireh's experience, product quality issues and customer complaints tend to arise more frequently when products are purchased from suppliers that do not satisfy Jireh's standards. We also refer you to paragraph 4(a) of the Notification.

Yours faithfully



Calum Henderson
Partner
Deacons

Direct line: +61 (0)2 9330 8625
Email: calum.henderson@deacons.com.au