COLLINS FOODS LIMITED

2017

ANNUAL REPORT

Collins Foods Limited
ABN 13 151 420 781

COLLINS FOODS LIMITED

KEY DATES FOR 2016–2017

Tuesday, 26 June 2017	Full year results released
Wednesday, 5 July 2017	Final dividend record date
Thursday, 20 July 2017	Final dividend payment date
Thursday, 31 August 2017	2017 Annual General Meeting
Sunday, 15 October 2017	FY18 half-year end
Wednesday, 29 November 2017	Half-year results released
Thursday, 7 December 2017	Interim dividend record date
Thursday, 21 December 2017	Interim dividend payment due
Sunday, 29 April 2018	End of FY18

Unless expressly indicated, all dollar values noted are in AUD.

COLLINS FOODS HAS HAD A YEAR OF FANTASTIC GROWTH, ACQUIRING RESTAURANTS IN AUSTRALIA AND EUROPE.

NETHERLANDS

GERMANY

CHINA

JAPAN

THAILAND

AUSTRALIA

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OUR YEAR IN REVIEW

CORE PRODUCT OFFERINGS, GOOD VALUE OFFERS AND PRODUCT INNOVATION, CONTINUED TO DRIVE STRONG SALES GROWTH ACROSS OUR KFC AUSTRALIA NETWORK.

KFC

There was a strong overall performance across the KFC business driven by increased restaurant numbers and same store sales growth.

During the period, we:

- completed the acquisition of 13 restaurants located around the Victorian/ New South Wales border region;
- completed the acquisition of 12 restaurants in Germany;
- opened our first new restaurant in Germany;
- signed an agreement to acquire 16 restaurants in the Netherlands.

SIZZLER

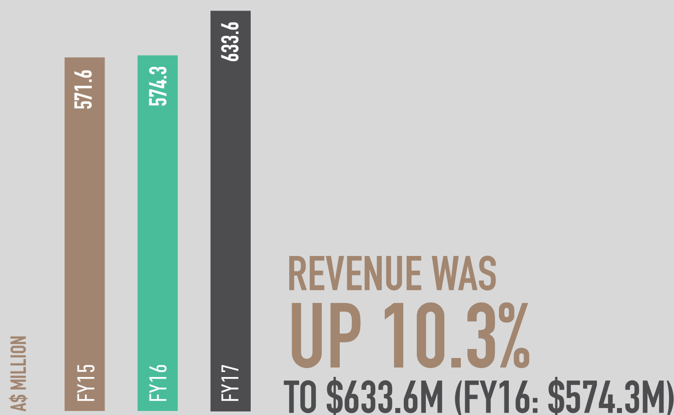
Sizzler Australia delivered positive same stores sale growth and Sizzler Asia sales and earnings continue to grow.

SNAG STAND

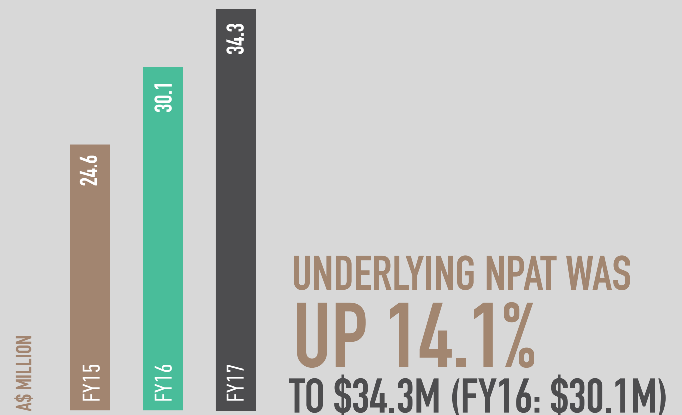
Snag Stand is undergoing strategic review as it was unable to achieve an overall improvement in trading despite refining the menu and brand.

2017

OUR FINANCIAL PERFORMANCE



REVENUE WAS
UP 10.3%
TO $633.6M (FY16: $574.3M)



UNDERLYING NPAT WAS
UP 14.1%
TO $34.3M (FY16: $30.1M)

KFC SAME STORE SALES
UP TO 0.7%
(FY16: 3.1%)

STATUTORY NPAT DOWN
TO $28.0M
(FY16: $29.1M)

UNDERLYING EBITDA
UP TO $81.3M
(FY16: $74.6M)

TOTAL FY17 FULLY FRANKED DIVIDENDS
UP TO 17.0CPS
(FY16: 14.0CPS)

NET OPERATING CASHFLOW
UP TO $60.6M
(FY16: $49.7M)

RETURN ON CAPITAL EMPLOYED UP 10 POINTS
TO 15.0%
(FY16: 14.9%)(A)(B)

WE CONTINUED TO DELIVER STRONG GROWTH ACROSS KEY FINANCIAL METRICS DURING THE YEAR.

(A) Average Capital Employed, net debt and net leverage ratio have been adjusted to exclude the net proceeds from the equity raise to partially fund the acquisition of KFC restaurants in the Netherlands of $53.9m

(B) Underlying EBIT/Average Capital Employed

CHAIRMAN'S MESSAGE

The 2017 financial period was a transformational year for our company. Collins Foods executed a range of strategic growth objectives during the year that will deliver long term value growth for shareholders.

With the acquisition of 12 restaurants in Germany and 16 in the Netherlands, Collins Foods began the international expansion of its KFC business. These were significant and value accretive acquisitions that lay the foundation for further expansion opportunities in Europe.

Building on the success of previous years, the Group delivered encouraging financial performance as the largest KFC franchisee in Australia. Additionally, the successful integration of the acquired KFC restaurants in Victoria and NSW ensured the stores were performing consistent with expectations and were earnings accretive.

Overall, revenue was up 10.3% to $633.6 million from same store sales growth, new store openings, continued marketing and the delivery of value to our customers. Strong cost controls and efficiency improvements saw the Group's revenue growth translate into underlying EBITDA growth of 8.9% to $81.3 million, even as growth investments were being made.

The Group remains committed to maintaining a strong balance sheet and a comfortable level of gearing. Due to the successful integration of our Victorian and NSW KFC restaurants, we have delivered healthy net operating cash flows during the year. This enabled us to invest in our network and purchase more restaurants while also keeping gearing at comfortable levels.

Due to continued strong growth across key financial metrics, the Company has paid shareholders a final fully franked dividend of 9 cents per share, bringing the full-year dividend to 17 cents per share fully franked. The final dividend was paid on 20 July 2017. This 2017 dividend is in line with the Board's dividend policy to pay out 50% of full-year net profit.

The Group's decision to expand into Europe via the acquisition of KFC restaurants in Germany and the Netherlands provides an attractive platform for future growth. Both markets are underpenetrated, with low country risk, and present a significant high-quality store growth opportunity over the medium to long-term.

To further diversify the geographic spread of our Australian network and build a national footprint, the Company recently announced the acquisition of 28 KFC restaurants in Tasmania, South Australia and Western Australia from Yum!. At completion, Collins Foods will have 223 KFC restaurants across Australia.

During the year, despite being managed as a non core business, Sizzler Australia delivered positive same store sales growth and a positive EBITDA contribution. Sizzler Asia continues to grow, with increased royalty revenue and store count.

The Snag Stand business model is under strategic review, with no further growth capital being allocated in the year ahead.

Outlook

With a strong platform established for growth across Australia and internationally, the Group is optimistic about the opportunities to deliver long-term sustainable earnings growth and shareholder value.

Our priority will always remain on providing our customers with the highest quality products, in an innovative manner, that adapt to evolving consumer tastes and preferences whilst still offering great value. The Group will continue to progress organic growth via a disciplined approach to operational management and will also ensure the successful integration of its acquisitions to deliver value for shareholders.

I would like to thank each of my directors for their dedication and strategic insights in pursuing this year's growth objectives. I would like to thank our Managing Director and CEO, Graham Maxwell, for another year of leadership, and our fantastic staff, which now number over 10,000, for their hard work and commitment to ensuring that we are the biggest and best KFC franchisee in Australia. Finally, I would like to thank our shareholders for their continued support throughout the year as we grow from strength to strength.

Robert Kaye SC
Independent Non-executive Chairman

CEO's REPORT

This year has been significant for Collins Foods, with the successful acquisition of strategic, value accretive assets in Europe and Australia, and the continued strong performance of the Group. Building on the momentum of previous years, we have continued to deliver strong underlying earnings growth, positive same store sales across the network, and consistent margins.

Throughout the year, we continued to focus on optimising operational performance and developing resilience within the business via continued investment into the network and building a platform for growth internationally.

Growth of the KFC business

During the financial period, Collins Foods announced the acquisition of 12 KFC restaurants in Germany and 16 in the Netherlands. We have also opened our first new KFC restaurant in Germany. The acquisitions are consistent with the Group's long-term strategic growth objectives, and provide an offshore platform to expand further into their home markets and the wider European market.

We were pleased with the significant level of shareholder support for our initiatives. To fund our acquisition in the Netherlands, we completed an oversubscribed Placement to institutional investors at an issue price of $5.25, raising approximately $54.5 million. This was complemented by a Share Purchase Plan to existing eligible shareholders that raised a further $1.9 million.

Germany and the Netherlands are both underpenetrated markets and we are confident that they offer significant long-term growth potential. In the years ahead we intend to continue the growth momentum in these markets, with new restaurant openings planned.

Our acquisition in July 2016 of 13 KFC restaurants around the NSW and Victoria border were successfully integrated into our Australian network. Already, the restaurants are performing to expectations and are making a positive earnings contribution to the Group.

We also recently announced the acquisition of a further 28 KFC restaurants across Australia from Yum!. Shareholders, via the associated Entitlement Offer again showed strong support.

This acquisition provided geographic diversification and an attractive scale and entry into the Tasmanian and South Australian markets.

At completion, our KFC restaurant count in Australia will be 223, with a further 29 restaurants in Europe which gives a total of 252 restaurants.

Financial performance

Continued strong business performance delivered statutory Net Profit After Tax of $28.0 million. Underlying Net Profit After Tax increased by 14.1% to $34.3 million compared to the prior period.

Revenue increased by 10.3% to $633.6 million. EBITDA increased by 5.0% to $78.1 million, and underlying EBITDA increased 8.9% to $81.3 million. Underlying EBIT increased 9.2% to $57.2 million.

The Group generated net operating cash flows of $60.6 million, up $10.9 million on the prior period due to higher EBITDA and working capital benefits from the acquisitions. Net debt increased to $133.1 million due to the German acquisition, with the Group's net leverage ratio (net debt to EBITDA) increasing to 1.59 from 1.52 in the prior period. Return on capital employed increased slightly, to 15%, up from 14.9% in the prior period.

To accommodate the acquisitions made during the financial period, Collins Foods completed an amendment adding a €33 million facility to the existing facilities. In addition to this, subsequent to the financial period, Collins Foods entered a new multi-currency syndicated facility agreement. The existing $200 million debt facility was increased to $270 million, and the European facility was increased to €60 million.

Operational performance

KFC

Continuing the growth trajectory of previous years, KFC Australia delivered top line revenue growth of 9.5% to $549.5 million.

The acquisition of 13 restaurants across NSW and Victoria contributed revenue of $26 million, performing in line with expectations. Same store sales growth was 0.7%, with second half growth of 1.7% as we continue to offer great value new products that engage customers.

EBITDA increased by 9.7% to $89.8 million for the KFC Australia business. Our EBITDA margins remained consistent, up slightly to 16.4% due to our continued disciplined focus on operational management and efficiency.

Investment into our Australian restaurants continued during the financial year, with 19 major restaurant remodels and 23 minor remodels undertaken to ensure that we continue to deliver the highest quality offering to our customers. Seven new restaurants opened – six in Queensland and one in Western Australia – while we closed two restaurants.

A key focus remains to offer our customers quality new products at great value. We have continued to focus on initiatives across the business that increase the customer experience, including the introduction of an on-line ordering app across all Collins Foods' KFC restaurants. The app increases opportunities for customer interaction and has had solid take up, with over 10,000 transactions per week. We are confident that our investment in innovation will continue to give us a competitive edge over our competitors.

Sizzler

Sizzler revenue declined 10.5% to $65.0 million due to the closure of six restaurants in Australia, bringing the Australian restaurant count to 16. Sizzler Australia remained EBITDA positive over the year due to same store sales growth. We continue to manage Sizzler Australia as a non-core business and closely monitor our remaining restaurants.

Sizzler Asia had another strong year, with royalty revenue up 4%. Sales in Thailand were substantially impacted by the passing of the King and subsequent mourning period. We had five restaurants openings (and four closures) in Thailand, three new openings in China and one closure in Japan. We finished the financial year with a restaurant count of 68 across Thailand, China and Japan and plans for a further six openings in FY18.

Snag Stand

Despite refining the menu and brand, Snag Stand was unable to achieve an overall improvement in trading. Collins Foods' has commenced a strategic review of the business, with no further growth capital being allocated in the financial year ahead. At the end of the period, total restaurant count was six which included one franchised stand.

Health & Safety

Collins Foods is committed to strict quality standards to ensure the highest level of food safety. We continue to reduce risk for our customers and employees through robust internal food safety and sanitation practices and building upon our occupational health and safety practices across our network of restaurants.

Over the last 12+ months Collins Foods has had a strong focus on improving its Safety Management System aligned to Australian and International standards, across all brands. Integral to this is our focus on driving safety leadership and culture, improving engagement and capability, enhancing our systems and process, reducing incidents and injuries and proactive management of hazards and risk.

Collins Foods is committed to the zero harm journey securing safe, healthy and productive workplaces for all employees, contractors, customers and visitors. We have implemented numerous additional initiatives and education programs to support our valued stakeholder groups, with a focus on preventative measures with enhanced dedicated support in high risk areas to ensure the wellbeing of our people is at the forefront.

We are pleased with our ongoing progress toward zero harm with our Lost Time Injury Frequency Rate for 2017 falling by 26% to 16.91.

Charitable support

As a Group, Collins Foods is committed to our continued support of charitable and community organisations. In 2017, through our Workplace Giving program we were able to donate $483,497 to the five charities we support. Of this figure, employee donations totalled $300,235 with the remainder comprising customer donations of $83,262 and $100,000 donated by Collins Foods.

During the same period, Collins Foods also contributed $118,697 to World Hunger, raised through in restaurant customer donations and staff fundraising initiatives.

Conclusion

Building on the success of previous years, we have continued to pursue growth opportunities and deliver increasing returns.

With the successful acquisition of a European footprint, we look forward to leveraging our success in growing our Australian KFC network to build an overseas platform that offers the opportunity for further expansion.

We remain committed to driving the organic growth of our core KFC Australia business through sound management. Moreover, we look forward to the further enhancement of our national network via the successful integration of our recent acquisitions from Yum!.

Collins Foods will continue to deliver on initiatives that support our future growth platform, including building a strong and efficient back office to support the European business and strengthening the organisational capability of the Group via maximising operational performance.

On behalf of the Board, I would like to thank all Group employees for their hard work in what has been a pivotal year for Collins Foods. I am excited for the year ahead and look forward to continued progress and growth across the business.

Graham Maxwell
Managing Director & CEO

Collins Foods Limited

ACN 151 420 781

Financial report

For the reporting period ended 30 April 2017

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Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Collins Foods Limited (the Company) and the entities it controlled at the end of, or during, the period ended 30 April 2017.

Directors

The names of the Directors of the Company during or since the end of the financial period are as follows:

Name	Date of appointment
Robert Kaye SC	7 October 2014
Graham Maxwell	25 March 2015
Kevin Perkins	15 July 2011
Bronwyn Morris	10 June 2011
Newman Manion	10 June 2011
Russell Tate	10 June 2011

Principal activities

During the period, the principal activity of the Group was the operation, management and administration of restaurants in Australia, Europe and Asia. During the period the Group entered the European market with no significant changes in the nature of the Group's activities.

Operating and financial review

GROUP OVERVIEW

The Group's business is the operation, management and administration of restaurants, currently comprising three restaurant brands, KFC restaurants, Sizzler restaurants and Snag Stand outlets.

At the end of the period, the Group operated 195 franchised KFC restaurants in Australia and 13 franchised KFC restaurants in Germany which compete in the quick service restaurant market. The Group owns and operates 16 Sizzler restaurants in Australia, which compete in the casual dining restaurant market. It is also a franchisor of the Sizzler brand in South East Asia, with 68 franchised stores predominantly in Thailand, but also in China and Japan. Snag Stand operates five corporate owned outlets and one franchised outlet.

The KFC brand is owned globally by Yum! and is one of the world's largest restaurant chains. The Group is the largest franchisee of KFC restaurants in Australia.

In the casual dining market in which it operates, Sizzler competes with other casual dining concepts as well as taverns and clubs, fast food and home cooking. Sizzler is a small to modest sized market participant.

Snag Stand operates in the fast casual dining market. Other operators in the fast casual dining market include Grill'd Burgers and Guzman Y Gomez.

GROUP FINANCIAL PERFORMANCE

Key statutory financial metrics in respect of the current financial period and the prior financial period are summarised in the following table:

Statutory financial metrics	2017	2016	Change
Total revenue ($m)	**633.6**	574.3	10.3%
Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) ($m)	**78.1**	74.3	5.0%
Earnings before interest and tax (EBIT) ($m)	**51.9**	50.8	2.1%
Profit/(loss) before related income tax expense ($m)	**44.0**	42.2	4.2%
Income tax (expense) ($m)	**(16.0)**	(13.1)	22.2%
Net profit/(loss) attributable to members (NPAT) ($m)	**28.0**	29.1	(3.9%)
Earnings per share (EPS) basic (cents per share)	**29.12**	31.31	(7.0%)
Total dividends paid/payable in relation to financial period (cents per share)(1)	**17.0**	14.0	21.4%
Net assets ($m)	**266.8**	189.7	40.6%
Net operating cash flow ($m)	**60.6**	49.7	21.9%

(1) Dividends paid/payable is inclusive of dividends declared since the end of the relevant reporting period.

The Group's total revenues increased by 10.3% to $633.6 million mainly due to like-for-like sales growth, new restaurant openings and the acquisition of KFC restaurants.

This increase in total revenues combined with strong business controls flowed through to increased EBITDA for the reporting period of $78.1 million, up 5.0% on the prior reporting period and significantly improved net operating cash flow of $60.6 million, up 21.9%.

EBITDA, EBIT, NPAT and EPS were impacted by significant items totalling $3.2 million pre-tax. Of these items, there were acquisition costs of $5.0 million which were partially offset by a cash gain on the sale of land of $0.5 million and non-cash accounting gains relating to foreign exchange of $0.7 million and asset disposal of $0.6 million.

In addition, EBIT, NPAT and EPS were impacted by further significant items totalling $2.1 million pre-tax, of these items there were non-cash pre-tax impairment charges relating to Sizzler Restaurant and Stag Stand outlet assets of $1.2 million and Snag Stand goodwill of $0.9 million.

Finally, NPAT and EPS were further impacted by non-cash write-offs of deferred tax assets totalling $0.9 million which were written off at the time of Sizzler restaurant closures. The consolidated NPAT effect of these significant items was $6.3 million.

Underlying financial metrics excluding significant items which occurred in the current period are summarised as follows:

Underlying financial metrics	2017	2016	Change
Total revenue ($m)	**633.6**	574.3	10.3%
Earnings before interest, tax, depreciation, amortisation and impairment (Underlying EBITDA) ($m)	**81.3**	74.6	8.9%
Net profit attributable to members (NPAT) ($m)	**34.3**	30.1	14.1%
Earnings per share (EPS) basic (cents)	**35.68**	32.31	10.4%

The notable increase in the underlying financial metrics shown above is a reflection of the revenue growth and strong business controls referred to above. These are discussed further in the review of underlying operations below.

Management believe that adjusting the results for significant items allows the Group to more effectively compare underlying performance against prior periods.

Review of underlying operations

KFC RESTAURANTS

There has been a strong overall performance across the KFC business.

Revenues in KFC Australia were up 9.5% on the prior corresponding period to $549.5 million, driven by increased restaurant numbers (including by acquisition) as well as same store sales growth. KFC Australia underlying EBITDA grew by 9.7%, up from $81.9 million to $89.8 million, with an overall EBITDA margin of 16.4% up 0.1% from the previous corresponding period.

Core product offerings, good value offers and product innovation continues to drive strong sales growth across our KFC Australia network. New products such as the Zinger Burger Family, Bacon Lovers Burger and the Tabasco Sauce Marinade were introduced and not only provided customers a great reason to visit our restaurants but also showcased the brand, keeping perceptions high.

In order to support growth, circa $22.8 million was spent on new restaurants as well as the remodelling and maintenance program. This remains an important driver of traffic to our restaurants, in addition to supporting KFC to meet its restaurant refurbishment obligations with Yum!.

KFC Europe contributed revenue of $14.8 million and $0.6 million in underlying EBITDA following the completion of the German acquisition on 1 December 2016. By the end of the period, 13 restaurants were in operation. The back office set up and integration has achieved important milestones and continues to progress.

SIZZLER RESTAURANTS

Revenues in Sizzler were down 10.5% on the prior corresponding period to $65.0 million, driven by the closure of six restaurants in Australia. However, same store sales stabilised with same store sales in Australia increasing by 0.4% compared to a decline of 11.4% in the previous corresponding period.

Sizzler's underlying EBITDA was down $0.7 million to $4.6 million (14.1%) on the previous corresponding period, driven by the decrease in revenue.

No growth capital was allocated to the Sizzler Australia business. There were 16 Sizzler restaurants at the end of the period. The restaurants will continue to be assessed on an ongoing basis in relation to their individual performance and expiry of their leases.

Sizzler franchise operations in Asia contributed an increase of $0.1 million in revenue over the prior corresponding period. During the current reporting period there were five restaurant openings and four restaurant closures in Thailand. There were three new restaurant openings in China and one restaurant closure in Japan bringing the total restaurant count in Asia to 68 by the end of the period.

Directors' Report

SNAG STAND

Snag Stand was unable to achieve an overall improvement in trading, despite refining the menu and brand. The business is undergoing a strategic review. We do not expect further growth capital to be allocated to Snag Stand.

Strategy and future performance

GROUP

The near term strategy involves consolidating the recently announced acquisitions of KFC restaurants in Europe and Australia. The Group will continue to drive growth across the business through new product ideas and innovation, as well as great value offers that keep customers coming back. In addition, organisational capability is being strengthened to deliver on acquisitions and organic growth.

KFC RESTAURANTS

The plan for the core KFC Australian business is firstly to focus on top line growth and disciplined operational management to maintain or improve margins. The newly acquired KFC restaurants in Australia will be integrated, with a further eight to nine new stores expected to be built in Australia over the coming reporting period.

The focus for the KFC European business will be to introduce the value concept into Germany to drive transactions and sales growth. We will integrate the Netherlands business and build a strong efficient back office function. The KFC European business is expecting to build eight to ten restaurants with four to five in Germany and four to five in the Netherlands.

SIZZLER RESTAURANTS

The Sizzler Australia business will continue to be assessed on an ongoing basis, with no further growth capital allocated to the business.

In relation to the Sizzler Asia, a further six new restaurants are expected to be opened across our three markets – Thailand, China and Japan.

MATERIAL RISKS

The material risks faced by the Group that have the potential to have an effect on the financial prospects of the Group, disclosed above, and how the Group manages these risks, include:

- **food safety** – health and safety of the public is compromised from food products. We address this risk through robust internal food safety and sanitation practices, audit programs, customer complaint processes, supplier partner selection protocols and communication policy and protocols;
- **workplace health and safety** – there is a risk that the Group does not provide a safe working environment for its people, contractors and the community. We address this risk through robust internal work health and safety practices, the implementation of initiatives and education programs with a focus on preventative measures with enhanced dedicated support in high risk areas to ensure the wellbeing of our people;
- **culture and people** – there is a risk that the Group's culture and people are negatively impacted by new acquisitions and growth and/or is not aligned and mature to support strategic priorities. We address this risk through recognition and reward programs and designation of appropriate human resources;
- **brand growth and diversification (non-KFC)** – there is a risk that the Group does not successfully grow emerging brands and/or acquire and integrate strategically identified new brands. We address this risk through having an experienced management team, robust project management processes involving trials and staged rollouts and regular strategic reviews;
- **deterioration of KFC brand** – the global KFC brand and reputation is damaged impacting the brand's performance in Australian markets. We address this risk through maintaining a close working relationship with the franchisor, having our team members sit on relevant KFC advisory groups and committees and monitoring compliance with obligations;
- **supply chain disruption** – inability to source key food and consumable products in an ethical manner, at the quality required within the prescribed time frames. We address this risk through use of multiple suppliers where possible with a diverse geographic base with multiple distribution routes;
- **systems integrity and cyber security** – key systems are not sufficiently stable, integrated and/or secure to support business operations and decision making. We address this risk through the increase of financial and human resources to the systems function and implementation of a systems and cyber security plan;
- **inability to identify and react to consumer and competitive behaviour** – demand for the Company's products declines as a result of a failure to understand and adapt to changes in consumer preferences or expectations and an inability to react to competitor activity and technological advances. We address this risk through keeping abreast of economic and consumer data/research, innovative product development, broadening of the menu offering and brand building; and
- **inability to adapt, innovate and change** – inability to adapt, innovate and manage change in the organisation which negatively influences achievement of strategic and business priorities. We address this risk through having an experienced management team, robust project management processes involving trials and staged rollouts and regular strategic reviews.

DIVIDENDS

Dividends paid to members during the financial period were as follows:

	Cents per share	Total amount $000	Franked/ Unfranked	Date of payment
Final ordinary dividend for the financial period ended 1 May 2016	8.0	7,440	Franked	13 July 2016
Interim ordinary dividend for the financial period ended 16 October 2016	8.0	7,670	Franked	15 December 2016
Total	**16.0**	**15,110**		

In addition to the above dividends, since the end of the financial period, the Directors of the Company have declared the payment of a fully franked final dividend of 9.0 cents per ordinary share ($9.6 million) to be paid on 20 July 2017 (refer to Note B4 of the Financial Report).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, the expansion of the Group into Europe constitutes a significant change in the state of affairs during the financial period under review (refer to Note A2 of the financial report).

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

On 26 June 2017 the Group entered into a binding agreement to acquire 28 KFC restaurants located in Australia. On 26 June 2017 the Group undertook a refinance of its borrowing facilities and entered into a new Syndicated Facility Agreement. The details of these agreements are referred to in Notes I1 and I2, of the financial report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group will continue to pursue the increase of profitability of its major business segments during the next financial period. Additional comments on expected results of operations of the Group are included in the review of operations section of this Report.

ENVIRONMENTAL REGULATIONS

The Group is subject to environmental regulation in respect of the operation of its restaurant sites. To the best of the Directors' knowledge, the Group complies with its obligations under environmental regulations and holds all licences required to undertake its business activities.

Directors' Report

Information on Directors

Director	Experience, qualifications and directorships	Special responsibilities
Robert Kaye SC	Robert is the Independent, Non-executive Chair. He is also Chair of ASX listed Spicers Limited and a Non-executive Director of ASX listed Magontec Limited and Chair of the Macular Disease Foundation. In 1978, Robert was admitted to legal practice and prior to this, was employed as a solicitor at Allen Allen & Hemsley Solicitors. Thereafter, he pursued his legal career at the NSW Bar and was appointed Senior Counsel in 2003, practising in commercial law. He has been extensively involved in an array of commercial matters both advisory and litigious in nature and served on a number of NSW Bar Association committees including the Professional Conduct Committee. **Other listed entity directorships – current or held within last three years:** Spicers Limited (2012 – current) Magontec Limited (2013 – current) UGL Limited (2015 – 2017)	Independent Non-executive Chair Audit and Risk Committee Member Remuneration and Nomination Committee Member
Graham Maxwell	Graham is an experienced senior executive of corporate and franchise businesses, predominantly in fast moving consumer goods and fast foods, both in Australia and internationally. He is a commercially astute management professional with proven success in leveraging and growing businesses through their brands. Prior to his current role, Graham spent over six years working for Yum! Brands in a number of capacities. His last position with Yum! Brands was as Managing Director for KFC Southern Africa. **Other listed entity directorships – current or held within last three years:** None other than Collins Foods Limited.	Managing Director & CEO
Kevin Perkins	Kevin is a highly experienced executive in the Quick Service Restaurant (QSR) and casual dining segments of the Australian restaurant industry. He has had more than 32 years' experience with the Collins Foods Group, having overseen its growth both domestically and overseas over that time. Kevin is the Non-executive Chairman of Sizzler USA Acquisition, Inc. He holds approximately 55% of the common stock in Sizzler USA Acquisition, Inc. Sizzler USA Acquisition, Inc operates or franchises Sizzler restaurants across the United States and Puerto Rico. The operations of Collins Foods and Sizzler USA Acquisition, Inc are separate. **Other listed entity directorships – current or held within last three years:** None other than Collins Foods Limited.	Executive Director

Director	Experience, qualifications and directorships	Special responsibilities
Newman Manion	Newman has over 32 years' experience in the food franchise industry, including various roles with Yum! (Franchisor of KFC) since 1982. Previously, Newman served as a Board member of KFC Japan (from 2005 to 2008), General Manager of KFC operations in Australia and New Zealand (from 1995 to 2004), Development Director of PepsiCo restaurants (including KFC) in Australia (from 1990 to 1995) and General Manager of KFC New Zealand (from 1988 to 1990). Most recently Newman was Vice-President, Operations for Yum!'s Asian franchise business (from 2004 until 2010). **Other listed entity directorships – current or held within last three years:** None other than Collins Foods Limited.	Independent Non-executive Director Remuneration and Nomination Committee Chair Audit and Risk Committee Member
Bronwyn Morris B. Com, FCA, FAICD	Bronwyn is a Chartered Accountant and a former partner of KPMG. Bronwyn worked with that firm and its predecessor firms in Brisbane, London and the Gold Coast. For over 20 years, Bronwyn has been a full-time Non-executive Director and has served on the Boards of a broad range of companies. She currently serves as Chair of, or a member of, the Audit and Risk Committees with respect to a number of her Board roles. Bronwyn is a Director of Watpac Limited (since 2015), Royal Automobile Club of Queensland Limited (since 2008), RACQ Insurance Limited (since 2014), Gold Coast 2018 Commonwealth Games Corporation (since 2016) and Care Australia (since 2007). **Other listed entity directorships – current or held within last three years:** Watpac Limited (2015 to current)	Independent Non-executive Director Audit and Risk Committee Chair Remuneration and Nomination Committee Member
Russell Tate B. Com (Econ.)	Russell has over 32 years' experience in senior executive and consulting roles in marketing and media. He was CEO of ASX listed STW Group Limited, Australia's largest marketing communications group, from 1997 to 2006, Executive Chair from 2006 to 2008 and Deputy Chair (Non-executive) from 2008 to 2011. He was Chair (Non-executive) of Collins Foods Limited from its listing in 2011 until March 2015 and has remained Executive Chair of ASX listed Macquarie Radio Network Limited, now Macquarie Media Limited, since 2009. He is currently a Director of One Big Switch Pty Ltd (since 2012) and a Director of ROKT Pty Ltd (since 2016). **Other listed entity directorships – current or held within last three years:** Macquarie Media Limited (since 2008, Executive Chair since 2009)	Independent Non-executive Director Audit and Risk Committee Member Remuneration and Nomination Committee Member

Directors' Report

The relevant interest of each Director in the share capital issued by the Company, at the date of this report is as follows:

Name	Ordinary shares	Performance Rights
Robert Kaye SC	10,000	–
Graham Maxwell	356,088	206,134
Kevin Perkins	7,444,692	–
Newman Manion	20,001	–
Bronwyn Morris	5,001	–
Russell Tate	20,001	–

COMPANY SECRETARY

Frances Finucan *LLB (Hons), BA (Modern Asian Studies), Grad Dip ACG, FGIA, MQLS, GAICD*

The Company Secretary is Frances Finucan who was appointed to the role on 17 July 2013. Frances has over 15 years' experience in legal, commercial and corporate governance working in legal, regulatory and company secretarial roles in Australia.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the period ended 30 April 2017, and the number of meetings attended by each Director, were:

	FULL MEETINGS OF DIRECTORS		AUDIT AND RISK COMMITTEE		REMUNERATION AND NOMINATION COMMITTEE	
	Number of meetings (1)	Meetings attended	Number of meetings (1)	Meetings attended	Number of meetings (1)	Meetings attended
Robert Kaye SC	16	16	6	6	5	5
Graham Maxwell	16	16	*	*	*	*
Kevin Perkins	16	16	*	*	*	*
Newman Manion	16	16	6	6	5	5
Bronwyn Morris	16	15	6	6	5	5
Russell Tate	16	16	6	5	5	5

(1) Number of meetings represents the number of meetings held during the time the Director held office or membership of a Committee during the period.

* Not a member of the relevant Committee.

Letter to Shareholders

COLLINS FOODS LIMITED

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Hamilton QLD 4007 Australia
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Dear Shareholder,

I am pleased to present you with Collins Foods Limited's Remuneration Report for the reporting period ended 30 April 2017. In structuring the remuneration framework for executives and directors, the Remuneration and Nomination Committee has regard to the recommendations of the ASX Corporate Governance Council and the expectations of Australian corporate governance stakeholders. An outline of the remuneration framework and related governance documentation is available on the Company website at www.collinsfoods.com under Investors and we encourage shareholders to read the material available in here, in conjunction with this report.

The remuneration policy for Collins Foods is designed to be responsible and appropriate, yet sufficiently competitive to attract and retain the necessary high calibre of directors and executives, as the Company's circumstances evolve over time. This is supported by the 91.98% of votes cast at the 2016 Annual General Meeting in favour of the adoption of the Remuneration Report for the prior reported period. In designing the short term and long term incentive arrangements for executives, the intended focus is upon driving long term, sustainable shareholder wealth creation. In reviewing variable pay outcomes during the reporting period, the Remuneration and Nomination Committee takes responsibility for ensuring that these payments remain aligned with the shareholder experience over the reporting period, and this is demonstrably the case in respect of 2017.

As presented, the short term incentive (STI) and long term incentive (LTI) programs are subject to EBITDA and earnings per share (EPS) growth measures, respectively, which are regarded to be transparent and key drivers of shareholder wealth outcomes. We are therefore pleased that adjusted EBITDA increased 8.9% to $81.3 million and underlying EPS increased 10.4% to 35.68 cents in 2017, while delivering a total shareholder return of around 35% during the period. This indicates that the incentives are effectively driving shareholder value creation, as intended.

The 2017 reporting period has confirmed the Company's place as a high performing member of the S&P ASX300 Index, and the Board has recognised the responsibilities and expectations that fall upon boards that hold such a position. With regard to the evolving expectations of company stakeholders, the directors continually welcome feedback from shareholders around the remuneration framework applied by Collins Foods and remain open to discussing the appropriateness of the performance metrics and provisions applied.

During the reporting period the Board sought feedback on both remuneration practices, and engagement/communication with shareholders, from independent external experts regarding remuneration practices appropriate to these new circumstances in which the Company finds itself. As a result, the directors remain confident that the outcomes for 2017 demonstrate an alignment between remuneration outcomes, and the performance delivered by Collins Foods, though improvements will continue to be made into 2018 as the remuneration framework, and mix of remuneration, is continually refined.

Yours sincerely,

Mr. Newman Manion
Independent Non-executive Director
Chair of the Remuneration and Nomination Committee

www.collinsfoods.com

Directors' Report

Remuneration Report

Persons covered by this report

The Remuneration Report sets out, in accordance with section 300A of the Corporations Act:

- the Company's governance relating to remuneration;
- the policy for determining the nature and amount or value of remuneration of key management personnel;
- the various components or framework of that remuneration;
- the prescribed details relating to the amount or value paid to key management personnel, as well as a description of any performance conditions; and
- the relationship between the policy and the performance of the Company.

In addition, the Company has decided to set out such further information as shareholders may require for them to obtain an accurate and complete understanding of the Company's approach to the remuneration of Key Management Personnel (KMP).

KMP are the Non-executive Directors, the Executive Directors and employees who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity. On that basis, the roles or individuals addressed in this report are set out below.

DIRECTORS

There were no appointments or resignations of Directors during the period. Details of the Directors' appointment dates, Board and Committee membership and experience and qualifications are set out in the "Directors" and "Information on Directors" sections of the Directors' Report.

EXECUTIVES CLASSIFIED AS KMP OR OTHERWISE ADDRESSED IN THIS REPORT

Name	Title
Nigel Williams	Group Chief Financial Officer (since 2015)
Martin Clarke	CEO – KFC, Australia (since 1980)
John Hands	Chief Supply Officer performed the role of Acting Head of Country (Germany) for the equivalent of three months during the reporting period (1 December 2016 to 31 March 2017)
Mark van 't Loo	CEO – KFC, Europe (commenced 9 March 2017)

Context of and changes to KMP remuneration for FY17 and into FY18

MATTERS IDENTIFIED AS RELEVANT CONTEXT FOR REMUNERATION GOVERNANCE IN FY17 AND INTO FY18

The KMP remuneration structures that appear in this report are largely those that prevailed during the reporting period. These structures were implemented as part of a decision making process, including benchmarking, that was undertaken in previous reporting periods.

The Board has undertaken to make continuous improvements to remuneration governance, policies and practices applied to KMP of the Company, as well as other employees, to ensure appropriateness to the circumstance of the Company as it evolves over time.

During FY16 and the current reporting period, the Board sought feedback from both stakeholders and independent consultants about KMP remuneration governance and practices.

Market capitalisation is one of the factors that influences external assessments of the appropriateness of remuneration; and it is understood that external groups tend to see it as the primary indication of the size and status of the Company, and the field in which the Company is competing for talent. In this regard it should be noted that the increase to the Company's market capitalisation during the reporting period was partly the result of a material capital raising of approximately $54.5 million (refer ASX Announcement released 24 March 2017). However, the majority was the result of improvement in the Share price and a Total Shareholder Return (TSR) of around 35% was delivered.

When the Company most recently undertook independent benchmarking for a particular group of KMP (this was for the Non-executive Director roles in FY16), the market capitalisation of the Company was lower than at the date of this report.

The Company is going through a significant period of integration and transition following acquisitions made in line with its strategy to pursue growth opportunities:

- 13 KFC restaurants in the New South Wales/Victorian border area;
- 11 KFC restaurants in Stuttgart and Dusseldorf Germany with one additional restaurant opening shortly after completion of the acquisition; and
- 16 KFC restaurants in Amsterdam, Hague and Almere in the Netherlands.

KEY REMUNERATION MATTERS IDENTIFIED AND ADJUSTMENTS MADE SINCE THE PREVIOUS REPORT

During the reporting period, KMP remuneration related matters were identified as requiring consideration and action for FY17 and possibly into FY18. Opportunities to improve the structure, extent and quality of disclosure presented in the Remuneration Report were identified.

The Board has acknowledged that the mix of the remuneration elements in the past indicates a need to increase the weighting on equity components of remuneration aligned with the interests of shareholders over the long term, particularly with regards to the Managing Director and Chief Executive Officer, so as to:

- align executive remuneration practices with accepted market practices and current best-practices;
- motivate executives to continuously grow shareholder value by aligning their interests with those of shareholders through equity ownership; and
- manage the risk of short-termism inherent to fixed remuneration and short-term incentives by exposing a significant proportion of remuneration to the longer term consequences of decision making, through the ownership position that is achieved when executives participate in equity plans.

However, it is the view of the Board that deferral of STI does not achieve the above objectives, compared to the impact of a long term incentives (LTI) because STI deferral periods tend to be shorter than LTI measurement periods, and are not subject to performance testing. Therefore, the Board intends to transition the mixes of remuneration elements offered to senior executives towards a higher weighting on LTI, over time.

The outcome of the transition process is intended to be, that for the Managing Director and Chief Executive Officer there will be a greater weighting on LTI than on STI at target and for other senior executives, there will be an equal weighting between STI and LTI at target. This will, in the Board's view, provide the appropriate level of focus on both short and long term performance to manage risks, align interests and ensure that the Company can continue to attract, retain and motivate the appropriate calibre of executives to execute the Company's strategy.

It is generally considered too high a risk in terms of loss of talent to reduce cash remuneration in such circumstances. Therefore, the transition will be gradual as new incumbents join the executive team, or market benchmarking shows a need to increase incentive levels.

Some groups identified that a single metric LTI provides an incomplete picture of company performance (generally either internal or external assessment, in isolation), and that the use of earnings as the primary driver of both the STI, and the only driver of the LTI, could be improved by introducing other measures to the LTI assessment.

During the period, the Board engaged an independent expert to develop a comparator group of 18 listed entities, and to analyse the incentive practices of those entities to inform the Company's approach to incentive design in the future. The research showed that approximately one half of the group used a single metric, and one half of the group used two metrics, in relation to LTI performance measures.

TSR was the most common metric (relative TSR being dominant), followed by earnings per share growth (EPSG), indicating that the Company is applying market practice in utilising the EPSG measure, and that consideration could be given to introducing a TSR measure. The Board deeply considered the introduction of a relative TSR measure in relation to the LTI, and observed that it would be challenging to develop a statistically robust comparator group of entities that are similar enough to the Company for the measure to be meaningful.

The Board has determined that the introduction of a TSR measure would potentially undermine the links between Company performance and the reward of executives, compared to the current approach, which is showing demonstrably good correlations between earnings and TSR. That earnings will continue to drive TSR for shareholders is the reason the earnings measure was selected originally, and will continue to be used for LTI purposes.

The research also showed that the EPSG objectives (threshold, target and stretch) set by the Company appear to align well with those disclosed by comparator entities in the market, indicating that they are appropriate, robust and challenging.

Other measures such as return on capital were also considered. However, the Group is not a capital intensive business and return measures were also discarded as inappropriate.

The Board intends that in the future the stretch/maximum EPSG objective will be approximately double the target value, to ensure that the maximum outcome is sufficiently challenging as to be unlikely to be achieved, and therefore, create an incentive to continue to outperform should target performance be exceeded before the end of the measurement period. Consideration will also be given to introducing an explicit "target" level to incentive scales.

From FY18 onwards, the Board will set discrete amounts of STI and LTI to be included in a competitive and appropriate target total remuneration package (fixed remuneration plus target STI plus target LTI) towards which to transition executive packages over time, as discussed above. This will result in annual grants of LTI that will not be linked to STI and which will be performance tested over a three year measurement period.

The potential for the use of normalised earnings, or the Board's power of discretion to modify LTI hurdles, to be used to advantage executives was noted by some external stakeholders. The use of normalised earnings has to date been applied to the assessment of the starting point for the award scale, rather than the end point, with the effect of increasing the difficulty of the hurdle for management, and not advantage management.

It is the explicit intention of the Board to only exercise its discretion to modify incentive outcomes when the outcome would otherwise be considered inappropriate by shareholders. The further intention is to use reported earnings in assessing incentive outcomes wherever this approach may be applied without producing inappropriate outcomes.

Any normalisation or applications of discretion that impacts incentive outcomes will be explained in the Remuneration Report for the reporting period to which they relate, so as to provide transparency in this regard. Performance calculated in respect of the short and long term incentives paid during the reporting period were not subject to any normalisation adjustments (no normalisation or underlying profit used).

It is the view of the Board that it is important for the Board to have the ability to make adjustments, where appropriate, to ensure the alignment between Company performance and reward, and that this is not against the interests of shareholders.

Remuneration Report (continued)

OVERVIEW OF COLLINS FOODS REMUNERATION GOVERNANCE FRAMEWORK AND STRATEGY

The performance of the Group is contingent upon the calibre of its Directors and executives. The Group's remuneration framework is based upon the following key principles:

- a policy that enables the Company to attract and retain valued Directors and executives who create value for shareholders;
- motivating executives and Executive Directors to pursue long term growth and success of the Group, aligned with shareholder's interests;
- demonstrating a clear relationship between performance and remuneration;
- having regard to prevailing market conditions;
- reflective of short term and long term performance objectives appropriate to the Company's circumstances and goals;
- transparency; and
- fairness and acceptability to shareholders.

The Company seeks input regarding the governance of KMP remuneration from a wide range of sources, including:

- shareholders;
- Remuneration and Nomination Committee members;
- stakeholder groups including proxy advisors;
- external remuneration consultants (ERCs);
- other experts and professionals such as tax advisors and lawyers; and
- Company management to understand roles and issues facing the Company.

The following outlines a summary of Collins Foods' remuneration governance framework.

REMUNERATION AND NOMINATION COMMITTEE

The role of the Remuneration and Nomination Committee is to ensure that appropriate remuneration policies are in place which are designed to meet the needs of the Company and to enhance corporate and individual performance. That is, the development, maintenance and application of the Remuneration Governance Framework for the purposes of making recommendations to the Board regarding KMP remuneration matters, as well as advising the Board on procedures that must be undertaken in relation to the governance of remuneration, and communicating such matters to the market (such as the calculation of grants of incentives, review of performance conditions and receipt of independent advice, etc.).

More specifically, the Committee is responsible for making recommendations to the Board on:

- the Group's remunerations principles, framework and policy for senior executives and Directors;
- remuneration levels of senior management executives and Executive Directors;
- the operation of incentives plans and other employee benefit programs which apply to senior executives; and
- remuneration for Non-executive Directors.

In carrying out its responsibilities, the Committee is authorised to obtain external professional advice as it determines necessary. The Board has ultimate responsibility for signing off on remuneration policies, practices and outcomes.

The Remuneration and Nomination Committee operated in accordance with the aims and aspirations of Principle 8 of the ASX Corporate Governance Principles and Recommendations (ASX Principles and Recommendations). The role and responsibilities of the Committee are outlined in the Remuneration and Nomination Committee Charter, available on the Company's website.

As at the end of the reporting period, the Remuneration and Nomination Committee was composed of all of the Company's independent non-executive directors only.

SECURITIES TRADING POLICY

The Securities Trading Policy is available on the Company's website. It contains the standard references to insider trading restrictions that are a legal requirement under the Corporations Act, as well as conditions associated with good corporate governance. The Securities Trading Policy also follows the recommendations set out in ASX Guidance Note 27, "Trading Policies". The policy specifies "trading windows" during which Directors and restricted employees of the Company may trade in the securities of the Company. It also requires Directors and restricted employees to obtain prior written clearance for any trading in the Company's securities, and prohibits trading at all other times unless an exception is granted following an assessment of the circumstances (for example financial hardship). Trading windows arise during the 30 day period commencing upon the trading day, the day after of each of the following events:

- announcement to ASX of the Company's full or half-year results;
- Annual General Meeting; and
- release of a disclosure document offering equity securities in the Company.

The Board may suspend all dealings in the Company's securities at any time, should it be appropriate.

EXECUTIVE REMUNERATION CONSULTANT ENGAGEMENT POLICY

The Company has adopted an executive remuneration consultant (ERC) engagement policy which is intended to manage the interactions between the Company and ERCs, so as to ensure their independence that the Remuneration and Nomination Committee will have clarity regarding the extent of any interactions between management and the ERC. This policy enables the Board to state with confidence whether or not the advice received has been independent, and why that view is held. The Policy states that ERCs are to be approved and engaged by the Board before any advice is received, and that such advice may only be provided to a non-executive director. Any interactions between management and the ERC must be approved and overseen by the Remuneration and Nomination Committee.

EXECUTIVE REMUNERATION

The following outlines the policy that applies to executive KMP (and does not apply to non-executive directors). The remuneration for executives is structured, taking into consideration the following factors:

- Group's remuneration principles;
- level and structure of remuneration paid to executives of other publicly listed Australian companies of similar size;
- position and responsibilities of each executive;
- appropriate benchmarks and targets to reward executives for Group and individual performance;
- remuneration should be reviewed annually and composed of:
  - base package (inclusive of superannuation, allowances, benefits and any applicable fringe benefits tax (FBT) as well as any salary sacrifice arrangements);
  - STI which provides a reward for performance against annual objectives;
  - LTI which provides an equity-based reward for performance against indicators of shareholder benefit or value creation, over a three year period; and
  - in total, the sum of the elements will constitute a total remuneration package (TRP);
- both internal relativities and external market factors should be considered;
- that the base package policy mid-points should be set with reference to relevant market practices;
- that TRPs should be structured with reference to market practices and the circumstances of the Company at the time;
- remuneration will be managed within a range so as to allow for the recognition of individual differences such as the calibre of the incumbent and the competency with which they fulfil a role (a range of +/- 20% is used, in line with common market practices);
- exceptions will be managed separately such as when particular talent needs to be retained or there are individuals with unique expertise that need to be acquired; and
- termination benefits will generally be limited to the default amount that may be provided for without shareholder approval, as allowed for under the Corporations Act, and will be specified in employment contracts.

The Company's Remuneration Policy can be obtained from the Company's website.

NON-EXECUTIVE DIRECTOR REMUNERATION

The remuneration for Non-executive Directors is set, taking into consideration factors including:

- the level of fees paid to Board members of other publicly listed Australian companies of similar size;
- operational and regulatory complexity; and
- the responsibilities and workload requirements of each Board member.

Non-executive Directors' remuneration comprises the following components:

- board and committee fees; and
- superannuation (compulsory contributions).

Board fees are structured by having regard to the responsibilities of each position within the Board. Board committee fees are structured to recognise the differing responsibilities and workload associated with chairing the Board and each of the committees. The Company's constitution allows for additional payments to be made to Directors where extra or special services are provided.

Specific fee rates are presented elsewhere in the Remuneration Report.

SHORT TERM INCENTIVE (STI) POLICY

Incentives under the Group's STI plan are at risk components of remuneration for executives provided in the form of cash. The STI plan entitles executives to earn an annual cash reward payment if predefined targets are achieved. The level of the incentive is set with reference to the accountabilities of the executive's role and their ability to impact Group performance.

STI deferral does not apply, as STI deferral is inferior to providing appropriate levels of LTI in achieving the purpose of STI deferral, and this is the focus of the Company's policy regarding incentives for FY18 and beyond.

LONG TERM INCENTIVE (LTI) POLICY

Currently, the LTI plan of the Company is that an annually offered component of remuneration of executives should be at risk and based on equity in the Company to ensure that executives hold a stake in the Company, to align their interests with those of shareholders, and that executives share risk with shareholders. Further, the:

- LTI should be based on performance rights that vest based on assessment of performance against objectives;
- measurement period should be three years; and
- measures of long term performance should be the measure or measures which best drives value creation for shareholders, given the specific circumstances of the Company.

SECURITIES HOLDING POLICY

The Board currently sees a securities holding policy as unnecessary since executives will receive a significant component of remuneration in the form of equity from FY18 onwards. The Company's constitution states that Directors are not required to be a shareholder in order to be appointed as a director. All of the Directors hold equity in the Company voluntarily.

Remuneration Report (continued)

VARIABLE EXECUTIVE REMUNERATION – THE SHORT TERM INCENTIVE PLAN

Short Term Incentive Plan (STIP)

ASPECT	PLAN RULES, OFFERS AND COMMENTS
Purpose	The STIP's purpose is to give effect to an element of remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for executives to deliver and outperform annual business plans that will lead to sustainable superior returns for shareholders. The STIP aims to reflect current trading conditions experienced by the Company. Target based STIs are also intended to modulate the cost to the Company of employing executives, such that risk is shared with the executives themselves and the cost to the Company is reduced in periods of poor performance.
Measurement period	The Company's reporting period.
Award opportunities	The Managing Director and CEO was offered a target based STI equivalent to 50% of total fixed remuneration for target performance, with a maximum opportunity of up to 75% of total fixed remuneration. Other KMP were offered a target based STI equivalent to between 50% and 60% of their total fixed remuneration for target performance with a stretch opportunity of up to 150% of the target. No changes are anticipated to be made in respect of FY18 offers. **Comments** While the Board has recognised that the FY17 STI opportunities may be viewed as high by some external stakeholders, a transition plan has been put in place to adjust the mix of remuneration elements to reduce the weighting on STI over time (as noted in the earlier sections of this report). It should also be recognised that total remuneration packages (the sum of fixed remuneration and incentives) are not high or excessive.
Key Performance Indicators (KPIs), weighting and performance goals	**FY17 offers** FY17 offers of STI were calculated on the achievement of underlying EBITDA performance objectives (100% weighting), and subject to the following award scale:

STANDARD % PAYOUT TABLE

% EBITDA target achieved (applies to Company or Division/Brand)	% target bonus earned
100	0
101	15
102	30
103	45
104	60
105	75
106	90
107	105
108	120
109	135
110	150

With the exception of the Managing Director and CEO, of the STI, 75% of the outcome in relation to this measure is then awarded in relation to this aspect alone and the remaining 25% is subject to an individual performance modifier which scales this portion of the incentives up or down in relation to individual performance.

If 150% of target is achieved in relation to the EBITDA aspect, the application of the individual scale cannot produce an outcome which exceeds 150% of the target award, as this is set as a cap.

	FY18 offers FY18 sees changes to the STI scheme rules for KMPs as follows: → targets set equate to budgeted EBITDA plus bonus value; → reduction of the threshold required to trigger the bonus payment to 95% of the target with a linear scale to 100% of the target i.e. 95.5% of target equates to 10% of bonus payment; → 100% of target equates to 100% bonus payment; → overachievement is measured at increments of 1% point of target equating to an additional 5% of bonus payment i.e. 103% of target equates to 115% of bonus payment; and → maximum is consistent with prior years being 110% target equating to 150% of bonus payment. **Comments** The Board is of the view that EBITDA is the primary driver of shareholder value creation in the short term, and that the combination of this measure with individual performance assessments provides a fair and accurate assessment of performance in the context of a particular executive role.
Award determination and payment	Calculations are performed following the end of the measurement period and the audit of Company accounts. Payments are made in cash with PAYG tax deducted, paid following the completion of the measurement period and audited financial report.
Cessation of employment during a measurement period	In the event of cessation of employment due to dismissal for cause all entitlement in relation to the measurement period are forfeited. In the event of cessation of employment for other reasons and the minimum term of three months of employment has not been satisfied, all entitlement in relation to the measurement period are forfeited, unless otherwise determined by the Board. No awards are paid on termination that would breach the default limit on termination benefits for managerial and executive officers, unless shareholder approval is obtained to do so.
Plan gate and Board discretion	If the Company's overall performance during the measurement period is substantially lower than expectations and resulted in significant loss of value for shareholders the Board may abandon the STIP for the measurement period or adjust STI payouts downward. The Board also has discretion to modify payouts, however, as noted earlier in this report, it has been determined that such discretion will only be applied in future when it would be substantially inappropriate not to do so, due to an anomaly during the measurement period, or because of exceptional circumstances, which would be explained in detail as part of the Remuneration Report. An earnings gate is effectively built into the award scale.
Fraud, gross misconduct etc.	If the Board forms the view that a participant has committed fraud, defalcation or gross misconduct in relation to the Company then all entitlements in relation to the measurement period will be forfeited by that participant.
Purpose	The LTIP's purpose is to give effect to an element of executive remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for executives to deliver Company performance that will lead to sustainable superior returns for shareholders. Another purpose of the LTIP is to act as a retention mechanism so as to maintain a stable team of performance focussed executives, to create alignment with the interests and experiences of shareholders and to modulate the cost to the Company of employing executives such that in periods of poor performance the cost is lesser (applies to non-market measures under AASB2). Currently the Company operates a performance rights plan.

Directors' Report

Remuneration Report (continued)

<table>
<tr><td>Form of equity</td><td>The LTIP is in the form of a performance rights plan, which is based on rights that are subject to vesting conditions, which confer the right (following valid conversion) to the value of a share at the time, either:
→ settled in shares that may be issued; or
→ settled in the form of cash;
at the discretion of the Board (a feature intended to ensure appropriate outcomes in the case of a termination).
There is no entitlement to dividends during the measurement period.</td></tr>
<tr><td>LTI value</td><td>The Board retains discretion to determine the value of LTI to be offered each reporting period, subject to shareholder approval in relation to Directors, when the rights are to be settled in the form of a new issue of Company shares. The Board may also seek shareholder approval for grants to directors in other circumstances, at its discretion.
FY17 offers
In relation to the Managing Director/CEO, performance rights with a maximum value equivalent to 50% of the total fixed remuneration.
For other executives (direct reports to the Managing Director/CEO) the LTI granted was equivalent to 30-40% of the previous reporting period's STI award, and 20% of base packages at maximum.
Approximately half of these grants are expected to be awarded for target performance outcomes, with the maximum/stretch outcome being considered unlikely by design.
FY18 offers
As noted elsewhere in this report, for FY18, LTI awards will no longer be linked to STI awards in the previous reporting period, and discrete STI and LTI opportunities will be set going forward.
Comments
Based on the CEO, the following example is given regarding how the number of performance rights to grant a participant in the LTIP are calculated. This involves dividing the maximum LTI percentage of the base package (as per the policy at the time) by the relevant volume weighted average price (VWAP) for shares.
<table><tr><th>INDICATIVE FOR FY18</th><th></th><th></th></tr><tr><td>Base</td><td></td><td>$800,000</td></tr><tr><td>LTI Target</td><td>50%</td><td></td></tr><tr><td>LTI Max</td><td>100%</td><td>$800,000</td></tr><tr><td>Share Price (VWAP)</td><td>$5.18</td><td></td></tr><tr><td>Number of Rights</td><td></td><td>154,440</td></tr></table></td></tr>
<tr><td>Measurement period</td><td>The measurement period will include three reporting periods unless otherwise determined by the Board.
FY17 offers
Beginning 2 May 2016 and ending 28 April 2019.
FY18 offers
Beginning 1 May 2017 and ending 3 May 2020.
Comments
Three year measurement periods combined with annual grants will produce overlapping cycles that will promote a focus on producing long term sustainable performance/value improvement and mitigates the risk of manipulation and short-termism.
Some stakeholders have noted that the measurement period has at times been marginally less than three years due to issues related to when grants could be calculated and made, however, not materially so. It is trusted that such nuances will not be of concern to shareholders.</td></tr>
</table>

Vesting conditions

The Board has discretion to set vesting conditions for each offer. Performance rights that do not vest will lapse.

FY17 offers
Except as indicated below, a participant must remain employed by the Company for a minimum 12 month term from the date of grant and the performance conditions must be satisfied for performance rights to vest.

The FY17 offers included a single EPSG vesting condition, assessable on the basis of the compound annual growth rate (CAGR) as follows:

Performance level	Annualised EPS growth (CAGR)	% of max/stretch/ grant vesting
Stretch/maximum	10%	100%
Between threshold and stretch	>6%, <10%	Pro-rata
Threshold	6%	20%
Below threshold	<6%	0%

FY18 offers
FY18 offers had not been determined at the time of writing of this report. However, the Board has noted feedback regarding setting the difficulty of the EPSG objectives and will in future consider analyst forecasts in setting the target, and intends to set the stretch/ maximum level of performance at around double the target EPSG as noted elsewhere in this report. The Company's business plans over the measurement period will also play a role. At the time of writing of this report, the following vesting scale was anticipated to apply for FY18:

Performance level	Annualised EPS growth (CAGR)	% of max/stretch/ grant vesting
Stretch/maximum	22%	100%
Between target and stretch	>11%, <22%	Pro-rata
Target	11%	50%
Below threshold and target	>5.5%, <11%	Pro-rata
Threshold	5.5%	25%
Below threshold	<5.5%	0%

Comments
An earnings measure was selected as it is considered by the Board to be the primary driver of TSR over the long term, and this measure has shown good correlation with TSR outcomes for shareholders in the past. As noted elsewhere in this report, an appropriate relative total shareholder return comparator group could not be identified.

EPS will be measured on an absolute basis, calculating the compound growth in the Company's basic EPS attributable to ordinary equity holders of the Company over the performance period, with reference to the disclosed EPS in the Company's annual audited financial reports.

Retesting

The plan rules do not contemplate retesting and therefore retesting is not a feature of the Company's current LTI offers.

Plan gate and Board discretion

An effective gate of EPS needing to exceed a threshold level of growth is built into the design of the vesting scale.

The Board retains a discretion to adjust the EPS performance condition to ensure that participants are not penalised nor provided with a windfall benefit arising from matters outside of management's control that affect EPS (for example, excluding one-off non-recurrent items or the impact of significant acquisitions or disposals). Please refer to discussion regarding the application of such discretions, presented elsewhere in this report.

Amount payable for performance rights

No amount is payable for performance rights.

The value of rights is included in assessments of remuneration benchmarking and policy positioning. This is standard market practice and consistent with the nature of performance rights.

Remuneration Report (continued)

Conversion of vested performance rights	Under the plan rules, the conversion of performance rights to shares occurs automatically upon vesting conditions being declared by the Board as having been met, except where the Board exercises its discretion to settle in the form of cash. No amount is payable by participants to exercise vested performance rights in respect of any grants.
Disposal restrictions etc.	The Company may impose a mandatory holding lock on the shares or a participant may request they be subject to a voluntary holding lock. Performance rights are not entitled to receive a dividend. Any shares issued or transferred to a participant upon vesting of performance rights are only entitled to dividends if they were issued on or before the relevant dividend entitlement date. Shares issued or transferred under the LTIP rank equally in all respects with other shares on issue. In the event of a capital reconstruction of the Company (consolidation, subdivision, reduction, cancellation or return), the terms of any outstanding performance rights will be amended by the Board to the extent necessary to comply with the listing rules at the time of reconstruction. Any bonus issue of securities by way of capitalisation of profits, reserves or share capital account will confer on each performance right, the right: → to receive on exercise or vesting of those performance rights, not only an allotment of one share for each of the performance rights exercised or vested but also an allotment of the additional shares and/or other securities the employee would have received had the employee participated in that bonus issue as a holder of shares of a number equal to the shares that would have been allotted to the employee had they exercised those Incentives or the performance rights had vested immediately before the date of the bonus issue; and → to have profits, reserves or share premium account, as the case may be, applied in paying up in full those additional shares and/or other securities. Subject to a reconstruction or bonus issue, performance rights do not carry the right to participate in any new issue of securities including pro-rata issues. Performance rights will not be quoted on ASX. The Company will apply for quotation of any shares issued under the LTIP.
Cessation of employment	In the event of cessation of employment within 12 months of the date of grant, unvested rights are forfeited unless otherwise determined by the Board, in which case any service condition will be deemed to have been fulfilled as at the testing date, and subjected to performance testing along with other participants.
Change of control of the Company	If in the opinion of the Board a change of control event has occurred, or is likely to occur, the Board may declare a performance right to be free of any vesting conditions and, if so, the Company must issue or transfer shares in accordance with the LTIP rules. In exercising its discretion, the Board will consider whether measurement of the vesting conditions (on a pro-rata basis) up to the date of the change of control event is appropriate in the circumstances.

Non-executive Director fee policy rates for FY17 and FY18 and fee limit

Non-executive Director fees are managed within the current annual fees limit (AFL or fee pool) of $900,000 which was approved by shareholders at the 2016 Annual General Meeting.

The following table outlines the Non-executive Director fee policy rates that were applicable during the reported period:

Function	Role	Fee including super
Main Board	Chair	$210,000
	Member	$100,000
Audit and Risk Committee	Chair	$20,000
	Member	$7,500
Remuneration and Nomination Committee	Chair	$15,000
	Member	$7,500

The same fee policy rates are expected to apply for FY18, unless the Board determines to undertake a review during the period.

Remuneration records for FY17 – statutory disclosures

EXECUTIVE REMUNERATION

The following table outlines the remuneration received by executives of the Company during FY16 and FY17 prepared according to statutory disclosure requirements and applicable accounting standards:

						Base package		STI		LTI [1]				
Name	Role(s)	Year	Salary	Superannuation Contributions	Other benefits	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	Total Remuneration Package (TRP)	Termination Benefits	Change in accrued leave [2]
Graham Maxwell	Managing Director/CEO	2017	$728,018	$21,982	$40,308	$790,308	83%	–	–	$160,258	17%	$950,566	–	$4,675
	Managing Director/CEO	2016	$610,581	$29,167	$40,426	$680,174	45%	$487,500	32%	$344,064	23%	$1,511,738	–	($3,346)
Kevin Perkins	Executive Director	2017	$222,849	$19,568	$31,795	$274,212	100%	–	–	–	–	$274,212	–	($932)
	Executive Director	2016	$281,531	$16,001	$31,832	$329,364	81%	–	–	$78,029	19%	$407,393	–	($78,630)
Nigel Williams	Group CFO	2017	$338,109	$19,568	$47,073	$404,750	86%	–	–	$68,192	14%	$472,942	–	$2,771
	Group CFO	2016	$318,034	$18,016	$41,994	$378,044	57%	$252,404	38%	$33,113	5%	$663,561	–	$5,381
Martin Clarke	CEO – KFC, Australia	2017	$299,431	$19,568	$42,949	$361,948	85%	–	–	$62,236	15%	$424,184	–	($42,629)
	CEO – KFC, Australia	2016	$282,838	$26,162	$42,402	$351,402	54%	$238,289	37%	$60,736	9%	$650,427	–	($15,145)
John Hands [3]	Acting Head of Country (Germany)	2017	$78,037	$4,892	$2,834	$85,763	100%	–	–	–	–	$85,763	–	–
	–	2016	–	–	–	–	–	–	–	–	–	–	–	–
Mark van 't Loo [4]	CEO – KFC, Europe	2017	$65,208	$4,172	–	$69,380	100%	–	–	–	–	$69,380	–	$6,270
	–	2016	–	–	–	–	–	–	–	–	–	–	–	–

(1) The LTI value reported in this table is the amortised accounting charge of all grants that were not lapsed or vested at the start of the reporting period. Where a market based measure of performance is used such as TSR, no adjustments can be made to reflect actual LTI vesting. However, in relation to non-market condition, such as EPS, adjustments must be made to ensure the accounting charge matches the vesting.

(2) The change in accrued leave includes negative amounts during the reporting periods. The negative amounts reflect leave that has been taken during the reporting period measured in accordance with AASB 119 Employee Benefits.

(3) Short term role as Acting Head of Country for equivalent of three months during the reporting period (1 December 2016 to 31 March 2017).

(4) Commenced 9 March 2017.

Both target and awarded values of STI and LTI remuneration are outlined in the relevant sections of the Remuneration Report to assist shareholders to obtain a more complete understanding of remuneration as it relates to senior executives.

Remuneration Report (continued)

NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration received by Non-executive Directors in FY17 and FY16 is disclosed below:

Name	Role(s)	Year	Board and Committee fees	Superannuation	Other Benefits	Termination Benefits	Total
Robert Kaye, SC	Independent, Non-executive Chairman	2017	$191,781	$18,548	–	–	(1) $210,329
	Independent, Non-executive Chairman	2016	$180,000	$17,100	–	–	$197,100
Newman Manion	Independent Non-executive Director	2017	$111,872	$10,628	–	–	$122,500
	Independent Non-executive Director	2016	$100,000	–	$30,000	–	$130,000
Bronwyn Morris	Independent Non-executive Director	2017	$116,438	$11,253	–	–	(1) $127,691
	Independent Non-executive Director	2016	$105,000	$9,975	–	–	$114,975
Russell Tate	Independent Non-executive Director	2017	$115,000	–	–	–	$115,000
	Independent Non-executive Director	2016	$95,000	–	–	–	$95,000

(1) The total paid includes 52 weeks of fees and 53 weeks of superannuation.

Planned executive remuneration for FY17 (non-statutory disclosure)

The following table is provided to ensure that shareholders have an accurate understanding of the Board's intention regarding the remuneration offered to executives during FY17, for target performance. It should be noted that the table presents target incentive opportunities for achieving a challenging but achievable target level of performance. In the case of STI, the maximum incentive may be up to 50% higher (i.e. 150% of the target).

				STI opportunity			LTI opportunity			
Position	Incumbent	Base package including super	Fixed % TRP	Target % of base package	Target STI amount	STI % TRP	Target % of base package	Target LTI amount	LTI % TRP	Total remuneration package at target performance
Managing Director/CEO	Graham Maxwell	$750,000	50%	50%	$375,000	25%	50%	$375,000	25%	$1,500,000
Executive Director(1)	Kevin Perkins	$265,000	100%	–	–	–	–	–	–	$265,000
Group CFO	Nigel Williams	$360,500	60%	50%	$180,250	30%	17%	$60,083	10%	$600,833
CEO – KFC, Australia	Martin Clarke	$319,000	56%	60%	$191,400	33%	20%	$63,000	11%	$574,200
CEO – KFC, Europe	Mark van 't Loo	€276,355	60%	50%	€138,178	30%	17%	€46,059	10%	€460,592

(1) Includes director fees.

The LTI presented in the table above represents the fair value of LTI granted during the FY17 period.

Performance outcomes for FY17 including STI and LTI assessment

COMPANY PERFORMANCE

The market appears to have had a mixed response to the Company's new strategy and progress during FY17, as indicated by the relatively high volatility in the share price during the reporting period, though as at the end of the reporting period the market response seems to be positive. During the reporting period, the Company acquired KFC restaurants in New South Wales and Victoria in Australia, Germany and the Netherlands.

The Company's performance during the reported period and the previous four reporting periods in accordance with the requirements of the Corporations Act follow:

						Short term change in shareholder value over 1 year (SP increase + dividends)		Long term (cumulative) 3 years change in shareholder value	
FY end date	**Revenue ($m)**	**Profit after tax ($m)**	**Share price**	**Change in share price**	**Dividends[1]**	**Amount**	**%**	**Amount**	**%**
FY17	$633.56	$27.99	$5.25	$1.23	$0.160	$1.390	35%	$3.74	196%
FY16	$574.28	$29.12	$4.02	$1.58	$0.125	$1.705	70%	$2.47	130%
FY15	$571.59	($10.36)	$2.44	$0.53	$0.110	$0.640	34%	$1.61	140%
FY14	$440.56	$14.03	$1.91	$0.02	$0.100	$0.120	6%		
FY13	$423.89	$16.37	$1.89						

(1) Dividends used are the cash amount (post franking).

LINKS BETWEEN PERFORMANCE AND REWARD

The remuneration of KMP is intended to be composed of three parts as outlined earlier, being:

- base package, which is not intended to vary with performance but which tends to increase as the scale of the business increases;
- STI which is intended to vary with indicators of annual Company and individual performance, including a deferred component which will vary with exposure to the market; and
- LTI which is also intended to deliver a variable reward based on long-term measures of Company performance.

The STI paid during the FY17 period related to performance during the FY16 period. The weighted average of 145% of the target STI amount was paid on 10 July 2016. This level of award was considered appropriate under the STI scheme that was in place during FY16, which is summarised in the table below. Therefore, there were strong links between internal measures of Company performance and the payment of short term incentives.

		FY16 Company level KPI summary					Award outcomes FY16 paid FY17
Name	**Position held at reporting period end**	**KPI summary**	**Weighting**	**EBITDA Target**	**Achievement**	**Awarded**	**Total STI award**
Graham Maxwell	Managing Director/CEO	EBITDA	100%	$69,444,000	150%	$487,500	$487,500
Kevin Perkins	Executive Director	EBITDA	100%	–	–	–	–
Nigel Williams	Group CFO	EBITDA	100%	$69,444,000	150%	$252,404	$252,404
Martin Clarke	CEO – KFC, Australia	EBITDA	100%	$75,910,000	129%	$238,289	$238,289

There was no STI achieved under the STIP for the reported period.

As noted elsewhere in this report, the Board is of the view that EBITDA is the primary driver of value creation for shareholders in the short term.

During the reporting period grants of equity were made in relation to the LTI scheme as part of remuneration for FY17, but did not vest due to the presence of the long-term measurement period and vesting conditions that are yet to be completed/assessed. Details are given elsewhere in this report in relation to changes in equity interests.

Directors' Report

Remuneration Report (continued)

During the reporting period, grants that were made to Kevin Perkins on 18 September 2013 and all other grantees on 1 October 2013, vested in relation to FY16 being completed, i.e. vesting during FY17 are noted below:

Incumbent	Role	Tranche	Weighting	Number eligible to vest in FY17 for FY16 completion	Actual outcome	% of max/ stretch/ grant vested	Number vested	Grant date VWAP	$ Value of LTI that vested (as per grant date VWAP)
Graham Maxwell	Managing Director/CEO	EPSG	100%	356,088	21.2%	100%	356,088	$1.684976	$600,000
Kevin Perkins[1]	Executive Director	EPSG	100%	103,859	21.2%	100%	103,859	$1.684976	$175,060
Nigel Williams[2]	Group CFO	EPSG	100%	–	–	–	–	–	–
Martin Clarke	CEO – KFC, Australia	EPSG	100%	35,608	21.2%	100%	35,608	$1.684976	$60,000

(1) Relates to performance rights granted whilst still performing the role of Managing Director and CEO.
(2) Appointed to Group CFO role on 18 May 2015.

On 18 July 2016 following satisfaction of the vesting conditions the performance rights previously granted under the LTIP converted to fully paid ordinary shares. Each participant was issued with shares based on the volume weighted average price of $4.15.

The following outlines the vesting scale that was applicable to the above outcomes:

Performance level	Annualised EPS growth (CAGR)	% of max/stretch/grant vesting
Stretch/maximum	10%	100%
Between threshold and stretch	>6%, <10%	Pro-rata
Threshold	6%	20%
Below threshold	<6%	0%

In relation to the completion of the reporting period, previous grants of equity made under the LTI scheme are eligible to be tested for vesting in relation to grants that were made on 13 November 2014 (i.e. will be eligible for vesting during FY18 in relation to the completion of FY17). However, as at the date of drafting of this report, vesting was yet to be determined. Therefore, the table below presents the vesting of LTI that may occur during the next reporting period i.e. in relation to the completion of FY17.

Incumbent	Role	Tranche	Weighting	Number eligible to vest in FY18 for FY17 completion	% of max/ stretch/ grant vested	Number eligible to vest	Grant date VWAP	$ Value of LTI that vested (as per grant date VWAP)
Graham Maxwell	Managing Director/CEO	EPSG	100%	92,301	100%	92,301	$2.166810	$200,000
Kevin Perkins[1]	Executive Director	EPSG	100%	–			–	–
Nigel Williams[2]	Group CFO	EPSG	100%	–			–	–
Martin Clarke	CEO – KFC, Australia	EPSG	100%	27,690	100%	27,690	$2.166810	$60,000

(1) Eligible participant, however as announced via ASX, will not receive performance rights pursuant to current executive services agreement.
(2) Appointed to Group CFO role on 18 May 2015.

All performance rights issued during the reporting period ended 30 April 2017 have an expiry date of 23 July 2019 and were issued with an exercise price of nil. All performance rights issued during the reporting period ended 1 May 2016 have an expiry date of 24 July 2018 and were issued with an exercise price of nil. All performance rights issued during the reporting period ended 3 May 2015 have an expiry date of 26 July 2017 and were issued with an exercise price of nil.

There were two tranches of performance rights issued during the reporting period ended 30 April 2017.

The assessed fair value of performance rights issued on 7 September 2016 was an average of $4.20. The fair value at issuance date was determined using a discounted cash flow model incorporating the share price at issuance date of $4.58, the term of the right, the expected dividend yield of 2.83% and the risk free interest rate for the term of the rights of 1.51%.

The assessed fair value of performance rights issued on 29 September 2016 was an average of $4.13. The fair value at issuance date was determined using a discounted cash flow model incorporating the share price at issuance date of $4.50, the term of the right, the expected dividend yield of 2.83% and the risk free interest rate for the term of the rights of 1.51%.

There were two tranches of performance rights issued during the reporting period ended 1 May 2016.

The assessed fair value of performance rights issued on 1 October 2015 was an average of $2.77. The fair value at issuance date was determined using a discounted cash flow model incorporating the share price at issuance date of $3.22, the term of the right, the expected dividend yield of 4.88% and the risk free interest rate for the term of the rights of 2.06%.

The assessed fair value of performance rights issued on 22 December 2015 was an average of $4.14. The fair value at issuance date was determined using a discounted cash flow model incorporating the share price at issuance date of $4.61, the term of the right, the expected dividend yield of 3.65% and the risk free interest rate for the term of the rights of 2.02%.

The assessed fair value of performance rights issued on 12 November 2014 was an average of $1.89.

The following outlines the vesting scale that was applicable to the above outcomes:

Performance level	Annualised EPS growth (CAGR)	% of max/stretch/grant vesting
Stretch/maximum	10%	100%
Between threshold and stretch	>6%, <10%	Pro-rata
Threshold	6%	20%
Below threshold	<6%	0%

At no time during or in relation to reported period did the Board exercise its discretion to increase the vesting of any equity that was subject to such discretion.

LINKS BETWEEN COMPANY STRATEGY AND REMUNERATION

The Company intends to attract the superior talent required to successfully implement the Company's strategies at a reasonable and appropriately variable cost by:

- positioning Base Packages (the fixed element) around relevant market data benchmarks when they are undertaken;
- supplementing the Base Package with at-risk remuneration, being incentives that motivate executive focus on:
  - short to mid-term objectives linked to the strategy via KPIs and annual performance assessments; and
  - long term value creation for shareholders by linking a material component of remuneration to those factors that shareholders have expressed should be the long term focus of executives and the Board.

The executive remuneration framework components and their links to performance outcomes are outlined below:

Remuneration component	Vehicle	Purpose	Link to performance
Fixed remuneration	Base pay and benefits including superannuation	To provide competitive fixed remuneration set with reference to position and responsibilities in the context of the market	Group and individual performance assessments are considered in an annual remuneration review, and market capitalisation plays a role in benchmarking
Short Term Incentive Plan (STIP)	Cash bonus payment	Rewards executives for their contribution to the achievement of Group and/or divisional outcomes	EBITDA targets must be met in order for bonus to be paid
Long Term Incentive Plan (LTIP) (approved by shareholders at the 2013 and 2016 Annual General Meetings)	Awards in the form of performance rights	Rewards executives for their contribution to the creation of shareholder value over the longer term	Earnings per share (EPS) targets over three year period must be met in order for rights to vest

The Group's aim is to reward executives with an appropriate level and mix of remuneration to attract, retain and motivate them to build long term value for the Group and its shareholders.

The introduction of the LTIP has changed the remuneration mix for KMP, resulting in a higher proportion of an executive's target pay being at risk. The effect of the introduction of the LTIP is that a percentage of the executive's remuneration is directly linked to Group performance in both the short and longer term.

Employment terms for KMP

SERVICE AGREEMENTS

A summary of contract terms in relation to executive KMP is presented below:

Name [1]	Position held at close of FY16	Duration of contract	Period of Notice [2]		Termination Payments [3]
			From Company	From KMP	
Graham Maxwell	Managing Director/ CEO	Open ended	12 months	12 months	Up to 12 months
Kevin Perkins	Executive Director	Open ended	3 months	3 months	Up to 12 months
Nigel Williams	Group CFO	Open ended	3 months	3 months	Up to 12 months
Martin Clarke	CEO – KFC, Australia	Open ended	3 months	1 month	Up to 12 months
Mark van 't Loo	CEO – KFC, Europe	Open ended	6 months	3 months	Up to 12 months

(1) The contract term for John Hands related to his role as Chief Supply Officer and did not change for the time that he performed the role of Acting Head of Country (Germany).

(2) Provision is also made for the Group to be able to terminate these agreements on three months' notice in certain circumstances of serious ill health or incapacity of the executive.

(3) Under the Corporations Act the Termination Benefit Limit is 12 months average Salary (last 3 years) unless shareholder approval is obtained.

The treatment of incentives in the case of termination is addressed in separate sections of this report that give details of incentive design.

With regards to Mr Maxwell, Mr Williams, Mr van 't Loo and Mr Perkins there is a restraint of trade period of 12 months, excluding Sizzler, USA, in the case of Mr Perkins.

On appointment to the Board, all Non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the director. Non-executive Directors are not eligible to receive termination payments under the terms of the appointments.

Changes in KMP held equity

The following table outlines the changes in the amount of equity held by executives over the reporting period:

Name	Security	Number held at open 2017	Granted as compensation	Shares issued on vesting of rights	Number held at close 2017
Graham Maxwell	Shares	–	–	356,088	356,088
	Performance rights	481,705	80,517	(356,088)	206,134
Kevin Perkins	Shares	7,340,833	–	103,859	7,444,692
	Performance rights	103,859	–	(103,859)	–
Nigel Williams	Shares	–	–	–	–
	Performance rights	40,019	13,596	–	53,615
Martin Clarke	Shares	126,262	–	35,608	161,870
	Performance rights	83,307	13,596	(35,608)	61,295
Mark van 't Loo	Shares	–	–	–	–
	Performance rights	–	–	–	–
Total		**8,175,985**	**107,709**	**–**	**8,283,694**

The following table outlines the changes in the amount of equity held by Non-executive Directors over the reporting period:

Name	Security	Number held at open 2017	Number held at close 2017
Robert Kaye, SC	Shares	10,000	10,000
Newman Manion	Shares	20,001	20,001
Bronwyn Morris	Shares	5,001	5,001
Russell Tate	Shares	20,001	20,001
Total		**55,003**	**55,003**

The maximum value of performance rights yet to vest has been determined as the amount of the grant date fair value of the performance rights that is yet to be expensed:

2017 equity grants Name	Role	FY in which rights may vest	Maximum value yet to vest ($)
Graham Maxwell	Managing Director/CEO	2018	–
		2019	26,127
		2020	90,240
Kevin Perkins	Executive Director	2018	–
		2019	–
		2020	–
Nigel Williams	Group CFO	2018	–
		2019	46,911
		2020	14,973
Martin Clarke	CEO – KFC, Australia	2018	–
		2019	23,455
		2020	14,973
Mark van 't Loo	CEO – KFC, Europe	2018	–
		2019	–
		2020	–

Other remuneration related matters

There were no loans to Directors or other KMP at any time during the reporting period, and no relevant material transactions involving KMP other than compensation and transactions concerning shares and performance rights as discussed in this report.

Most recent AGM – Remuneration Report comments and voting

At the most recent AGM in 2016, 91.98% of votes cast at the meeting in favour of the adoption of the Remuneration Report.

External remuneration consultant advice

During the reported period, the Board approved and engaged an external remuneration consultant (ERC) to provide KMP remuneration recommendations and advice. The consultants and the amount payable for the information and work that led to their recommendations are listed below:

Godfrey Remuneration Group Pty Limited
Review of and advice on peer incentive practices evident in the market $14,190

Subsequent to the end of the reporting period, the ERC has also been engaged to assist with improving the remuneration report. Any fees charged in relation to this activity will be disclosed as part of the FY18 Remuneration Report.

So as to ensure that KMP remuneration recommendations were free from undue influence from the KMP to whom they relate the Company established policies and procedures governing engagements with external remuneration consultants. The key aspects include:

- KMP remuneration recommendations may only be received from consultants who have been approved by the Board. This is a legal requirement. Before such approval is given and before each engagement the Board ensures that that the consultant is independent of KMP.
- As required by law, KMP remuneration recommendations are only received by non-executive directors, mainly the Chair of the Remuneration and Nomination Committee.
- The policy seeks to ensure that the Board controls any engagement by management of Board approved remuneration consultants to provide advice other than KMP remuneration recommendations and any interactions between management and external remuneration consultants when undertaking work leading to KMP remuneration recommendations.

The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related. The reasons the Board is so satisfied include that it is confident that the policy for engaging external remuneration consultants is being adhered to and is operating as intended, the Board has been closely involved in all dealings with the external remuneration consultants and each KMP remuneration recommendation received during the reporting period was accompanied by a legal declaration from the consultant to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

Indemnification and insurance of officers

The Company's Constitution provides that it must in the case of a person who is or has been a Director or Secretary of the Group, and may in the case of an officer of the Company, indemnify them against liabilities incurred (whilst acting as such officers) and the legal costs of that person to the extent permitted by law. During the period, the Company has entered into a Deed of Indemnity, Insurance and Access with each of the Company's Directors, Group CFO, CEO, KFC – Australia and Company Secretary. Subsequent to the period end, a Deed of Indemnity, Insurance and Access was entered into with the CEO, KFC – Europe.

No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the period.

The Company has paid a premium for insurance for officers of the Group. The cover provided by the insurance contract is customary for this type of insurance policy. Details of the nature of the liabilities covered or the amount of the premium paid in respect of this insurance contract are not disclosed as such disclosure is prohibited under the insurance contract.

Proceedings on behalf of the Company

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

During the period, the Company's Auditor (PricewaterhouseCoopers) performed other services in addition to its audit responsibilities. Whilst their main role is to provide audit services to the Company, the Company does employ their specialist advice where appropriate.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence, including not reviewing or auditing the auditor's own work, not acting in a management or a decision making capacity for the Company, not acting as advocate for the Company, or not jointly sharing economic risk or rewards.

During the period the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms

WHOLE DOLLARS

	2017 $	2016 $
Audit and other assurance services		
Audit services:		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	346,678	311,567
Audit and review of financial reports and other audit work for foreign subsidiary	34,145	33,476
Network firms of PricewaterhouseCoopers Australia		
Audit and review of financial reports and other audit work for foreign subsidiary	26,532	26,845
	407,355	371,888
Other assurance services:		
PricewaterhouseCoopers Australian firm		
Store sales certificates	10,930	10,716
Agreed upon procedures for covenant calculations	21,452	21,032
Due diligence services relating to European and domestic acquisitions	575,074	–
	607,456	31,748
Total remuneration for assurance services	1,014,811	403,636
Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of company tax returns	37,700	36,000
International tax consulting and tax advice on acquisitions	521,268	–
Network firms of PricewaterhouseCoopers Australia		
Tax compliance services, including review of company tax returns	4,785	4,378
International tax consulting and tax advice on acquisitions	32,500	–
Total remuneration for taxation services	596,253	40,378
Other services		
PricewaterhouseCoopers Australian firm		
Accounting advice	29,580	–
Business process review	25,000	
Total remuneration for other services	54,580	–
Total remuneration for services	1,665,644	444,014

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice, due diligence reporting on acquisitions and capital raisings, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Company's policy to seek competitive tenders for all major consulting projects.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 35.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors.

Robert Kaye SC
Chairman

Brisbane
26 June 2017

Auditor’s Independence Declaration

Auditor’s Independence Declaration

As lead auditor for the audit of Collins Foods Limited for the year ended 30 April 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Collins Foods Limited and the entities it controlled during the period.

Kim Challenor
Partner
PricewaterhouseCoopers

Brisbane
26 June 2017

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Consolidated Income Statement

For the reporting period ended 30 April 2017

	Note	2017 $000	2016 $000
Revenue	A3	633,562	574,284
Cost of sales		(301,250)	(270,943)
Gross profit		332,312	303,341
Selling, marketing and royalty expenses[1]		(128,946)	(118,217)
Occupancy expenses[1]		(50,946)	(45,264)
Restaurant related expenses[1]		(59,277)	(53,721)
Administration expenses[1][4]		(39,224)	(33,115)
Other expenses[2]		(4,454)	(5,323)
Other income[3]	A3	2,395	3,111
Profit from continuing operations before finance income, finance costs and income tax (EBIT)		51,860	50,812
Finance income	A4	357	746
Finance costs	A4	(8,428)	(8,949)
Share of net profit/(loss) of joint ventures accounted for using the equity method		217	(381)
Profit from continuing operations before income tax		44,006	42,228
Income tax expense[5]	F9(a)	(16,018)	(13,113)
Profit from continuing operations		27,988	29,115
Net profit attributable to members of Collins Foods Limited		**27,988**	**29,115**
Basic earnings per share	F2	29.12 cps	31.31 cps
Diluted earnings per share	F2	28.97 cps	31.06 cps
Weighted average basic ordinary shares outstanding	F2	96,118,304	93,000,003
Weighted average diluted ordinary shares outstanding	F2	96,611,031	93,732,586

(1) Impairment charges included in expenses are as follows: selling marketing expenses $31,000; occupancy expenses $667,000; restaurant related expenses $514,000; and administration expenses $924,000 (2016: selling marketing expenses $21,000; occupancy expenses $537,000; restaurant related expenses $750,000).

(2) Other expenses include restaurant smallwares write-off of $25,000 (2016: onerous lease $1,250,000; and restaurant smallwares write-off $740,000).

(3) Other income includes a gain on disposal of land and building of $500,000; a gain on disposal of property plant and equipment of $605,000; and realised foreign exchange gain of $734,000 (2016: gain on disposal of land and building $1,746,000).

(4) Administration expenses include costs of acquisitions of $4,981,000.

(5) Income tax expense includes the reversal of deferred tax assets associated with restaurant closures of $976,000.

The above Consolidated Income Statement should be read in conjunction with the accompanying Notes.

Consolidated Statement of Comprehensive Income

For the reporting period 30 April 2017

	Note	2017 $000	2016 $000
Net profit attributable to members of Collins Foods Limited		27,988	29,115
Items that may be reclassified to profit or loss			
Other comprehensive income/(expense):			
Exchange difference upon translation of foreign operations	F8	771	185
Cash flow hedges	F8	977	211
Income tax relating to components of other comprehensive income	F9	(293)	(64)
Other comprehensive income for the reporting period, net of tax		1,455	332
Total comprehensive income for the reporting period		29,443	29,447
Total comprehensive income for the reporting period is attributable to:			
Owners of the parent		**29,443**	**29,447**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

Consolidated Balance Sheet

As at 30 April 2017

	Note	2017 $000	2016 $000
Current assets			
Cash and cash equivalents	B1	104,751	52,464
Receivables	F3	4,241	9,008
Inventories		5,076	4,398
Total current assets		114,068	65,870
Non-current assets			
Property, plant and equipment	F4	103,380	88,000
Intangible assets, net	F5	282,470	247,952
Deferred tax assets, net	F9(b)	26,684	25,234
Receivables	F3	6	11
Investments accounted for using the equity method		1,571	1,243
Total non-current assets		414,111	362,440
Total assets		528,179	428,310
Current liabilities			
Trade and other payables	F6	61,863	58,035
Current tax liabilities		4,648	4,131
Derivative financial instruments	C3	1,773	1,726
Provisions	F7	5,298	4,541
Total current liabilities		73,582	68,433
Non-current liabilities			
Borrowings	C2	183,022	164,240
Derivative financial instruments	C3	1,684	2,705
Provisions	F7	3,098	3,235
Total non-current liabilities		187,804	170,180
Total liabilities		261,386	238,613
Net assets		**266,793**	**189,697**
Equity			
Contributed equity	D3	245,260	182,098
Reserves	F8	3,420	2,364
Retained earnings		18,113	5,235
Total equity		**266,793**	**189,697**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying Notes.

Consolidated Statement of Cash Flows

For the reporting period ended 30 April 2017

	Note	2017 $000	2016 $000
Cash flows from operating activities:			
Receipts from customers (inclusive of GST)		694,202	630,571
Payments to suppliers and employees (inclusive of GST)		(573,356)	(524,205)
GST paid		(37,009)	(35,886)
Interest received		358	749
Interest and other borrowing costs paid		(8,044)	(8,404)
Income tax paid		(15,588)	(13,137)
Net operating cash flows	B1	60,563	49,688
Cash flows from investing activities:			
Payment for acquisition of subsidiary, net of cash acquired (Australia KFC acquisition)	A2	(15,322)	–
Payment for acquisition of subsidiary, net of cash acquired (Germany KFC acquisition)	A2	(19,250)	–
Net cash acquired upon acquisition of subsidiary (Snag Stand acquisition)	A2	282	–
Proceeds from sale of property, plant and equipment		635	3,173
Purchase of franchise rights		(668)	(639)
Payments for plant and equipment		(30,609)	(27,642)
Net investing cash flows		(64,932)	(25,108)
Cash flow from financing activities:			
Proceeds from borrowings – bank loan facilities		28,592	–
Repayment of borrowings and other obligations		(10,000)	–
Loans advanced – related parties		(200)	(1,840)
Refinance fees paid		(437)	(839)
Proceeds from share placement	D3	54,484	–
Share issuance and placement costs	D3	(2,120)	–
Dividends paid	B4	(15,110)	(11,625)
Net financing cash flows		55,209	(14,304)
Net increase in cash and cash equivalents		50,840	10,276
Cash and cash equivalents at the beginning of the reporting period		52,464	42,234
Effects of exchange rate changes on cash and cash equivalents		1,447	(46)
Cash and cash equivalents at the end of the reporting period	B1	**104,751**	**52,464**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes.

Consolidated Statement of Changes In Equity

For the reporting period ended 30 April 2017

	NOTE	CONTRIBUTED EQUITY	RESERVES	(ACCUMULATED LOSSES)/ RETAINED EARNINGS	TOTAL EQUITY
2016		**$000**	**$000**	**$000**	**$000**
Beginning of the reporting period		182,098	1,446	(12,255)	171,289
Profit for the reporting period		–	–	29,115	29,115
Other comprehensive income		–	332	–	332
Total comprehensive income for the reporting period		–	332	29,115	29,447
Transactions with owners in their capacity as owners:					
Share-based payments		–	586	–	586
Dividends provided for or paid	B4	–	–	(11,625)	(11,625)
End of the reporting period		**182,098**	**2,364**	**5,235**	**189,697**
2017		**$000**	**$000**	**$000**	**$000**
Beginning of the reporting period		182,098	2,364	5,235	189,697
Profit for the reporting period		–	–	27,988	27,988
Other comprehensive income		–	1,455	–	1,455
Total comprehensive income for the reporting period		–	1,455	27,988	29,443
Transactions with owners in their capacity as owners:					
Share-based payments		–	399	–	399
Dividends provided for or paid	B4	–	–	(15,110)	(15,110)
Performance rights vested		798	(798)	–	–
Shares issued		62,364	–	–	62,364
End of the reporting period		**245,260**	**3,420**	**18,113**	**266,793**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

Notes to the Consolidated Financial Statements

A/ FINANCIAL OVERVIEW

This section provides information that is most relevant to explaining the Group's performance during the reporting period, and where relevant, the accounting policies that have been applied and significant estimates and judgments made.

A1/ Segment information

A2/ Business combinations

A3/ Revenue and other income

A4/ Expenses

A1/ Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Managing Director & CEO.

DESCRIPTION OF SEGMENTS

Management has determined the operating segments based on the reports reviewed by the Managing Director & CEO that are used to make strategic decisions. Hence four reportable segments have been identified: KFC Restaurants Australia and Europe (competing in the quick service restaurant market), Sizzler Restaurants (competing in the full service restaurant market), Shared Services which performs a number of administrative and management functions for the Group's KFC and Sizzler Restaurants and other which primarily includes Snag Stand trading activities.

SEGMENT INFORMATION PROVIDED TO THE MANAGING DIRECTOR & CEO

The following is an analysis of the revenue and results by reportable operating segment for the periods under review:

	KFC RESTAURANTS AUSTRALIA	SIZZLER RESTAURANTS	SHARED SERVICES	KFC RESTAURANTS EUROPE	OTHER	TOTAL
2017	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Total segment revenue	549,472	65,049	–	14,806	4,235	633,562
Underlying EBITDA[1]	89,849	4,575	(13,184)	633	(615)	81,258
Depreciation, amortisation and impairment	20,349	1,538	995	616	2,334	25,832
Finance costs – net	(5)	(4)	8,073	8	(1)	8,071
Income tax expense						16,018
2016	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Total segment revenue	501,638	72,646	–	–	–	574,284
Underlying EBITDA[1]	81,898	5,323	(13,045)	–	407	74,583
Depreciation, amortisation and impairment	18,398	3,218	1,419	–	11	23,046
Finance costs – net	(1)	(3)	8,208	–	(1)	8,203
Income tax expense						13,113

(1) Refer below for a description and reconciliation of Underlying EBITDA.

Notes to the Consolidated Financial Statements

A1/ Segment information (continued)

OTHER SEGMENT INFORMATION

Segment revenue

There are no sales between segments. The revenue from external parties reported to the Board is measured in a manner consistent with that in the Consolidated Income Statement.

Revenue from external customers is derived from the sale of food in KFC and Sizzler Restaurants and Snag Stand outlets.

Underlying EBITDA

The Board assesses the performance of the operating segments based on a measure of Underlying EBITDA. This measurement basis excludes the effects of costs associated with acquisitions (refer to Note A2), additionally, impairment of property, plant, equipment, franchise rights, brand assets and goodwill are also excluded to the extent they are isolated non-recurring events. Net finance costs (including the impact of derivative financial instruments) are not allocated to segments as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

A reconciliation of Underlying EBITDA to profit/(loss) from continuing operations before income tax is provided as follows:

	2017 $000	2016 $000
Underlying EBITDA	81,258	74,583
Finance costs – net	(8,071)	(8,203)
Realised foreign exchange gain	734	–
Long term incentive provision	–	105
Performance rights	(399)	(586)
Costs of acquisitions expensed	(4,981)	–
Depreciation	(22,150)	(20,304)
Amortisation	(1,546)	(1,434)
Impairment of property, plant and equipment	(1,212)	(1,308)
Impairment of Snag Stand goodwill	(924)	–
Write off of restaurant smallwares	(25)	(740)
Provision for onerous lease	–	(1,250)
Gain on disposal of land and building	1,105	1,746
Share of net profit/(loss) of joint ventures accounted for using the equity method	217	(381)
Profit from continuing operations before income tax	44,006	42,228

A2/ Business combinations

SNAG STAND – SUMMARY OF ACQUISITION

On 15 June 2016, Collins Foods Group Pty Ltd, a subsidiary of the Company, acquired the remaining 50% share of Snag Holdings Pty Ltd for a nominal sum to take full ownership. The primary reason for acquiring the remaining 50% of Snag Stand was to bring the brand under the guidance of Collins Foods management, with the view to refining the brand and economic model to position it for growth.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$000
Cash paid	–
Effective settlement of pre-existing loan receivable from Snag Holdings Pty Ltd	3,377
Total purchase consideration	3,377

The provisional fair values of the assets and liabilities of the business acquired as at the date of acquisition are as follows:

	Fair Value $000
Cash	282
Receivables	38
Inventories	72
Property, plant and equipment	1,230
Intangible assets	28
Deferred tax asset, net	1,388
Trade and other payables	(314)
Provisions	(271)
Net identifiable assets acquired	2,453
Goodwill	924
Net assets acquired	3,377

The goodwill is attributable to the workforce and access to an established market with opportunities for future expansion.

Acquisition – related costs

Acquisition related costs of $40,000 have been recognised in the statement of profit or loss and other comprehensive income (other expenses) and in operating cash flows in the statement of cash flows (payments to suppliers and employees).

Purchase consideration – cash flow	As at acquisition date $000
Balances acquired	282
Less cash consideration	–
Inflow of cash – investing activities	282

The acquired business contributed revenues of $4.2 million and an underlying EBITDA of ($0.9) million to the Group for the period 15 June 2016 to 30 April 2017. If the acquisition had occurred on 2 May 2016, the contributed revenue for the reporting period ended 30 April 2017 would have been $5.1 million with a corresponding underlying EBITDA of ($1.1) million.

13 KFC RESTAURANTS (AUSTRALIA) – SUMMARY OF ACQUISITION

On 26 July 2016, Collins Foods Group Pty Ltd, a subsidiary of the Company, acquired 13 KFC Restaurants for $25.3 million from a franchisee of KFC Restaurants around the New South Wales and Victoria border. The primary reason for the acquisition was to expand operations in the quick service restaurant market, and consolidate the Company's position as the largest KFC franchisee in Australia.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$000
Cash paid	15,346
Share consideration	10,000
Total purchase consideration	25,346

Notes to the Consolidated Financial Statements

A2/ Business combinations (continued)

The provisional fair values of the assets and liabilities of the business acquired as at the date of acquisition are as follows:

	Fair Value $000
Cash	24
Inventories	169
Property, plant and equipment	3,422
Intangible assets	367
Deferred tax asset, net	312
Trade and other payables	(251)
Provisions	(301)
Net identifiable assets acquired	3,742
Goodwill	21,604
Net assets acquired	25,346

The goodwill represents the value of markets with an established business name that has a strong reputation and market presence.

Acquisition – related costs

Acquisition related costs of $1.2 million have been recognised in the statement of profit or loss and other comprehensive income (other expenses) and in operating cash flows in the statement of cash flows (payments to suppliers and employees).

Purchase consideration – cash flow	As at acquisition date $000
Cash consideration	15,346
Less balances acquired	24
Outflow of cash – investing activities	15,322

The acquired business contributed revenues of $26.0 million and an underlying EBITDA of $3.3 million to the Group for the period 26 July 2016 to 30 April 2017. If the acquisition had occurred on 2 May 2016, the contributed revenue for the reporting period ended 30 April 2017 would have been $34.2 million with a corresponding underlying EBITDA of $4.7 million.

12 KFC RESTAURANTS (GERMANY) – SUMMARY OF ACQUISITION

On 1 December 2016, Collins Foods Germany Limited, a subsidiary of the Company, acquired 11 KFC Restaurants situated in Stuttgart and Dusseldorf, and on 19 December 2016 a further store was purchased. These 12 restaurants were acquired from the franchisor Kentucky Fried Chicken (Great Britain), German Branch for a total purchase price of Euro €13.5 million. The acquisition provides a strategic entry into the KFC Germany market which has substantial growth opportunities and a growth platform for Collins Foods' KFC operations outside of Australia.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$000
Cash paid	19,318
Total purchase consideration	19,318

The provisional fair values of the assets and liabilities of the business acquired as at the date of acquisition are as follows:

	Fair Value $000
Cash	68
Inventories	280
Property, plant and equipment	6,991
Intangible assets	793
Trade and other payables	(118)
Provisions	(889)
Net identifiable assets acquired	7,125
Goodwill	12,193
Net assets acquired	19,318

The goodwill, once finalised, will represent the value of markets with an established business name that has a strong reputation and market presence.

Acquisition – related costs

Acquisition related costs of $2.3 million have been recognised in the statement of profit or loss and other comprehensive income (other expenses) and in operating cash flows in the statement of cash flows (payments to suppliers and employees).

Purchase consideration – cash flow	As at acquisition date $000
Cash consideration	19,318
Less balances acquired	68
Outflow of cash – investing activities	19,250

The acquired business contributed revenues of $14.8 million and an underlying EBITDA of $0.8 million to the Group for the period 1 December 2016 to 30 April 2017. If the acquisition had occurred on 2 May 2016, the contributed revenue for the reporting period ended 30 April 2017 would have been $35.7 million with a corresponding underlying EBITDA of $1.9 million.

16 KFC RESTAURANTS (NETHERLANDS) – SUMMARY OF PROPOSED ACQUISITION

On 23 March 2017, Collins Foods Netherlands Limited entered into a binding agreement to acquire 16 KFC Restaurants located in the Netherlands. These restaurants are being purchased from subsidiaries of YUM! Brands Inc. Collins Foods will pay Euro €62.3 million for the acquisition of the assets relating to the 16 restaurants plus transaction costs, funded by a fully underwritten institutional placement to raise $54.5 million and an extension of Company's existing debt facility. The price will be adjusted up for inventory and available cash at each restaurant, and adjusted down for employee liabilities accrued prior to completion, which are assumed as part of the acquisition.

Completion is subject to a number of usual conditions precedent regarding the entry into applicable franchise agreements, leases or subleases, service and supply agreements and employee retention arrangements relating to the 16 restaurants, and is expected to be achieved in the first half of FY18.

ACCOUNTING POLICY

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Transaction costs arising on the issue of equity instruments are recognised directly in equity. Transaction costs arising from business combinations are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Notes to the Consolidated Financial Statements

A3/ Revenue and other income

	2017 $000	2016 $000
Revenue from continuing operations		
Sales revenue:		
Sale of goods	629,813	570,639
Other revenue:		
Franchise revenue from external parties	3,749	3,645
Total revenue	633,562	574,284
Other income		
Net gain on disposal of property, plant and equipment	837	1,485
Realised foreign exchange gain	734	–
Traineeship income	143	411
Other	681	1,215
Total other income	2,395	3,111

ACCOUNTING POLICY

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognised when the Group has passed control of the goods to the customer, interest income is recognised on a time proportion basis using the effective interest method and traineeship income is recognised as revenue when the right to receive payment is established.

A4/ Expenses

	2017 $000	2016 $000
Profit/(loss) from continuing operations before income tax includes the following specific expenses:		
Depreciation, amortisation and impairment		
Depreciation	22,150	20,304
Amortisation	1,546	1,434
Impairment	2,136	1,308
Total depreciation, amortisation and impairment	25,832	23,046
Finance income and costs		
Finance income	(357)	(746)
Finance costs	8,428	8,949
Net finance costs	8,071	8,203
Employee benefits expense		
Wages and salaries	151,628	139,707
Defined contribution superannuation expense	11,559	10,542
Employee entitlements	10,780	9,794
Total employee benefits expense	173,967	160,043
Operating lease rentals	35,290	31,400
Inventories recognised as an expense	209,243	187,818
Costs of acquisitions expensed	4,981	–
Long term incentive provision	–	(105)
Performance rights	399	586
Write off of restaurant smallwares	25	740
Provision for onerous lease	–	1,250
Bank transaction fees	2,393	2,079

B/ CASH MANAGEMENT

Collins Foods Limited has a focus on maintaining a strong balance sheet with the strategy incorporating the Group's expenditure, growth and acquisition requirements, and the desire to return dividends to shareholders.

B1/ Cash and cash equivalents

B2/ Borrowings

B3/ Ratios

B4/ Dividends

B1/ Cash and cash equivalents

	2017 $000	2016 $000
Cash at bank and on hand	104,751	52,464

Reconciliation of profit from continuing operations to net cash inflow from operating activities

	2017 $000	2016 $000
Profit from continuing operations	27,988	29,115
Adjustments for non-cash income and expense items:		
Depreciation, amortisation and impairment	25,832	23,046
(Gain)/loss on disposal of property, plant and equipment	(226)	(1,587)
Amortisation of borrowing costs	238	529
Non-cash employee benefits expense share-based payments	399	586
Transfer to/(from) provisions:		
Reversal of provision for diminution in value of inventory	43	(103)
Provision for employee entitlements	(829)	(1,280)
Movement in:		
Income tax payable	517	493
Deferred tax balances	(81)	(512)
Fringe benefits tax payable	33	55
Goods and services tax payable	814	(1,078)
Changes in assets and liabilities:		
(Increase)/decrease in assets:		
Receivables	(1,305)	816
Inventory	(200)	363
Prepayments and other assets	2,826	(281)
Share of profits of joint ventures	(217)	381
Increase in liabilities:		
Trade payables and accruals	4,731	(855)
Net operating cash flows	60,563	49,688

ACCOUNTING POLICY

For the purposes of the Consolidated Statement of Cash Flows, cash includes cash on hand, at call deposits with banks or financial institutions, and other short-term, highly liquid investments in money market instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

B2/ Borrowings

AVAILABLE FINANCING FACILITIES

	2017		2016	
	Working Capital Facility $000	Revolving Bank Loans $000	Working Capital Facility $000	Revolving Bank Loans $000
Used	807	183,981	910	165,000
Unused	14,193	63,838	14,090	35,000
Total	15,000	247,819	15,000	200,000

A subsidiary of the Company, CFG Finance Pty Limited, is the primary borrower under a Syndicated Facility Agreement (Syndicated Facility) and a Working Capital Facility Agreement (Working Capital Facility). On 15 December 2015 the Group completed an amendment to these existing facilities including an increase in the syndicated facility to $200 million and an increase to the working capital facility to $15 million. On 23 March 2017 the Group completed an amendment adding a Euro €33 million facility to the existing facilities. The Syndicated Facility includes a $65 million tranche which expires 31 October 2018. All other borrowing facilities expire on 31 October 2020.

Facilities

The Syndicated Facility and Working Capital Facility are subject to certain financial covenants and restrictions such as net leverage ratios, interest coverage ratios and others which management believe are customary for these types of loans. During the reporting period ended 30 April 2017, the Group maintained compliance with the financial covenants and restrictions of these facilities. The Company and its subsidiaries (other than subsidiaries outside of the Closed Group) were registered guarantors of all the obligations in respect of these loan facilities.

ACCOUNTING POLICY

Bank loans are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidated Income Statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not transaction costs relating to the actual draw-down of the facility, are capitalised and amortised on a straight-line basis over the term of the facility.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

B3/ Ratios

CAPITAL MANAGEMENT

The Group manages its capital by maintaining a strong capital base. The Group assesses its capital base by reference to its gearing ratio, which it defines as net debt divided by total capital. Net debt is calculated as borrowings (excluding capitalised fees) less cash and cash equivalents. Total capital is calculated as total equity as shown in the balance sheet plus net debt. At balance date, the gearing ratio was 23% (2016: 37%).

NET DEBT

	Note	2017 $000	2016 $000
General cash at bank and on hand	B1	104,751	52,464
Borrowings – non-current		183,981	165,000
Net debt		79,230	112,536

NET LEVERAGE

	2017 $000	2016 $000
Net debt	79,230	112,536
EBITDA per Syndicated Facility Agreement	83,932	74,102
Net leverage	0.94[1]	1.52

(1) The net proceeds raised from the share placement of ordinary shares to partially fund the acquisition of KFC restaurants in the Netherlands is included in net debt. Excluding these proceeds the net leverage ratio is 1.59.

B4/ Dividends

DIVIDENDS

	2017 $000	2016 $000
Dividends paid of $0.16 (2016: $0.125) per fully paid share	15,110	11,625

FRANKING CREDITS

	2017 $000	2016 $000
Franking credits available for the subsequent reporting period based on a tax rate of 30%	74,199	65,129

The above amount represents the balance of the franking account as at the end of the reporting period, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the reporting period;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that may be prevented from being distributed in the subsequent reporting period.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Since the end of the reporting period, the Directors of the Company have declared the payment of a fully franked final dividend of 9.0 cents per ordinary share ($9.6 million) to be paid on 20 July 2017. The aggregate amount of the dividend to be paid on that date, but not recognised as a liability at the end of the reporting period is $9,595,997.

ACCOUNTING POLICY

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at balance date.

Notes to the Consolidated Financial Statements

C/ FINANCIAL RISK MANAGEMENT

This section provides information relating to the Group's exposure to financial risks, how they affect the financial position and performance, and how the risks are managed.

C1/ Financial risk management

C2/ Recognised fair value measurements

C3/ Derivative financial instruments

C1/ Financial risk management

The Board of Directors has delegated specific authorities to the central finance department in relation to financial risk management. The finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board has provided written policies covering the management of interest rate risk and the use of derivative financial instruments. All significant decisions relating to financial risk management require specific approval by the Board of Directors.

The Group's activities expose it to a variety of financial risks: Market risk (including currency risk, interest risk and price risk), credit risk and liquidity risk. In addition, the Group manages its capital base. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group's activities expose it primarily to the financial risk of changes in interest rates and it utilises Swap Contracts to manage its interest rate risk exposure. The use of financial instruments is governed by the Group's policies approved by the Board of Directors, and are not entered into for speculative purposes.

MARKET RISK

Foreign exchange risk

During 2017 and 2016, the financial instruments of the Group and the parent entity were denominated in Australian dollars apart from certain bank accounts, trade receivables and trade payables in respect of the Group's Asian operations and European operations which were denominated in foreign currencies at the Group level. Management has decided not to hedge the foreign exchange risk exposure for Asia. In respect of its European operations the group aims to reduce balance sheet translation exposure by borrowing in the currency of its assets (Euro €) as far as practical (disclosed in Note B2). The Group's exposure to foreign currency risk is disclosed in the tables below.

Cash flow and interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk while borrowings issued at fixed rates expose the Group to fair value interest rate risk.

It is the policy of the Group to protect a designated portion of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts (Swap Contract) under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Information about the Group's variable rate borrowings, outstanding Swap Contracts and an analysis of maturities at the reporting date is disclosed in Notes C1 and C3.

Price risk

The Group manages commodity price risk by forward contracting prices on key commodities and by being actively involved in relevant supply co-operatives.

Hedge of net investment in foreign entity

As at 23 November 2016, Euro €19.8 million of the Euro denominated loan of Euro €20 million was designated as the hedging instrument of a net investment hedge for the foreign currency risk exposure of Euro €19.8 million of the Euro equity invested in the Collins Foods Europe Limited (and subsidiaries). As at inception this hedge was considered to be completely effective.

CREDIT RISK

Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks, other trade receivables and receivables from related parties. The Group has adopted a policy of only dealing with creditworthy counterparties and in the situation of no independent rating being available, will assess the credit quality of the customer taking into account its financial position, past experience and other factors.

Trade receivables consist of a small number of customers and ongoing review of outstanding balances is conducted on a periodic basis. The balance outstanding (disclosed in Note F3) is not past due, nor impaired (2016: nil past due). The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Related party transactions are conducted on commercial terms and conditions. Recoverability of these transactions are assessed on an ongoing basis.

Credit risk further arises in relation to financial guarantees given to certain parties, refer to Notes B2 and G1 for details.

LIQUIDITY RISK

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve banking facilities by continuously monitoring forecast and actual cash flows. This approach enables the Group to manage short, medium and long term funding and liquidity management as reported in Note B2. Non-interest bearing liabilities are due within six months. For maturities of interest bearing liabilities and Swap Contracts of the Group, refer to Notes C1 and C3.

MATURITIES OF FINANCIAL LIABILITIES

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- all non-derivative financial liabilities; and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For Swap Contracts the cash flows have been estimated using forward interest rates applicable at the end of each reporting period.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES	NOTE	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	CARRYING AMOUNT
2017		$000	$000	$000	$000	$000	$000
Non-derivatives							
Trade and other payables	F6	61,863	–	–	–	61,863	61,863
Borrowings	C2	9,207	69,823	130,927	–	210,002	183,022
Total non-derivatives		71,070	69,823	130,927	–	271,865	244,885
Derivatives							
Net settled (Swap Contracts)	C3	(1,814)	(1,227)	(545)	–	(3,586)	(3,457)
2016		$000	$000	$000	$000	$000	$000
Non-derivatives							
Trade and other payables	F6	58,035	–	–	–	58,035	58,035
Borrowings	C2	8,183	7,951	178,502	–	194,636	164,240
Total non-derivatives		66,218	7,951	178,502	–	252,671	222,275
Derivatives							
Net settled (Swap Contracts)	C3	(1,748)	(1,509)	(1,463)	–	(4,720)	(4,431)

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk only, as the Group is not exposed to other price risks:

Interest Rate Risk and Foreign Exchange Risk

		INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		-1%		+1%		-20%		+20%	
	CARRYING AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY
2017	$000	$000	$000	$000	$000	$000	$000	$000	$000
Financial assets	107,177	(733)	–	733	–	668	–	(668)	–
Financial liabilities	253,949	527	(2,350)	(527)	2,350	(16)	–	16	–
Total increase/(decrease)		(206)	(2,350)	206	2,350	652	–	(652)	–
2016	$000	$000	$000	$000	$000	$000	$000	$000	$000
Financial assets	56,836	(390)	–	390	–	60	–	(60)	–
Financial liabilities	231,597	305	(3,144)	(305)	3,144	(1)	–	1	–
Total increase/(decrease)		(85)	(3,144)	85	3,144	59	–	(59)	–

Notes to the Consolidated Financial Statements

C1/ Financial risk management (continued)

Interest rate risk exposures – non-current liabilities

The following table summarises interest rate risk for the Group, together with effective interest rates as at the end of the reporting period.

	NOTES	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: 5 YEARS OR LESS	MORE THAN 5 YEARS	NON-INTEREST BEARING	TOTAL	WEIGHTED AVERAGE EFFECTIVE RATE
2017		**$000**	**$000**	**$000**	**$000**	**$000**	
Trade and other payables	F6	–	–	–	61,863	61,863	
Borrowings – unhedged	C3	59,231	–	–	–	59,231	**2.7%**
Borrowings – hedged[1]	C3	–	124,750	–	–	124,750	**4.9%**
		59,231	124,750	–	61,863	245,844	
2016		**$000**	**$000**	**$000**	**$000**	**$000**	
Trade and other payables	F6	–	–	–	58,035	58,035	
Borrowings – unhedged	C3	43,500	–	–	–	43,500	**3.9%**
Borrowings – hedged[1]	C3	–	121,500	–	–	121,500	**5.3%**
		43,500	121,500	–	58,035	223,035	

(1) Refer Note C3 for details of derivative financial instruments.

Interest rate risk exposures – current assets receivables

The Group's exposure to interest rate risk and the average interest rate by maturity period is set out in the following table:

	NOTES	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: 5 YEARS OR LESS	MORE THAN 5 YEARS	NON-INTEREST BEARING	TOTAL	WEIGHTED AVERAGE EFFECTIVE RATE
2017		**$000**	**$000**	**$000**	**$000**	**$000**	
Trade and other receivables	F3	–	–	–	2,432	2,432	
		–	–	–	2,432	2,432	
2016		**$000**	**$000**	**$000**	**$000**	**$000**	
Trade and other receivables	F3	–	–	–	1,094	1,094	
Related party receivables	F3	3,289	–	–	–	3,289	7.6%
		3,289	–	–	1,094	4,383	

CREDIT RISK

There is no concentration of credit risk with respect to external current and non-current receivables.

C2/ Recognised fair value measurements

FAIR VALUE HIERARCHY

Judgements and estimates are made in determining the fair values of assets and liabilities that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified such assets and liabilities into the three levels prescribed under the accounting standards.

The fair values of derivative instruments are determined as the estimated amount that the Group and the Company would receive or pay to terminate the interest rate swap at the end of the reporting period, taking into account the current interest rate.

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

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The different levels have been identified as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As at 30 April 2017, the Group has derivative financial instruments which are classified as Level 3 financial instruments. There are no Level 1 or Level 2 financial instruments. As at 1 May 2016, the Group had derivative financial instruments which were classified as Level 3 financial instruments. There were no Level 1 or Level 2 financial instruments.

DISCLOSED FAIR VALUES

The Group also has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes to the financial statements.

Receivables

Due to the short term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. For the majority of non-current receivables, the fair values are not materially different to their carrying amounts, since the interest on those receivables is close to current market rates.

Trade and other payables

Due to the short term nature of the trade and other payables, their carrying amount is assumed to be the same as their fair value.

Borrowings

The fair value of borrowings is as follows:

			2017			2016
	Carrying amount $000	Fair value $000	Discount rate %	Carrying amount $000	Fair value $000	Discount rate %
Bank Loan (net of borrowing costs)	183,022	175,892	5.8	164,240	156,409	5.8

The fair value of non-current borrowings is based on discounted cash flows using the rate disclosed in the table above. They are classified as Level 3 values in the fair value hierarchy due to the use of unobservable inputs, including the credit risk of the Group.

VALUATION PROCESSES

The finance department of the Group engages a third party expert valuation firm to value the derivative financial instruments that are required to be measured, recognised and disclosed in the financial statements, at fair value. This includes Level 3 fair values. The finance department reports directly to the Group CFO and the Audit and Risk Committee (ARC). Discussions of valuation processes and results are held between the Group CFO, ARC and the finance department at least once every six months, in line with the Group's half-year reporting periods.

The main Level 3 inputs used by the Group are derived and evaluated as follows:

- discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Changes in Level 2 and Level 3 fair values are analysed at the end of each reporting period during the half-year valuation discussion between the Group CFO, ARC and the finance department. As part of this discussion the finance department presents a report that explains the reason for the fair value movements.

Notes to the Consolidated Financial Statements

C2/ Recognised fair value measurements (continued)

ACCOUNTING POLICY

Investments and other financial assets

The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

All investments and other financial assets with the exception of held-to-maturity investments and loans and receivables are measured at fair value. Held-to-maturity investments and loans and receivables are measured at amortised cost. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Changes in fair value are either taken to the Consolidated Income Statement or an equity reserve.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in current receivables (Note F3) and non-current receivables (Note F3) in the Consolidated Balance Sheet.

Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have determinable payments and management intends to hold them for the medium to long term.

C3/ Derivative financial instruments

	2017 $000	2016 $000
Current liabilities		
Interest rate swap contracts – cash flow hedges	1,773	1,726
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	1,684	2,705

INSTRUMENTS USED BY THE GROUP

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies.

INTEREST RATE SWAP CONTRACTS – CASH FLOW HEDGES

During the reporting period ended 1 May 2016 the Group entered into the following Swap Contracts to hedge a designated portion of the interest rate exposure of the facility:

- $48.75 million commenced on 31 October 2016, with a maturity date of 31 October 2018; and
- $75 million commencing on 31 October 2018, with a maturity date of 31 October 2020.

Swap Contracts currently in place cover approximately 80% (2016: 74%) of the Australian dollar denominated loan principal outstanding and are timed to expire as each loan repayment falls due. The variable rates are BBSY which at balance date was 1.675% (2016: 2.14%). The notional principal amounts, periods of expiry and fixed interest rates applicable to the Swap Contracts are as follows:

	2017 $000	2017 Weighted average fixed interest rate	2016 $000	2016 Weighted average fixed interest rate
Less than 1 year	–		45,500	3.2%
1–2 years	124,750	3.1%	–	
2–3 years	–		124,750	3.1%
3–4 years	75,000	2.7%	–	
4–5 years	–		75,000	2.7%
	199,750		245,250	

The Swap Contracts require settlement of net interest receivable or payable each month. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The Swap Contracts are settled on a net basis. The derivative financial instruments were designated as cash flow hedges at inception.

CREDIT RISK EXPOSURES

At 30 April 2017, the Swap Contracts gave rise to payables for unrealised losses on derivative instruments of $3.5 million (2016: $4.4 million) for the Group. Management has undertaken these contracts with the Australia and New Zealand Banking Group Limited which is an AA rated financial institution.

ACCOUNTING POLICY

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

At the start of a hedge relationship, the Group formally designates and documents the hedge relationship, including the risk management strategy for undertaking the hedge. This includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Hedge accounting is only applied where effective tests are met on a prospective basis.

The Group utilises interest rate swap contracts which are designated as cash flow hedges. The effective portion of changes in the fair value of swap contracts is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement. Changes in fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Consolidated Income Statement. Amounts accumulated in equity are recycled in the Consolidated Income Statement in the periods when the hedged item will affect profit or loss.

The Group will discontinue hedge accounting prospectively only when the hedging relationship, or part of the hedging relationship no longer qualifies for hedge accounting, which includes where there has been a change to the risk management objective and strategy for undertaking the hedge and instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is consistent with our documented risk management objective.

When hedge accounting is discontinued any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Income Statement.

Notes to the Consolidated Financial Statements

D/ REWARD AND RECOGNITION

These programs also result in changes to the Group's contributed equity.

D1/ Key management personnel

D2/ Share based payments

D3/ Contributed equity

D1/ Key management personnel

KMP COMPENSATION

WHOLE DOLLARS

	2017 $	2016 $
Short term employee benefits	2,431,702	3,137,831
Post-employment benefits	130,179	116,421
Share-based payments	290,686	515,942
Change in accrued leave[1]	(29,845)	(91,740)

(1) The change in accrued leave includes negative amounts reflecting leave that has been taken during the reporting period measured in accordance with AASB 119 Employee Benefits.

Detailed remuneration disclosures are provided in the Remuneration Report included in the Directors' Report.

D2/ Share based payments

LONG TERM INCENTIVE PLAN – PERFORMANCE RIGHTS

The Company has a Long Term Incentive Plan (LTIP) designed to provide long term incentives for certain employees, including executive directors. Under the plan, participants are granted performance rights over shares. The number of performance rights is calculated by dividing the dollar value of the participant's long term incentive by the ASX volume weighted average price of the shares for the five trading days prior to the date of offer of the performance rights.

Unless otherwise determined by the Board in its discretion, performance rights are issued for nil consideration. The amount of performance rights that will vest depends upon the achievement of certain vesting conditions, including the satisfaction of a minimum 12 month term of employment and the achievement of earnings per share (EPS) growth targets by the Company. The EPS growth targets must be achieved over a three year performance period. Performance rights will automatically vest on the business day after the Board determines the vesting conditions have all been satisfied (Vesting Determination Date).

The performance rights will automatically exercise on the Vesting Determination Date unless that date occurs outside a trading window permitted under the Company's Securities Trading Policy, in which case the performance rights will exercise upon the first day of the next trading window. Upon exercise of the performance rights, the Company must issue or procure the transfer of one share for each performance right, or alternatively may in its discretion elect to pay the cash equivalent value to the participant.

Performance rights will lapse on the first to occur of:

- the expiry date;
- the vesting conditions not being satisfied by the Vesting Determination Date;
- unless the Board otherwise determines, by the cessation of the employment of the employee to whom the offer of performance rights was made. The Board determination will depend upon the reason for employment ceasing (resignation, dismissal for cause, death or illness).

Performance rights when issued under the LTIP are not entitled to receive a dividend and carry no voting rights.

Set out below are summaries of performance rights issued under the LTIP:

	2017	2016
Balance at the beginning of the reporting period	803,548	680,960
Vested and exercised	(531,163)	–
Issued during the reporting period	176,403	122,588
Lapsed during the reporting period	(2,683)	–
Balance at the end of the reporting period	**446,105**	**803,548**

On 18 July 2016 following the satisfaction of the vesting conditions, 531,163 performance rights previously granted under the LTIP converted to fully paid ordinary shares. Each participant was issued with shares based on the volume weighted average price of $4.15.

All performance rights issued during the reporting period ended 30 April 2017 have an expiry date of 23 July 2019 and were issued with an exercise price of nil. All performance rights issued during the reporting period ended 1 May 2016 have an expiry date of 24 July 2018 and were issued with an exercise price of nil.

FAIR VALUE OF PERFORMANCE RIGHTS ISSUED

There were two tranches of performance rights issued during the reporting period ended 30 April 2017.

The assessed fair value of performance rights issued on 7 September 2016 was an average of $4.20. The fair value at issuance date was determined using a discounted cash flow model incorporating the share price at issuance date of $4.58, the term of the right, the expected dividend yield of 2.83% and the risk free interest rate for the term of the rights of 1.51%.

The assessed fair value of performance rights issued on 29 September 2016 was an average of $4.13. The fair value at issuance date was determined using a discounted cash flow model incorporating the share price at issuance date of $4.50, the term of the right, the expected dividend yield of 2.83% and the risk free interest rate for the term of the rights of 1.51%.

There were two tranches of performance rights issued during the reporting period ended 1 May 2016.

The assessed fair value of performance rights issued on 1 October 2015 was an average of $2.77. The fair value at issuance date was determined using a discounted cash flow model incorporating the share price at issuance date of $3.22, the term of the right, the expected dividend yield of 4.88% and the risk free interest rate for the term of the rights of 2.06%.

The assessed fair value of performance rights issued on 22 December 2015 was an average of $4.14. The fair value at issuance date was determined using a discounted cash flow model incorporating the share price at issuance date of $4.61, the term of the right, the expected dividend yield of 3.65% and the risk free interest rate for the term of the rights of 2.02%.

ACCOUNTING POLICY

Equity settled share based payments are measured at the fair value of the equity instrument at the date of grant. The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The determination of fair value includes consideration of any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit and loss, with a corresponding adjustment to equity.

Notes to the Consolidated Financial Statements

D3/ Contributed equity

EQUITY OF PARENT COMPANY

			PARENT ENTITY	
	Date	Ordinary shares – fully paid	Share capital $000	Total equity $000
Balance	**1 May 2016**	**93,000,003**	**182,098**	**182,098**
Senior Executive Performance Rights Plan	18 July 2016	531,163	798	798
Shares issued during the period	26 July 2016	2,341,921	10,000	10,000
Less capital raising costs	26 July 2016	–	(21)	(21)
Shares issued during the period	23 March 2017	10,377,962	54,484	54,484
Less capital raising costs	23 March 2017	–	(2,099)	(2,099)
Balance	**30 April 2017**	**106,251,049**	**245,260**	**245,260**

ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote. Upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

ACCOUNTING POLICY

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

E/ RELATED PARTIES

This section provides information relating to the Group's related parties and the extent of related party transactions within the Group and the impact they had on the Group's financial performance and position.

E1/ Investments accounted for using the equity method

E2/ Related party transactions

E1/ Investments accounted for using the equity method

INTERESTS IN INDIVIDUALLY IMMATERIAL JOINT VENTURES

			% OF OWNERSHIP INTEREST	
Name of entity	**Place of incorporation**	**Acronym**	**2017**	**2016**
Sizzler China Pte Ltd	Singapore	SCP	50	50
Snag Holdings Pty Ltd	Australia	SNG	–	50

ACCOUNTING POLICY

Under AASB 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has two joint ventures. Investments in joint ventures are accounted for using the equity method of accounting, after initially being recognised at cost in the Consolidated Balance Sheet.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity accounted investment equals or exceeds its interest in the entity, including any other unsecured long term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

E2/ Related party transactions

PARENT ENTITY

The parent entity and ultimate parent entity within the Group is Collins Foods Limited.

KEY MANAGEMENT PERSONNEL

Disclosures relating to the compensation of KMP are included in Note D1 and in the Remuneration Report included in the Directors' Report.

SUBSIDIARIES

The ownership interests in subsidiaries are set out in Note G1.

Transactions between entities within the Group during the reporting period consisted of loans advanced and repaid, interest charged and received, operating expenses paid, non-current assets purchased and sold, and tax losses transferred. These transactions were undertaken on commercial terms and conditions.

TRANSACTIONS WITH RELATED PARTIES

All transactions with related parties are conducted on commercial terms and conditions.

			WHOLE DOLLARS
Transaction type	**Class of related party**	**2017 $**	**2016 $**
Loans to related parties			
Loan advanced to a related party	Related entity – joint venture	–	3,300,000
Interest received or receivable	Related entity – joint venture	38,000	189,000

Notes to the Consolidated Financial Statements

F/ OTHER INFORMATION

F1/ Commitments for expenditure
F2/ Earnings per share
F3/ Receivables
F4/ Property, plant and equipment
F5/ Intangible assets
F6/ Trade and other payables
F7/ Provisions
F8/ Reserves
F9/ Tax
F10/ Auditor's Remuneration
F11/ Contingencies

F1/ Commitments for expenditure

	2017 $000	2016 $000
Capital commitments		
Property, plant and equipment:		
Aggregate capital expenditure contracted for at balance date but not recognised as liabilities, payable	8,307	3,116
Operating Leases		
Operating leases relate to land, buildings and equipment with lease terms ranging from 1 to 20 years and expire on varying dates through 2036. The Company has the right to extend many of these leases and many contain market review clauses. Certain leases require contingent rent, determined as a percentage of sales, when annual sales exceed specified levels.		
Operating lease commitments:		
Aggregate lease expenditure contracted for at balance date but not recognised as liabilities, payable:		
Not later than 1 year	44,600	33,806
Later than 1 year but not later than 5 years	136,249	92,348
Later than 5 years	78,786	44,857
	259,635	171,011
Less recoverable Goods and Services Tax	(26,158)	(15,545)
Minimum lease payments	233,477	155,466

ACCOUNTING POLICY

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other current and non-current payables. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period. Finance leased assets are depreciated on a straight line basis over the shorter of the asset's estimated useful life and the lease term.

Where the risks and rewards of ownership are retained by the lessor, leased assets are classified as operating leases and are not capitalised. Rental payments are charged to the Consolidated Income Statement on a straight line basis over the period of the lease.

F2/ Earnings per share

	2017 cents	2016 cents
Basic earnings per share (cents)	29.12	31.31
Diluted earnings per share (cents)	28.97	31.06
Earnings used in the calculation of basic and diluted earnings per share from continuing operations ($000)	27,988	29,115
Weighted average number of ordinary shares for the purpose of basic earnings per share (number)	96,118,304	93,000,003
Weighted average number of ordinary shares for the purpose of diluted earnings per share (number)	96,611,031	93,732,586

ACCOUNTING POLICY

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial period. Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

F3/ Receivables

CURRENT ASSETS – RECEIVABLES

	2017 $000	2016 $000
Loan to related party – joint venture	–	3,300
Allowance for doubtful receivable	–	(11)
	–	3,289
Trade receivables	2,426	1,081
Interest receivable	–	2
Prepayments	1,815	4,636
	4,241	9,008

NON-CURRENT ASSETS – RECEIVABLES

	2017 $000	2016 $000
Security deposits	6	11
	6	11

ACCOUNTING POLICY

Trade and related party receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for doubtful debts. Trade receivables are generally due for settlement no more than 30 days from the date of recognition. Collectability of trade and related party receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment loss is recognised in the Consolidated Income Statement within other expenses. When a receivable for which an impairment allowance has been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements

F4/ Property, plant and equipment

	LAND & BUILDINGS	LEASEHOLD IMPROVEMENTS	PLANT & EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
	$000	$000	$000	$000	$000
At 4 May 2015					
Cost	6,800	113,337	82,092	5,854	208,083
Accumulated depreciation	(1,714)	(71,891)	(55,001)	–	(128,606)
Net book amount at 4 May 2015	**5,086**	**41,446**	**27,091**	**5,854**	**79,477**
Additions	24	1,424	3,450	26,823	31,721
Transfers from construction in progress	–	15,945	6,548	(22,493)	–
Depreciation expense	(34)	(10,933)	(9,337)	–	(20,304)
Impairment charge	–	(537)	(771)	–	(1,308)
Disposals – cost	(1,349)	(3,248)	(4,631)	(28)	(9,256)
Disposals – accumulated depreciation	38	3,197	4,435	–	7,670
Acquisition through controlled entity purchased	–	–	–	–	–
Exchange differences	–	–	–	–	–
Net book amount at 1 May 2016	**3,765**	**47,294**	**26,785**	**10,156**	**88,000**
At 2 May 2016					
Cost	5,475	127,458	87,459	10,156	230,548
Accumulated depreciation (including impairment)	(1,710)	(80,164)	(60,674)	–	(142,548)
Net book amount at 2 May 2016	**3,765**	**47,294**	**26,785**	**10,156**	**88,000**
Additions	13	1,254	3,396	22,775	27,438
Transfers from construction in progress	–	17,376	8,204	(25,580)	–
Depreciation expense	(23)	(12,315)	(9,812)	–	(22,150)
Impairment charge	–	(667)	(545)	–	(1,212)
Disposals – cost	(1,620)	(5,060)	(6,217)	(13)	(12,910)
Disposals – accumulated depreciation	1,620	5,006	5,875	–	12,501
Acquisition through controlled entity purchased	–	5,698	5,903	41	11,642
Exchange differences	–	32	39	–	71
Net book amount at 30 April 2017	**3,755**	**58,618**	**33,628**	**7,379**	**103,380**
At 30 April 2017					
Cost	3,868	146,726	98,745	7,379	256,718
Accumulated depreciation (including impairment)	(113)	(88,108)	(65,117)	–	(153,338)
Net book amount at 30 April 2017	**3,755**	**58,618**	**33,628**	**7,379**	**103,380**

ACCOUNTING POLICY

All property, plant and equipment is recorded at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property, plant and equipment, excluding freehold land, is depreciated at rates based upon the expected useful economic life as follows:

	Method	Average life
Buildings	Straight line	20 years
Leasehold improvements	Straight line	Primary term of lease
Plant and equipment	Straight line	8 years
Motor vehicles	Straight line	4 years

Leasehold improvements are depreciated over the unexpired period of the primary lease or the estimated life of the improvement, whichever is the shorter.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Group reviews annually whether the triggers indicating a risk of impairment exist. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (refer Note F5).

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of all non-current assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the Consolidated Income Statement of the Group in the reporting period of disposal.

IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Consolidated Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements

F5/ Intangible assets

	GOODWILL	FRANCHISE RIGHTS	SIZZLER BRAND AUSTRALIA	SIZZLER BRAND ASIA	OTHER	TOTAL
	$000	$000	$000	$000	$000	$000
At 4 May 2015						
Cost	257,062	7,150	11,261	16,443	–	291,916
Accumulated amortisation (including accumulated impairment losses & foreign currency translation)	(27,146)	(2,007)	(11,261)	(3,102)	–	(43,516)
Net book amount at 4 May 2015	229,916	5,143	–	13,341	–	248,400
Additions	–	639	–	–	–	639
Amortisation	–	(558)	–	(876)	–	(1,434)
Foreign currency translation – cost	25	–	–	352	–	377
Foreign currency translation – accumulated	–	–	–	(30)	–	(30)
Net book amount at 1 May 2016	229,941	5,224	–	12,787	–	247,952
At 2 May 2016						
Cost	257,087	7,789	11,261	16,795	–	292,932
Accumulated amortisation (including accumulated impairment losses & foreign currency translation)	(27,146)	(2,565)	(11,261)	(4,008)	–	(44,980)
Net book amount at 2 May 2016	229,941	5,224	–	12,787	–	247,952
Purchase of controlled entities	34,721	1,160	–	–	28	35,909
Additions	–	658	–	–	–	658
Amortisation	–	(685)	–	(857)	(4)	(1,546)
Impairment charge	(924)	–	–	–	–	(924)
Foreign currency translation – cost	186	–		292	–	478
Foreign currency translation – accumulated	–	10	–	(67)	–	(57)
Net book amount at 30 April 2017	263,924	6,367	–	12,155	24	282,470
At 30 April 2017						
Cost	291,994	9,607	11,261	17,087	28	329,977
Accumulated amortisation (including accumulated impairment losses & foreign currency translation)	(28,070)	(3,240)	(11,261)	(4,932)	(4)	(47,507)
Net book amount at 30 April 2017	263,924	6,367	–	12,155	24	282,470

IMPAIRMENT TEST FOR GOODWILL

Allocation of goodwill

CASH GENERATING UNIT	KFC RESTAURANTS QLD/NSW		KFC RESTAURANTS WA/NT		KFC RESTAURANTS NSW/VIC		KFC RESTAURANTS EUROPE		SIZZLER ASIA	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Carrying value	183,529	183,529	45,199	45,199	21,604	–	12,357	–	1,235	1,213

Goodwill is tested for impairment at a cash generating unit level. The recoverable amount of a cash generating unit is determined based on value-in-use calculations. Management recognises that there are various reasons that the estimates used in the assumptions may vary. For the KFC and Sizzler Asia cash generating units, there are no reasonable and likely changes in assumptions which would result in an impairment. Goodwill relating to Sizzler Australia Restaurants and Snag Stand is recorded at nil balance as a result of accumulated impairment.

During the reporting period ended 30 April 2017, the above cash generating units were tested for impairment in accordance with AASB 136. As at 30 April 2017, due to declining revenues and profitability in Snag Stand the recoverable amount of goodwill was assessed to be nil. Accordingly, an impairment charge was recognised for this asset relating to this cash generating unit. During the reporting period ended 30 April 2017 individual restaurant assets were also tested for impairment in accordance with AASB 136. In the event that the carrying value of these assets was higher than the recoverable amount (measured as the higher of fair value less costs to sell and value in use) an impairment charge was recognised in the Consolidated Income Statement as set out in the table below.

Impairment of assets recognised during the reporting period	2017 $000	2016 $000
Goodwill allocated to Snag Stand	924	–
Sizzler Australia Restaurants		
Leasehold improvements	24	537
Plant and equipment	158	771
Snag Stand Restaurants		
Leasehold improvements	643	–
Plant and equipment	387	–
	2,136	1,308

KEY ASSUMPTIONS USED FOR VALUE-IN-USE CALCULATIONS

KFC Australia Restaurants

The cash flows by restaurant have been estimated after applying growth rates from the commencement of 2018 through to the end of the 2022 reporting period which average 2.9%. The year one projections have been aligned to the division's specific cash flows reflected in the 2018 budget.

Management believe that these growth percentages are reasonable considering the growth that has been seen in this operating segment during the 2017 and prior reporting periods. A pre-tax discount rate of 12.0% has been applied to the cash flows. An indefinite terminal cash flow calculation has been applied for cash flows beyond 2022, using that year's cash flow as a base. The growth rate of 2.75% has been used in determining the terminal value, which does not exceed the long term average growth rate for the industry segment in which the restaurants operate.

KFC Germany Restaurants

The cash flows by restaurant have been estimated after applying growth rates from the commencement of 2018 through to the end of the 2022 reporting period which average 2.9%. The year one projections have been aligned to the division's specific cash flows reflected in the 2018 budget.

Management believe that these growth percentages are reasonable considering the growth that has been seen in this operating segment during the 2017 and prior reporting periods. A pre-tax discount rate of 14.0% has been applied to the cash flows. An indefinite terminal cash flow calculation has been applied for cash flows beyond 2022, using that year's cash flow as a base. The growth rate of 2.75% has been used in determining the terminal value, which does not exceed the long term average growth rate for the industry segment in which the restaurants operate.

F5/ Intangible assets (continued)

Sizzler Australia Restaurants

The cash flows for the Sizzler Australia Restaurants from the beginning of 2018 to the end of the 2022 reporting period have been estimated at an average decline of 5.0% reflecting the recent trends experienced in this operating segment together with initiatives intended to improve operating margins. The projection for 2018 has been aligned to the division's specific cash flows reflected in the 2018 budget.

A pre-tax discount rate of 20.0% has been applied to the cash flows. An indefinite terminal cash flow calculation has been applied for cash flows beyond 2022, using that year's cash flow as a base. No growth has been used in determining the terminal value, which is less than the long term average growth rate for the industry.

Sizzler Asia

The cash flows for the Sizzler Asia cash generating unit have been estimated after applying growth rates from the commencement of 2018 through to the end of the 2022 reporting period which average 4.0%. The year one projections have been aligned to the cash flows reflected in the 2018 budget.

Management believe that these growth percentages are reasonable considering the growth that has been seen in this cash generating unit during the 2017 and prior reporting periods. A pre-tax discount rate of 13.9% has been applied to the cash flows. An indefinite terminal cash flow calculation has been applied for cash flows beyond 2022, using that year's cash flow as a base.

The growth rate of 4.0% has been used in determining the terminal rate which does not exceed the long term average growth rate for the casual dining industry segment.

Snag Stand

The cash flows by restaurant have been estimated after applying nil growth rates from the commencement of the 2018 reporting period through to the end of the 2022 reporting period. The year one projections have been aligned to the division's specific cash flows reflected in the 2018 budget.

A pre-tax discount rate of 25.0% has been applied to the cash flows. An indefinite terminal cash flow calculation has been applied for cash flows beyond 2022, using that year's cash flow as a base. No growth has been used in determining the terminal value, which is less than the long term average growth rate for the industry.

ACCOUNTING POLICY

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

The Group determines whether goodwill with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill with indefinite useful lives relate.

Deferred franchise rights

Costs associated with franchise licences which provide a benefit for more than one reporting period are deferred and amortised over the remaining term of the franchise licence. Capitalised costs associated with renewal options for franchise licences are deferred and amortised over the renewal option period. The unamortised balance is reviewed each balance date and charged to the Consolidated Income Statement to the extent that future benefits are no longer probable.

Other intangibles – Sizzler brand

Sizzler brand intangibles which are owned and registered by the Group are considered to have a useful life of 20 years and are amortised accordingly. These intangibles will be tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Sizzler brand intangibles are carried at amortised cost less impairment losses.

F6/ Trade and other payables

	2017 $000	2016 $000
Trade payables and accruals – unsecured	48,167	46,015
Other payables	13,696	12,020
Total payables	61,863	58,035

ACCOUNTING POLICY

These amounts represent liabilities for goods and services provided prior to the end of the reporting period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

F7/ Provisions

CURRENT LIABILITIES

	2017 $000	2016 $000
Employee entitlements	4,626	4,006
Make good provision	672	535
Total current liabilities	5,298	4,541

NON-CURRENT LIABILITIES

	2017 $000	2016 $000
Employee entitlements	2,873	3,080
Make good provision	225	155
Total non-current liabilities	3,098	3,235

ACCOUNTING POLICY

Employee entitlements

Provision has been made in the accounts for benefits accruing to employees up to balance date, such as annual leave, long service leave and incentives. Annual leave and incentive provisions that are expected to be settled wholly within twelve months after the end of the reporting period are measured at their nominal amounts using the remuneration rates expected to apply at the time of settlement and are classified in provisions.

Long service leave, annual leave and incentive provisions that are not expected to be settled wholly within twelve months after the end of the reporting period are measured as the present value of expected future payments to be made in respect of services provided by employees up to reporting date.

Long service leave provisions relating to employees who have not yet completed the required period of service are classified as non-current. All other employee provisions are classified as a current liability.

All on-costs, including superannuation, payroll tax and workers' compensation premiums are included in the determination of provisions.

Make good provision

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

The Group is required to restore the leased premises of certain retail stores to their original condition upon exit. However, as leases are traditionally renewed, the Group only recognises a provision for those restaurants where make good costs will result in a probable outflow of funds. An annual review of leased sites is conducted to determine the present value of the estimated expenditure required to remove any leasehold improvements and decommission the restaurant.

F8/ Reserves

	2017 $000	2016 $000
Hedging – cash flow hedges	(2,332)	(3,016)
Foreign currency translation	5,495	4,338
Share-based payments	643	1,042
Net investment hedge	(386)	–
	3,420	2,364
Movements in hedging reserve – cash flow hedges:		
Opening balance	(3,016)	(3,163)
Revaluation – gross	974	203
Deferred tax (Note F9)	(292)	(61)
Transfer to net profit – gross	3	8
Deferred tax (Note F9)	(1)	(3)
Closing balance	(2,332)	(3,016)
Movements in foreign currency translation reserve:		
Opening balance	4,338	4,153
Exchange fluctuations arising on net assets of foreign operations	1,157	185
Closing balance	5,495	4,338
Movements in share-based payments reserve:		
Opening balance	1,042	456
Valuation of performance rights	399	586
Performance rights vested	(798)	–
Closing balance	643	1,042
Movements in net investment hedge reserve:		
Opening balance	–	–
Exchange fluctuations arising on net investment hedge	(386)	–
Closing balance	(386)	–

NATURE AND PURPOSE OF RESERVES

Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

Share-based payments reserve – performance rights

The share-based payments reserve is used to recognise the issuance date fair value of performance rights issued to employees under the Long Term Incentive Plan but not yet vested.

Foreign currency translation reserve

Exchange differences arising on translation are recognised in other comprehensive income and accumulated in a separate reserve within equity.

Net investment hedge

Exchange differences arising on the translation of a hedge of a net investment are recognised in other comprehensive income and accumulated in a separate reserve within equity.

F9/ Tax

A) INCOME TAX EXPENSE

	2017 $000	2016 $000
Income tax expense		
Current tax	16,286	13,572
Deferred tax	(62)	(514)
(Over)/under provided in prior reporting periods	(206)	55
	16,018	13,113
Income tax expense is attributable to:		
Profit from continuing operations	16,018	13,113
Aggregate income tax expense	16,018	13,113
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Increase in deferred tax assets	(43)	(71)
Decrease in deferred tax liabilities	(19)	(443)
	(62)	(514)
Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit from continuing operations before income tax expense	44,006	42,228
Tax at the Australian tax rate of 30%	13,201	12,668
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible expenses	3,179	756
Non-deductible accounting loss on impairment of goodwill	–	–
Withholding tax credits not brought to account	597	562
Non-assessable income received	(753)	(722)
Carried forward capital losses	–	(206)
	16,224	13,058
Amounts (over)/under provided in prior reporting periods	(206)	55
Income tax expense	16,018	13,113
Tax expense relating to items of other comprehensive income		
Cash flow hedges (Note F8)	293	64
Tax losses		
Unused capital tax losses for which no deferred tax asset has been recognised	61,276	60,591
Potential tax benefit @ 30%	18,383	18,177

Notes to the Consolidated Financial Statements

F9/ Tax (continued)

B) DEFERRED TAX BALANCES

	2017 $000	2016 $000
Deferred tax assets (DTA)		
The balance comprises temporary differences attributable to:		
Depreciation	22,186	22,249
Employee benefits	4,863	4,487
Provisions	1,920	2,088
Carried forward revenue losses	1,160	–
Capitalised costs	614	157
Cash flow hedges	998	1,291
Deferred tax assets	**31,741**	**30,272**
All movements in DTA were recognised in the statement of profit or loss and other comprehensive income		
Deferred tax liabilities (DTL)		
The balance comprises temporary differences attributable to:		
Inventories	637	579
Intangibles	4,417	4,382
Prepayments	3	77
Deferred tax liabilities	**5,057**	**5,038**
All movements in DTL were recognised in the statement of profit or loss		
Deferred tax assets	31,741	30,272
Deferred tax liabilities	(5,057)	(5,038)
Deferred tax assets, net	**26,684**	**25,234**

ACCOUNTING POLICY

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted in the respective jurisdiction.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation

The Company, as the head entity in the tax consolidated group and its wholly-owned Australian controlled entities continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under the tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

The entities in the Tax Consolidated Group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities within the Tax Consolidated Group in the case of a default by the Company.

The entities in the Tax Consolidated Group have also entered into a Tax Funding Agreement under which the wholly-owned entities of that group fully compensate the Company for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

F10/ Auditor's remuneration

During the reporting period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

WHOLE DOLLARS

	2017 $	2016 $
Audit and other assurance services		
Audit services:		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	346,678	311,567
Audit and review of financial reports and other audit work for foreign subsidiary	34,145	33,476
Network firms of PricewaterhouseCoopers Australia		
Audit and review of financial reports and other audit work for foreign subsidiary	26,532	26,845
	407,355	371,888
Other assurance services:		
PricewaterhouseCoopers Australian firm		
Store sales certificates	10,930	10,716
Agreed upon procedures for covenant calculations	21,452	21,032
Due diligence services relating to European and domestic acquisitions	575,074	–
	607,456	31,748
Total remuneration for assurance services	1,014,811	403,636
Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of company tax returns	37,700	36,000
International tax consulting and tax advice on acquisitions	521,268	–
Network firms of PricewaterhouseCoopers Australia		
Tax compliance services, including review of company tax returns	4,785	4,378
International tax consulting and tax advice on acquisitions	32,500	–
Total remuneration for taxation services	596,253	40,378
Other services		
PricewaterhouseCoopers Australian firm		
Accounting advice	29,580	–
Business process review	25,000	–
Total remuneration for other services	54,580	–
Total remuneration for services	1,665,644	444,014

Notes to the Consolidated Financial Statements

F10/ Auditor's remuneration (continued)

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice, due diligence reporting on acquisitions and capital raisings, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Company's policy to seek competitive tenders for all major consulting projects.

F11/ Contingencies

The parent entity and certain controlled entities indicated in Note G1 have entered into a Deed of Cross Guarantee (Amended and Restated) under which the parent entity has guaranteed any deficiencies of funds on winding up of the controlled entities which are party to the Deed. At the date of this statement there are reasonable grounds to believe that the Company will be able to meet any obligations or liabilities to which it is, or may become, subject by virtue of the Deed.

As described in Note B2, CFG Finance Pty. Limited (a subsidiary) and several other related entities entered into Syndicated and Working Capital credit facilities. As a consequence of this, the Company and its subsidiaries (other than subsidiaries outside the Closed Group) became registered guarantors of all the obligations in respect of these loan facilities.

G/ GROUP STRUCTURE

G1/ Subsidiaries and Deed of Cross Guarantee (Amended and Restated)

G2/ Parent entity financial information

G1/ Subsidiaries and Deed of Cross Guarantee (Amended and Restated)

The Consolidated Financial Statements at 30 April 2017 include the following subsidiaries. The reporting period end of all subsidiaries is the same as that of the parent entity [(a)].

				% OF SHARES HELD	
Name of controlled entity	**Notes**	**Place of incorporation**	**Acronym**	**2017**	**2016**
CFG Finance Pty Limited	(b)	Australia	CFGF	100	100
Collins Foods Holding Pty. Limited	(b)	Australia	CFH	100	100
Collins Foods Finance Pty. Limited	(b)	Australia	CFF	100	100
Collins Foods Group Pty. Ltd.	(b)	Australia	CFG	100	100
Collins Restaurants Queensland Pty. Ltd.	(b)	Australia	CRQ	100	100
Collins Restaurants NSW Pty. Ltd.	(b)	Australia	CRN	100	100
Collins Restaurants West Pty. Ltd.	(b)	Australia	CRW	100	100
Fiscal Nominees Company Pty. Ltd.	(b)	Australia	FNC	100	100
Sizzler Restaurants Group Pty. Ltd.	(b)	Australia	SRG	100	100
Collins Restaurants Management Pty. Ltd.	(b)	Australia	CRM	100	100
Collins Restaurants South Pty. Ltd.	(b)	Australia	CRS	100	100
Collins Foods Subsidiary Pty Ltd	(b)	Australia	CFS	100	–
Snag Stand Leasing Pty Ltd	(b)	Australia	SSL	100	50
Snag Stand Corporate Pty Limited	(b)	Australia	SSC	100	50
Snag Stand Franchising Pty Ltd	(b)	Australia	SSF	100	50
Snag Stand International Pty Ltd	(b)	Australia	SSI	100	50
Snag Holdings Pty Ltd	(b)	Australia	SNG	100	50
Collins Property Development Pty. Ltd	(b)	Australia	CPD	100	100
Club Sizzler Pty. Ltd.	(b)	Australia	CSP	100	100
Collins Foods Australia Pty. Ltd.	(b)	Australia	CFA	100	100
Collins Finance and Management Pty. Ltd.	(b)	Australia	CFM	100	100
Sizzler South Pacific Pty. Ltd.	(c)	Nevada, USA	SSP	100	100
SingCo Trading Pte Ltd	(d)	Singapore	SingCo	100	100
Sizzler International Marks LLC	(d)	Delaware, USA	SIM	100	100
Sizzler Asia Holdings LLC	(d)	Delaware, USA	SAH	100	100
Sizzler South East Asia LLC	(d) (e)	Delaware, USA	SSEA	100	100
Sizzler New Zealand LLC	(d) (e)	Delaware, USA	SNZ	100	100
Sizzler Restaurant Services LLC	(d) (e)	Delaware, USA	SRS	100	100
Collins Foods Europe Limited	(d)	United Kingdom	CFEL	100	–
Collins Foods Europe Services Limited	(d)	United Kingdom	CFESL	100	–
Collins Foods Germany Limited	(d)	United Kingdom	CFGL	100	–
Collins Foods Netherlands Limited	(d)	United Kingdom	CFNL	100	–

(a) Collins Foods Limited is domiciled in Brisbane, Australia. The Registered office is located at Level 3, KSD1, 485 Kingsford Smith Drive, Hamilton Queensland 4007.

(b) These companies have entered into a Deed of Cross Guarantee (Amended and Restated) dated 27 April 2017 with Collins Foods Limited which provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each company participating in the deed on winding up of that company. As a result of the new ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (ASIC Instrument 2016/785) which has replaced ASIC Class Order CO 98/1418, these companies are relieved from the requirement to prepare financial statements.

(c) Sizzler South Pacific Pty. Ltd. is a company with no net assets. The directors have resolved to liquidate this company. This company is not an Australian registered company and is not covered by the ASIC Instrument 2016/785.

(d) These companies are not Australian registered companies and are not covered by the ASIC Instrument 2016/785.

(e) Originally incorporated in Nevada, upon conversion to a LLC became registered in Delaware.

Notes to the Consolidated Financial Statements

G1/ Subsidiaries and Deed of Cross Guarantee (Amended and Restated) (continued)

The Consolidated Income Statement, Consolidated Statement of Comprehensive Income and summary of movements in consolidated retained profits of the entities in the ASIC Instrument 2016/785 'Closed Group' are as follows.

As there are no other parties to the Deed of Cross Guarantee (Amended and Restated), that are controlled by Collins Foods Limited, the below also represents the 'Extended Closed Group'.

	CLOSED GROUP	
CONSOLIDATED INCOME STATEMENT	**2017 $000**	**2016 $000**
Sales revenue	615,007	570,639
Cost of sales	(294,341)	(270,943)
Gross profit	320,666	299,696
Selling, marketing and royalty expenses	(125,609)	(118,217)
Occupancy expenses	(49,489)	(45,264)
Restaurant related expenses	(57,226)	(53,721)
Administration expenses	(36,333)	(31,492)
Other expenses	(4,378)	(5,345)
Share of net profit of joint ventures accounted for using the equity method	(112)	(583)
Other income	2,395	3,111
Finance income	362	744
Finance costs	(8,428)	(8,949)
Profit from continuing operations before income tax	41,848	39,980
Income tax expense	(15,501)	(12,635)
Profit from continuing operations	26,347	27,345
INCOME		
Profit from continuing operations	26,347	27,345
Other comprehensive income:		
Cash flow hedges	977	211
Income tax relating to components of other comprehensive income	(293)	(64)
Other comprehensive income for the reporting period, net of tax	684	147
Total comprehensive income for the reporting period	27,031	27,492
Total comprehensive income for the reporting period is attributable to:		
Owners of the parent	27,031	27,492
SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS/(ACCUMULATED LOSSES)		
Retained earnings/(accumulated losses) at the beginning of the reporting period	(376)	(16,096)
Profit for the reporting period	26,347	27,345
Dividends provided for or paid	(15,110)	(11,625)
Retained earnings/(accumulated losses) at the end of the reporting period	10,861	(376)

The Consolidated Balance Sheet of all entities in the ASIC Instrument 2016/785 'Closed Group' as at the end of the reporting period is as follows:

	CLOSED GROUP	
	2017 $000	2016 $000
Current assets		
Cash and cash equivalents	38,257	46,796
Receivables	3,822	8,705
Inventories	4,793	4,398
Total current assets	46,872	59,899
Non-current assets		
Property, plant and equipment	95,536	87,996
Intangible assets, net	254,504	232,856
Deferred tax assets, net	28,983	27,595
Receivables	6	11
Other financial assets	91,783	9,827
Total non-current assets	470,812	358,285
Total assets	**517,684**	**418,184**
Current liabilities		
Trade and other payables	58,515	57,858
Current tax liabilities	4,644	4,131
Derivative financial instruments	1,773	1,726
Provisions	5,298	4,541
Total current liabilities	70,230	68,256
Non-current liabilities		
Borrowings	183,022	164,240
Derivative financial instruments	1,684	2,705
Provisions	3,098	3,235
Total non-current liabilities	187,804	170,180
Total liabilities	258,034	238,436
Net assets	**259,650**	**179,748**
Equity		
Contributed equity	245,260	182,098
Reserves	(2,082)	(1,974)
Retained earnings/(accumulated losses)	16,472	(376)
Total equity	**259,650**	**179,748**

G2/ Parent entity financial information

SUMMARY FINANCIAL INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

	2017 $000	2016 $000
Balance sheet		
Current assets	123	112
Non-current assets	330,192	251,603
Total assets	330,315	251,715
Current liabilities	4,857	5,139
Non-current liabilities	31,725	14,973
Total liabilities	36,582	20,112
Net assets	293,733	231,603
Shareholder's equity:		
Issued capital (1)	291,588	228,426
Reserves	642	1,041
Retained earnings	1,503	2,136
	293,733	231,603
Profit for the reporting period	**14,477**	**14,014**
Total comprehensive income	**14,477**	**14,014**

(1) Represents share capital of the parent entity. This differs from the share capital of the Group due to the capital reconstruction of the Group treated as a reverse acquisition in the 2012 reporting period.

GUARANTEES ENTERED INTO BY THE PARENT ENTITY

The parent entity has provided unsecured financial guarantees in respect of bank loan facilities amounting to $200 million and Euro €33 million as stated in Note B2. In addition, there are cross guarantees given by the parent entity as described in Note G1. All controlled entities will together be capable of meeting their obligations as and when they fall due by virtue to the Deed of Cross Guarantee (Amended and Restated) dated 27 April 2017. No liability was recognised by the parent entity in relation to these guarantees, as their fair value is considered immaterial.

CONTINGENT LIABILITIES OF THE PARENT ENTITY

Except as described above in relation to guarantees, the parent entity did not have any contingent liabilities as at 30 April 2017.

H/ BASIS OF PREPARATION AND OTHER ACCOUNTING POLICIES

H1/ Basis of preparation

H2/ Other accounting policies

H1/ Basis of preparation

COMPLIANCE

These financial statements have been prepared as a general purpose financial report in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The Consolidated Financial Statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

MEASUREMENT

Collins Foods Limited is a for profit entity for the purpose of preparing the Consolidated Financial Statements. The financial statements have also been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments).

GOING CONCERN

The financial report has been prepared on a going concern basis. The Directors are of the opinion that the Group will be able to continue to operate as a going concern having regard to available non-current debt facilities and the Group's internally generated cash resources.

CONSOLIDATION

The Consolidated Financial Statements include the financial statements of the parent entity, Collins Foods Limited (the Company) and its subsidiaries (together referred to as the 'Group) (see Note G1 on subsidiaries). All transactions and balances between companies in the Group are eliminated on consolidation. Subsidiaries are all those entities over which the Company has the power to govern the financial and operating results and policies and often accompanies a shareholding of more than one-half of the voting rights. The results of subsidiaries acquired or disposed of during the reporting period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

REPORTING PERIOD

The Group utilises a fifty-two, fifty-three week reporting period ending on the Sunday nearest to 30 April. The 2017 reporting period comprised the fifty-two weeks which ended on 30 April 2017 (2016 was a fifty-two week reporting period which ended on 1 May 2016).

FOREIGN CURRENCIES

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 the functional and presentation currency of the Company.

Transactions in foreign currencies are converted at the exchange rates in effect at the dates of each transaction. Amounts payable to or by the Group in foreign currencies have been translated into Australian currency at the exchange rates ruling on balance date. Gains and losses arising from fluctuations in exchange rates on monetary assets and liabilities are included in the Consolidated Income Statement in the period in which the exchange rates change, except when deferred in equity as qualifying cash flow hedges.

The foreign currency results and financial position of foreign operations are translated into Australian dollars as follows:

- assets and liabilities at the exchange rate at the end of the reporting period;
- income and expenses at the average exchange rates for the reporting period; with
- all resulting exchange differences recognised in other comprehensive income and accumulated in equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the end of the reporting period.

H1/ Basis of preparation (continued)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are included in the following notes:

- Note A2 Business combinations
- Note F4 Property, plant and equipment
- Note F5 Non-Current Assets – Intangible Assets

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

COMPARATIVES AND RESTATEMENTS OF PRIOR YEAR BALANCES

Comparatives have been reclassified where appropriate to enhance comparability.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for 30 April 2017 reporting periods. Unless stated otherwise below, the Company is currently in the process of assessing the impact of these standards and amendments and at this stage does not intend to adopt any of the following standards before the effective dates.

AASB 9 Financial Instruments (effective from 1 January 2018)

The new standard simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss shall now be presented within OCI; this change can be adopted early without adopting AASB 9. This new standard will be effective from 1 January 2018.

AASB 15 Revenue from contracts with customers (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118, which covers contracts for goods and services, and AASB 111, which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. At this stage there is not expected to be a significant impact from this accounting standard, however the group will make a more detailed assessment of the effect over the next twelve months.

AASB 16 Leases (effective from 1 January 2019)

AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. As at the reporting date, the group has non-cancellable operating lease commitments of $233.4 million, see Note F1. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

AASB 2016-1 Issues narrow scope amendments to AASB 112 Income taxes (effective from 1 January 2017)

The amendments to AASB 112 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They do not change the underlying principles for the recognition of deferred tax assets.

AASB 2016-2 IASB issues narrow scope amendments to IAS 7 Statement of cash flows (effective from 1 January 2017)

The amendment to AASB 107 introduces additional disclosures that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment requires disclosure of changes arising from:

- cash flows, such as drawdowns and repayments of borrowings, and
- non-cash changes, such as acquisitions, disposals and unrealised exchange differences.

AASB 2016-5 Classification and Measurement of Share-based Payment Transactions (effective from 1 January 2018)

Amendments were made to AASB 2 Share-based Payment which clarify how to account for cash-settled share-based payments with performance conditions, modifications that change a cash-settled arrangement to an equity-settled arrangement, and equity-settled awards that include a 'net settlement' feature which requires employers to withhold amounts to settle the employee's tax obligations.

H2/ Other accounting policies

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 the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST payable to the taxation authority is included as part of trade and other payables (see Note F6).

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

COST OF SALES

For the purposes of the Consolidated Income Statement, cost of sales includes the carrying amount of inventories sold during the reporting period and an estimated allocation of labour incurred in relation to preparing those inventories for sale.

OCCUPANCY EXPENSES

Occupancy expenses include: fixed rentals, contingent rentals, land tax, outgoings and depreciation relating to buildings and leasehold improvements.

RESTAURANT RELATED EXPENSES

Restaurant related expenses include: utilities, maintenance, labour and on-costs (except those allocated to cost of sales), cleaning costs, depreciation of plant and equipment (owned and leased) located in restaurants and amortisation of KFC franchise rights.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is assigned on a first-in first-out basis and includes expenditure incurred in acquiring the stock and bringing it to the existing condition and location.

Notes to the Consolidated Financial Statements

I/ SUBSEQUENT EVENTS

I1/ Refinance of debt

I2/ Acquisition of restaurants in Australia

I1/ Refinance of debt

On 26 June 2017 the Group entered into a new Syndicated Facility Agreement of $270 million and Euro €60 million which is subject to customary conditions precedent, the usual terms and conditions, and to a successful capital raise (noting that the Offer is fully underwritten). The new term of the facility is a blend of maturities with $175 million expiring on 31 October 2020 and the remaining $95 million together with the Euro €60 million expiring on 31 October 2022.

I2/ Acquisition of restaurants in Australia

On 26 June 2017 the Group entered into a binding agreement to acquire 28 KFC restaurants located in Tasmania, South Australia and Western Australia. These restaurants are being purchased from a subsidiary of Yum! Brands Inc. for cash consideration of $110.2 million. The acquisition further strengthens the growth platform of the Group as it provides a footprint from which to grow in these new areas.

The acquisition and associated equity raising costs will be funded via a fully underwritten, pro-rata accelerated non-renounceable entitlement offer of $46.2 million and debt of $67.3 million from new enlarged facilities (refer to Note I1).

Approval from the franchisor has been received subject to customary conditions. Completion is subject to a number of standard conditions precedent and is expected to be achieved by the end of the calendar year 2017.

Directors' Declaration

In the Directors' opinion:

- the financial statements and notes set out on pages 36 to 80 are in accordance with the *Corporations Act 2001*, including:
  - complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - giving a true and fair view of the consolidated entity's financial position as at 30 April 2017 and of its performance for the period ended on that date;
- there are reasonable grounds to believe that Collins Foods Limited will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note G will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee (Amended and Restated) described in Note G.

Note H confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

This report is made in accordance with a resolution of Directors.

Robert Kaye SC
Chairman

Brisbane
26 June 2017

Independent Auditor's Report

Independent auditor's report

To the shareholders of Collins Foods Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Collins Foods Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 April 2017 and of its financial performance for the period 2 May 2016 to 30 April 2017

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group's financial report comprises:

- the consolidated balance sheet as at 30 April 2017
- the consolidated statement of comprehensive income for the reporting period ended 30 April 2017
- the consolidated statement of changes in equity for the reporting period ended 30 April 2017
- the consolidated statement of cash flows for the reporting period ended 30 April 2017
- the consolidated income statement for the reporting period ended 30 April 2017
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if

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individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group operates across Australia, Asia and Europe. Its key segments are Sizzler Restaurants in Australia and Asia and KFC Restaurants in Australia and Europe. The Group has a corporate accounting function based in Brisbane.

Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of $2.3 million, which represents approximately 5% of the Group's profit before tax, adjusted for impairment charges. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax from continuing operations adjusted for impairment charges because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • Our audit procedures were mostly performed at head office in Brisbane, with site visits conducted at Sizzler and KFC Restaurants in Brisbane and Perth, and the German office. • Due to the nature of the Group's business, our IT systems specialists assisted us with developing our understanding of the Group's IT systems and complex revenue generation processes. • As part of our audit, we also utilised the expertise of our Valuations experts and Tax specialists to assist with our audit procedures on the Group's impairment models and tax calculations.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Assessment of the carrying value of goodwill – Assessment of the carrying value of other non-current assets – Accounting for business combinations • These are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Assessment of the carrying value of goodwill *(Refer to Note F5 – Intangible Assets)* Collins Foods Limited recorded goodwill of $263.9 million as at 30 April 2017, allocated between six cash generating units ("CGUs"), being KFC Restaurants QLD/NSW, KFC Restaurants WA/NT, KFC Restaurants South, KFC Germany, Sizzler Asia and Snag Stand. As required by Australian Accounting Standards, at 30 April 2017 management performed an impairment assessment over the goodwill balance by calculating the value in use for each CGU using a discounted cash flow model. Refer to page 49, note F5, for details of the impairment test and assumptions. We focused on this area due to the size of the goodwill balance and because the directors' assessment of the 'value in use' of the Group's CGUs involves judgement about the future results of the Group and the discount rate and long term growth rates applied to future cash flows. We note that an impairment of $0.9 million has been recognised in the current year for the Snag Stand CGU. The directors have concluded that a reasonably possible change in any of the key assumptions would not give rise to an impairment in the other CGUs.	We performed a number of audit procedures in relation to goodwill, including the following: • Evaluating the cash flow forecasts including assessing the assumptions they were based on and testing the mathematical accuracy of the underlying calculations. • Comparing the cash flow forecasts for FY2018 in the models to the Board approved budget for FY2018. • Comparing the FY2017 actual results with prior year forecasts to assess the historical accuracy of the Group's forecasting processes. With assistance from our Valuations experts, we also evaluated: • Key assumptions for long-term growth rates in the forecasts by comparing them to historical results and economic and industry forecasts; and • The discount rate used in the models by assessing the cost of capital for the Group by comparing it to market data and industry research. We found that the long-term growth rate assumptions were consistent with historical results adjusted for the economic outlook and industry forecasts. We performed a sensitivity analysis on the model by adopting other assumptions which we viewed as reasonably possible for the FY2018 cash flow forecasts, the long term growth rate and the discount rate. We found that headroom still remained between the carrying value of each operating segment's goodwill and the calculated values adopting these alternative assumptions. We also compared the Group's net assets as at 30 April 2017 of $267.0 million to its market capitalisation of $563.1 million as at 30 April 2017 and noted the $296.1 million of implied headroom was consistent with the results of our testing.

Key audit matter	How our audit addressed the key audit matter
Carrying value of other non-current assets *(Refer to Note F4 – Property, Plant and Equipment and Note F5 – Intangible Assets)* Collins Food Limited recorded fixed assets of $103.3 million as at 30 April 2017. Management have followed their formal policy to prepare a value-in-use calculation for all restaurants and consider them for fixed asset impairment at an individual restaurant level. Following Management's assessment, a fixed asset impairment of $1.2 million was recorded in the 30 April 2017 financial report for both Sizzler Australia and Snag Stand Restaurants. We focused on this area due to the size of the fixed asset balance, the judgement involved in determining the value in use calculations for each restaurant and the associated risk of impairment.	Our audit procedures in relation to management's review of each restaurant included the following procedures amongst others: • Evaluating the cash flow forecasts in the models for each individual restaurant including assessing the assumptions they were based on and testing the mathematical accuracy of the underlying calculations. • Comparing the cash flow forecasts for FY2018 in the models to the Board approved budget for FY2018. • Comparing the FY2017 actual results with prior year forecasts to assess the historical accuracy of the Group's forecasting processes. • Performing sensitivity analysis on assumptions within the detailed calculations. • Evaluating the adequacy of the disclosures made in note F5, including those regarding the key assumptions and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards. With assistance from our Valuations experts, we also evaluated: • Key assumptions for long-term growth rates in the forecasts by comparing them to historical results and economic and industry forecasts; and • The discount rate used in the models by comparing the cost of capital for the Group to market data and industry research.
Accounting for Business Combinations *(Refer to Note A2 – Business Combinations)* Collins Foods Limited completed three acquisitions during the period, which included: - *Acquisition of Snag Stand (Step Acquisition)* Collins Foods Limited completed the acquisition of the remaining 50% share of Snag Stand Holdings Pty Ltd on 15 June 2016, for purchase consideration of $3.4 million. The provisional fair value of the net assets acquired was $2.5 million and goodwill $0.9 million was recognised as part of the acquisition. - *Acquisition of 13 NSW/VIC KFC Restaurants* The acquisition of the NSW/VIC KFC Restaurants completed on 26 July 2016, for purchase consideration of $25.3 million. The provisional fair	Our procedures in relation to the accounting for the step acquisition included, amongst others: • Assessment of fair value adjustments of assets and liabilities performed by management against a third party valuation, taking into consideration the methodology utilised, expertise and independence of the third party valuation expert; • Assessment of the initial fair value of the previously owned equity interest in Snag Stand by considering the historical performance; • Assessment of the business combinations in light of the Australian Accounting Standards, including the Snag Stand step acquisition accounting;

Key audit matter	*How our audit addressed the key audit matter*
value of the net assets acquired was $3.7 million and goodwill of $21.6 million was recognised as part of the acquisition. - *Acquisition of 12 German KFC Restaurants* The acquisition of the Germany Restaurants completed on 19 December 2016, for purchase consideration of $19.3 million. The provisional fair value of the net assets acquired was $7.1 million and goodwill of $12.1 million was recognised as part of the acquisition. We focused on each of these acquisitions because they are material, the accounting is considered to be complex and because of the judgements made by management with respect to the allocation of fair value to the assets and liabilities acquired.	• Consideration of the completeness of the recognition of intangible assets by evaluating the assets purchased on acquisition • Testing of the consideration paid for the acquisitions to bank statement, loan documents and the purchase agreement; • Assessment of the allocation of goodwill to the cash generating unit and consideration of operating and reporting segments, including consideration of the acquisition of stores in Germany • Assessment of the accuracy and completeness of business combination disclosures in the financial statements. We found that the disclosures provided the users with appropriate information to understand the nature of the acquisitions.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, Shareholder Information and the Corporate Directory included in the Group's annual report for the reporting period ended 30 April 2017 but does not include the financial report and our auditor's report thereon, which will be obtained prior to the date of this auditor's report, and the CEO's Report and Chairman's Message, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_files/ar2.pdf
This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 16 to 32 of the directors' report for the reporting period ended 30 April 2017.

In our opinion, the remuneration report of Collins Foods Limited for the reporting period ended 30 April 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Collins Foods Limited for the reporting period ended 30 April 2017 included on Collins Foods Limited's web site. The directors of the Company are responsible for the integrity of Collins Foods Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

Kim Challenor
Partner

Brisbane
26 June 2017

Shareholder information

Shareholder information that has not been stated elsewhere in the Annual Report is set out below. The shareholder information set out below was applicable as at the close of trading on 21 June 2017.

Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Number of shareholders of ordinary shares	Number of holders of performance rights
1–1,000	2,318	–
1,001–5,000	3,056	–
5,001–10,000	791	14
10,001–100,000	512	6
100,001 and over	43	2
Total	6,720	22

There were 98 holders of less than a marketable parcel of ordinary shares.

Equity security holders

The names of the 20 largest holders of the only class of quoted equity securities are listed below:

	ORDINARY SHARES	
	Number held	Percentage of issued shares %
HSBC Custody Nominees (Australia) Limited	23,014,523	21.59
J P Morgan Nominees Australia Limited	14,679,546	13.77
Citicorp Nominees Pty Limited	10,854,552	10.18
Mr Kevin Perkins	7,000,833	6.57
National Nominees Limited	6,594,976	6.19
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	2,549,189	2.39
BNP Paribas Noms Pty Ltd <DRP>	1,789,383	1.68
Chrikim Pty Ltd <Geoffrey Wright Income A/C>	1,468,200	1.38
Chrikim Pty Ltd <Geoffrey Wright Income A/C>	1,147,421	1.08
Brazil Farming Pty Ltd	934,844	0.88
Aust Executor Trustees Ltd <DS Capital Growth Fund>	820,382	0.77
Hooks Enterprises Pty Ltd <Hoeksema Superfund A/C>	770,000	0.72
Mr Leendert Hoeksema + Mrs Aaltje Hoeksema	760,000	0.71
HSBC Custody Nominees (Australia) Limited – A/C 3	601,049	0.56
Mrs Heather Lynnette Grace	479,401	0.45
UBS Nominees Pty Ltd	366,700	0.34
Graham Maxwell	356,088	0.33
Michael Kemp Pty Ltd <Michael Kemp A/C>	340,000	0.32
Adrian Mark Argent	315,014	0.30
Perkins Family Investment Corporation Pty Ltd	300,000	0.28

Substantial holders

Substantial holders (including associate holdings) in the Company, based on the most recent substantial holder notices lodged with the Company and ASX, are set out below:

	ORDINARY SHARES	
	Number held	Percentage
Kevin Perkins	7,444,692	6.98%
BT Investment Management Limited	6,095,331	6.36%

Restricted Securities and share buy-backs

There are no restricted fully paid shares on issue in the Company. A voluntary holding lock will be applied in relation to 59,874 fully paid ordinary shares, if they are issued, upon the vesting of 59,874 performance rights in accordance with the rules of the LTIP.

The Company is not currently conducting an on-market share buy-back.

Voting rights

FULLY PAID ORDINARY SHARES

On a show of hands every member present at a meeting in person or by proxy shall have one vote. Upon a poll, each share shall have one vote.

PERFORMANCE RIGHTS

The performance rights do not have any voting rights. The fully paid ordinary shares to be allotted on the exercise of the performance rights will have the voting rights noted above for fully paid ordinary shares.

Corporate directory

DIRECTORS

Robert Kaye SC, Chairman
Graham Maxwell, Managing Director & CEO
Kevin Perkins
Newman Manion
Bronwyn Morris
Russell Tate

COMPANY SECRETARY

Frances Finucan

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

Level 3, KSD1, 485 Kingsford Smith Drive
Hamilton QLD 4007

SHARE REGISTER

Computershare Investor Services Pty Ltd
117 Victoria Street
West End QLD 4101 Australia

Telephone number: 1300 458 215
Outside Australia: +61 3 9415 4245

AUDITOR

PricewaterhouseCoopers
480 Queen Street
Brisbane QLD 4000

SECURITIES EXCHANGE LISTING

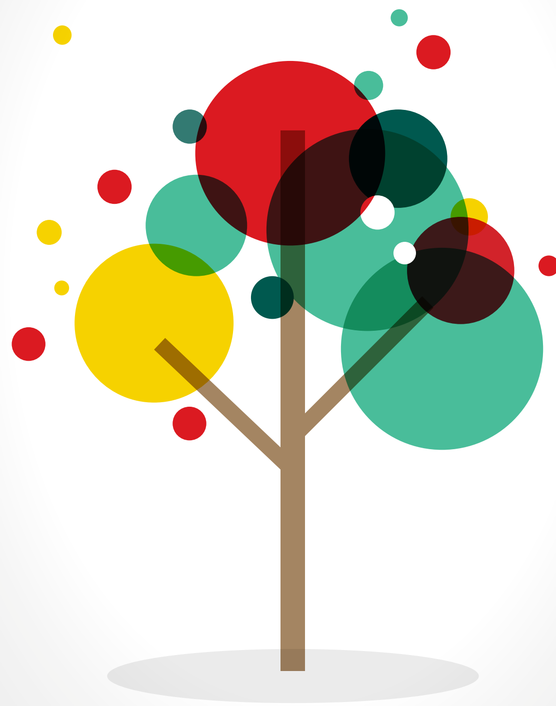
Collins Foods Limited shares are listed on the Australian Securities Exchange

WEBSITE ADDRESS

www.collinsfoods.com

CORPORATE GOVERNANCE INFORMATION

www.collinsfoods.com/investors



COLLINS FOODS LIMITED