COLLINS FOODS LIMITED

ACN 151 420 781 | ABN 13 151 420 781

PO Box 286 Lutwyche QLD 4030
Level 3, KSD1, 485 Kingsford Smith Drive
Hamilton QLD 4007 Australia
T +61 7 3352 0800 | F +61 7 3352 0894

COLLINS FOODS LIMITED
ACN 151 420 781

INTERIM FINANCIAL REPORT

For the reporting period ended 17 October 2021

Authorised for release by the Board

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APPENDIX 4D

Half-year Financial Report
for the Financial Half-year ended 17 October 2021

Reporting period: 24 weeks to 17 October 2021

Previous corresponding period: 24 weeks to 18 October 2020

RESULTS FOR ANNOUNCEMENT TO THE MARKET

REVENUE AND NET PROFIT

	Percentage Change	Period ended 17 Oct 2021	Period ended 18 Oct 2020 (1)
	%	$000	$000
Revenue from ordinary activities	Up 8.5%	534,246	492,271
Profit from ordinary activities after tax attributable to members	Up 26.1%	26,392	20,923
Loss from discontinued operations after tax	Down 100.0%	-	(4,446)
Net profit for the period attributable to members	Up 60.2%	26,392	16,477

(1) Comparative figures have been restated to reclassify Sizzler Australia out of ordinary activities and into discontinued operations. Further details of this can be found in note E of the Interim Financial Report

BRIEF EXPLANATION OF THE FIGURES REPORTED ABOVE

This report is based on the consolidated interim financial statements which have been reviewed by the auditor. The review report, which was unqualified, is included within the Company's Interim Financial Report for the 24 weeks ending 17 October 2021 which accompanies this Appendix 4D.

For a brief explanation of the figures above please refer to the Results Announcement for the period ended 17 October 2021 and the Director's Report, which forms part of the Interim Financial Report.

DIVIDENDS

	Amount per Security	Franked amount per security
Interim dividend for reporting period: • Payable 22 December 2021 The record date for determining entitlements to the interim dividend: • 7 December 2021	12.0 cents	12.0 cents
Interim dividend for previous corresponding period (18 October 2020) • Paid 18 December 2020	10.5 cents	10.5 cents
Final dividend at year end (2 May 2021) • Paid 22 July 2021	12.5 cents	12.5 cents

The interim fully franked dividend of 12.0 cents per share was declared by the Board of Directors on 30 November 2021. In accordance with accounting standards, as the dividend was not declared prior to the reporting period end, no provision has been taken up for this dividend in the financial statements for the reporting period ended 17 October 2021.

NET TANGIBLE ASSETS PER SECURITY

	Current Reporting Period	Previous Corresponding Period (1)
Net tangible asset backing per ordinary security	$(0.40)	$(0.46)

(1) Comparative figures have been restated to due to an adjustment to the accounting for acquisitions in prior period. Refer to note A3(B) for further details.

DETAILS OF ASSOCIATES

Joint venture entities and the percentage holding thereof are as follows:

Entity	Percentage Holding
Sizzler China Pte Ltd	50%

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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 twenty-four week period ended 17 October 2021, which the Directors consider to be the first half (half-year) of the Group's financial year to 1 May 2022.

Directors

The following persons were Directors of the Company during the half-year or up to the date of this report:

Name	Date of appointment
Robert Kaye SC	7 October 2014
Christine Holman	12 December 2019
Newman Manion (1)	10 June 2011
Bronwyn Morris AM	10 June 2011
Drew O'Malley	29 June 2021
Kevin Perkins	15 July 2011
Russell Tate	10 June 2011

(1) (Newman Manion retired from the Board of Directors on 27 August 2021.

Operating and financial review

GROUP OVERVIEW

The Group's business is the operation, management and administration of restaurants, currently comprising three restaurant brands: KFC, Taco Bell and Sizzler. The KFC and Taco Bell brands are two of the world's largest restaurant chains and are owned globally by Yum!. In Australia, the Group is the largest franchisee of KFC restaurants.

At the end of the period, the Group operated 254 franchised KFC restaurants in Australia, 16 franchised KFC restaurants in Germany, 35 franchised restaurants in the Netherlands and 17 franchised Taco Bell restaurants in Australia, which all compete in the quick service restaurant market. The Group is also a franchisor of the Sizzler brand in South East Asia, with 64 franchised restaurants in Thailand and Japan.

During the half-year period to 17 October 2021, COVID-19 continued to have an impact on the operations and financial performance of our business, in particular in-line Taco Bell restaurants in Victoria, KFC Australia foodcourts, and KFC Europe in-line restaurants. The Group has worked closely with various authorities and our franchisor, Yum! Brands to ensure we implemented all measures to safeguard our employees and customers at each and every stage.

REVENUE AND EXPENSES

Revenues for the half-year were $534.2 million, up 8.5% compared to the previous corresponding period. Compared to the previous corresponding period, revenues in the domestic KFC restaurants segment were $433.7 million, up 4.4%, revenues in the Europe KFC restaurants segment were $84.7 million, up 31.7% and Taco Bell revenues were $14.8 million, up 33.0%.

The growth in total revenues combined with disciplined business controls resulted in an underlying EBITDA, post AASB 16, for the half-year of $94.9 million, up 13.1% compared to the previous corresponding period.

NET PROFIT

The statutory profit from continuing operations was $26.4 million for the half-year. This was an increase of $5.5 million, predominantly driven by revenue growth. This represents basic earnings from continuing operations per share of 22.62 cents compared to the previous corresponding period basic earnings per share of 17.94 cents.

CASH FLOW AND BALANCE SHEET

The net cash flow from operations reflected in the statutory Consolidated Statement of Cash Flows (including AASB 16) of $72.3 million is $5.9 million lower than the prior comparable period.

Cash flow from investing activities was a net outflow of $52.2 million reflecting investment in the existing network and the building of new restaurants and acquisitions in the Netherlands.

Statutory cash flow from financing activities was a net outflow of $26.5 million representing inflows of $14.1 million to fund the Netherlands acquisitions, outflows related to leases and the Group's dividend payment.

Overall cash and cash equivalents as at 17 October 2021 was $90.0 million, representing a $5.7 million decrease on the prior reporting period.

Total indebtedness (net of capitalised borrowing costs) at 17 October 2021 was $286.3 million, with undrawn facilities of $76.1 million within the Bank Loan Facility and $23.1 million under the Working Capital Facility Agreement. Net debt (excluding borrowing costs, bank guarantee and net of cash and cash equivalents) was $197.6 million.

Dividends

The Directors have declared a fully franked interim dividend of 12.0 cents per share payable on 22 December 2021.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 (Cth) (the Act) is set out on page 3.

Australian Securities and Investments Commission Order

The Australian Securities and Investments Commission Order 11-0958 has granted the Company relief under section 340 of the Act which permits the Company to have a half-year that differs from that prescribed by the Act.

The first half of the year ending 1 May 2022 is the twenty-four week period ended 17 October 2021. The comparative half-year period is the period which commenced on 3 May 2020 and ended on 18 October 2020.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

Robert Kaye SC
Director

Brisbane
30 November 2021

AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the review of Collins Foods Limited for the half-year from 3rd May 2021 to 17th October 2021, 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 review; and

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

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

Michael Crowe
Partner
PricewaterhouseCoopers

Brisbane
30 November 2021

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

CONSOLIDATED INCOME STATEMENT

For the reporting period ended 17 October 2021

	Note	Period ended 17 Oct 2021	Period ended 18 Oct 2020 (1)
		$000	$000
Revenue	A2	534,246	492,271
Cost of sales		(252,697)	(229,668)
Gross profit		**281,549**	**262,603**
Selling, marketing and royalty expenses		(116,371)	(105,329)
Occupancy expenses		(34,973)	(34,466)
Restaurant related expenses		(40,990)	(40,365)
Administration expenses		(30,527)	(30,793)
Other expenses		(5,929)	(4,507)
Other income		305	217
Other gains/(losses) – net		(1,237)	17
Profit from continuing operations before finance income, finance costs and income tax (EBIT)		**51,827**	**47,377**
Finance costs		(13,662)	(13,979)
Share of net profit/(loss) of joint ventures accounted for using the equity method		(14)	64
Profit from continuing operations before income tax		**38,151**	**33,462**
Income tax expense	F3	(11,759)	(12,539)
Profit from continuing operations		**26,392**	**20,923**
Loss from discontinued operations	E	–	(4,446)
Net profit attributable to members of Collins Foods Limited		**26,392**	**16,477**

		Cents per share	Cents per share
Basic earnings from continuing operations		22.62	17.94
Basic earnings from discontinued operations	E	–	(3.81)
Diluted earnings from continuing operations		22.54	17.88
Diluted earnings from discontinued operations	E	–	(3.80)

	Shares	Shares
Weighted average basic ordinary shares outstanding	116,696,110	116,581,244
Weighted average diluted ordinary shares outstanding	117,101,802	117,043,663

(1) Comparative figures have been restated for the following reasons:
- to exclude Sizzler Australia which was discontinued in the 2021 full year reporting period. Refer to note E for details of the discontinued operations, and
- certain items previously classified as other expenses or other income, such as fair value gain/(loss) on debt modification and gain/(loss) on disposal of assets, have been reclassified to Other gains/(losses) – net. The comparative values have been reclassified to reflect this change.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the reporting period ended 17 October 2021

	Period ended 17 Oct 2021	Period ended 18 Oct 2020
	$000	$000
Net profit attributable to members of Collins Foods Limited	26.392	16,477
Items that may be reclassified to profit or loss		
Other comprehensive income/(expense):		
Exchange difference upon translation of foreign operations	626	(2,617)
Cash flow hedges	956	1,049
Income tax relating to components of other comprehensive income	(287)	(315)
Other comprehensive income for the reporting period, net of tax	1,295	(1,883)
Total comprehensive income for the reporting period	**27,687**	**14,594**
Total comprehensive income for the reporting period is attributable to:		
Owners of the parent	**27,687**	**14,594**

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

CONSOLIDATED BALANCE SHEET

For the reporting period ended 17 October 2021

	Note	17 Oct 2021	2 May 2021 [1]
		$000	$000
Current assets			
Cash and cash equivalents		90,045	95,717
Receivables		3,434	2,786
Inventories		7,201	7,171
Other assets		6,232	5,162
Total current assets		**106,912**	**110,836**
Non-current assets			
Property, plant and equipment	F1	205,907	188,919
Intangible assets [1]	F2	462,239	452,045
Right-of-use assets		380,411	359,100
Deferred tax assets		44,242	41,129
Derivative financial instruments		234	–
Investments accounted for using the equity method		2,388	2,402
Other assets		469	356
Total non-current assets		**1,095,890**	**1,043,951**
Total assets		**1,202,802**	**1,154,787**
Current liabilities			
Trade and other payables		93,143	96,895
Lease liabilities		31,246	31,654
Current tax liabilities		7,648	7,084
Derivative financial instruments		1,488	1,536
Provisions [1]		7,258	7,554
Total current liabilities		**140,783**	**144,723**
Non-current liabilities			
Borrowings	C	286,305	271,490
Lease liabilities		388,296	363,601
Deferred tax liabilities		4,589	4,580
Derivative financial instruments		84	819
Provisions		6,595	6,976
Total non-current liabilities		**685,869**	**647,466**
Total liabilities		**826,652**	**792,189**
Net assets		**376,150**	**362,598**
Equity			
Contributed equity	D	291,390	290,788
Reserves		11,901	10,756
Retained earnings [1]		72,859	61,054
Total equity		**376,150**	**362,598**

(1) The prior reporting period has been restated as a result of:
- a change in accounting policy for the recognition of cloud computing arrangements (refer to note G2 for further details)
- an adjustment to the provisional accounting for the KFC Restaurants (Europe) acquisition that occurred in the prior period (refer to note A3(B) for further details).

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the reporting period ended 17 October 2021

	Note	Period ended 17 Oct 2021	Period ended 18 Oct 2020 (1)
		$000	$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		584,694	546,533
Payments to suppliers and employees (inclusive of GST)		(470,279)	(420,959)
Goods and services taxes (GST) paid		(24,570)	(28,117)
Interest and other borrowing costs paid		(3,021)	(4,770)
Income tax paid		(14,523)	(14,441)
Net operating cash flows		**72,301**	**78,246**
Cash flows from investing activities			
Payment for acquisition of subsidiaries, net of cash acquired	A3	(13,074)	–
Payment for property, plant and equipment		(35,914)	(12,377)
Payment for intangible assets		(3,237)	(1,935)
Net investing cash flows		**(52,225)**	**(14,312)**
Cash flow from financing activities			
Proceeds from borrowings – bank loan facilities		14,071	–
Refinance fees paid		(1,139)	–
Payments for lease principal		(14,921)	(11,798)
Interest paid on leases		(9,958)	(9,097)
Dividends paid	B2	(14,587)	(12,241)
Net financing cash flows		**(26,534)**	**(33,136)**
Net increase / (decrease) in cash and cash equivalents		(6,458)	30,798
Cash and cash equivalents at the beginning of the reporting period		95,717	116,297
Effects of exchange rate changes on cash and cash equivalents		786	(1,262)
Cash and cash equivalents at the end of the reporting period		**90,045**	**145,833**

(1) For cash flows specific to Sizzler Australia, which was discontinued in the 2021 full year reporting period, refer to note E.

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 17 October 2021

	Note	Contributed equity	Reserves	Retained earnings	Total equity
17 Oct 2021		$000	$000	$000	$000
Balance as at 2 May 2021 as originally presented		290,788	10,756	61,395	362,939
Impact of change in accounting policy (1)	G2	–	–	(341)	(341)
Restated total equity as at 3 May 2021		**290,788**	**10,756**	**61,054**	**362,598**
Profit for the reporting period		–	–	26,392	26,392
Other comprehensive income		–	1,295	–	1,295
Total comprehensive income for the reporting period		**–**	**1,295**	**26,392**	**27,687**
Transactions with owners in their capacity as owners:					
Share-based payments		–	452	–	452
Performance rights vested	D	602	(602)	–	–
Dividends provided for or paid	B2	–	–	(14,587)	(14,587)
Balance as at 17 October 2021		**291,390**	**11,901**	**72,859**	**376,150**
18 Oct 2020		$000	$000	$000	$000
Balance as at 3 May 2020		290,788	14,088	52,928	357,804
Profit for the reporting period		–	–	16,477	16,477
Other comprehensive income		–	(1,883)	–	(1,883)
Total comprehensive income for the reporting period		**–**	**(1,883)**	**16,477**	**14,594**
Transactions with owners in their capacity as owners:					
Share based payments		–	919	–	919
Dividends provided for or paid	B2	–	–	(12,241)	(12,241)
Balance as at 18 October 2020		**290,788**	**13,124**	**57,164**	**361,076**

(1) The prior reporting period includes a restatement as a result of a change in accounting policy for the recognition of cloud computing arrangements. Refer to note G2 for further details.

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/ Revenue

A3/ Business combinations

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 three reportable segments have been identified: KFC Restaurants Australia, KFC Restaurants Europe, and Taco Bell Restaurants, all competing in the quick service restaurant market.

Other includes Shared Services, which performs a number of administrative and management functions for the Group's restaurants, as well as the operating segment of Sizzler Asia Restaurants. These segments are not separately reportable due to their relative size in both the current and prior reporting periods.

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	KFC Restaurants Europe	Taco Bell Australia	Other (2)	Total
Period ended 17 Oct 2021	**$000**	**$000**	**$000**	**$000**	**$000**
Total segment revenue	433,729	84,750	14,832	935	534,246
Underlying EBITDA (1)	94,314	12,458	10	(11,925)	94,857
Number of stores (4)	254	51	17		322
Period ended 18 Oct 2020 (3)	**$000**	**$000**	**$000**	**$000**	**$000**
Total segment revenue	415,478	64,343	11,149	1,301	492,271
Underlying EBITDA (1)	91,051	5,442	(32)	(12,648)	83,813
Number of stores (4)	242	41	12		295

(1) Refer below for a description and reconciliation of Underlying EBITDA.
(2) Other includes Shared Services and Sizzler Asia Restaurants.
(3) Comparative figures have been restated, to ensure comparability with the current reporting period, based on the following:
- Taco Bell Australia is its own reportable operating segment, previously reported under the 'Other' segment
- to exclude Sizzler Australia as it was discontinued (refer to note E for further details)
- to include the impact of AASB 16 Leases in the measurement of Underlying EBITDA.

(4) Number of stores relates to Group owned stores.

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 Taco Bell Restaurants, and franchise fees and royalties received from franchisees of the Sizzler brand.

A1/ Segment information continued

UNDERLYING EBITDA FROM CONTINUING OPERATIONS

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. It also excludes impairment of property, plant, equipment, franchise rights, brand assets, goodwill and leases to the extent they are isolated non-recurring events plus any other non-recurring items. 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. In the 2021 full year reporting period, the decision was made to include the impact of AASB 16 *Leases* in the measurement of Underlying EBITDA. The 2021 half-year Underlying EBITDA has been restated accordingly for comparability purposes.

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

	Period ended 17 Oct 2021	Period ended 18 Oct 2020 (1)
	$000	$000
Underlying EBITDA	94,857	83,813
Finance costs – net	(13,662)	(13,979)
Depreciation	(38,427)	(35,179)
Amortisation	(2,241)	(1,549)
Share of net profit of joint ventures accounted for using the equity method	(14)	64
Acquisition related costs, expensed	(1,134)	–
Store closure costs	(283)	–
Fair value loss on debt modification	(945)	–
Other non-trading items	–	292
Profit from continuing operations before income tax	**38,151**	**33,462**

(1) Comparative figures have been restated, to ensure comparability with the current reporting period, based on the following:
- to exclude Sizzler Australia as it was discontinued (refer to note E for further details)
- to include the impact of AASB 16 Leases in the measurement of Underlying EBITDA.

A2/ Revenue

Revenue is recognised when performance obligations under relevant customer contracts are completed. Performance obligations may be completed at a point in time or over time.

In the following table revenue is disaggregated by type and by timing of revenue recognition. No single customer amounts to 10% or more of the consolidated entity's total external revenue.

	Note	KFC Restaurants Australia	KFC Restaurants Europe	Taco Bell Australia	Other (1)	Total (1)
Revenue type		$000	$000	$000	$000	$000
Period ended 17 Oct 2021						
Sale of goods		433,729	84,750	14,832	–	533,311
Franchise revenue		–	–	–	935	935
Total revenue	A1	**433,729**	**84,750**	**14,832**	**935**	**534,246**
Period ended 18 Oct 2020						
Sale of goods		415,478	64,343	11,149	–	490,970
Franchise revenue		–	–	–	1,301	1,301
Total revenue	A1	**415,478**	**64,343**	**11,149**	**1,301**	**492,271**
Timing of revenue recognition		$000	$000	$000	$000	$000
Period ended 17 Oct 2021						
At a point in time		433,729	84,750	14,832	915	534,226
Over time		–	–	–	20	20
Total revenue	A1	**433,729**	**84,750**	**14,832**	**935**	**534,246**
Period ended 18 Oct 2020						
At a point in time		415,478	64,343	11,149	1,228	492,198
Over time		–	–	–	73	73
Total revenue	A1	**415,478**	**64,343**	**11,149**	**1,301**	**492,271**

(1) Comparative figures have been restated, to ensure comparability with the current reporting period, based on the following:
- Taco Bell Australia is its own reportable operating segment, previously reported under the 'Other' segment.
- to exclude Sizzler Australia as it was discontinued (refer to note E for further details).

A3/ Business combinations

(A) CURRENT PERIOD

LELYSTAD - SUMMARY OF ACQUISITION

On 1 June 2021, Collins Foods Netherlands Limited, a wholly owned subsidiary of Collins Foods Limited, entered into a Share Purchase Agreement to acquire the KFC Taupo Lelystad restaurant from Kia Ora Holding B.V. The Group paid €2.2 million ($3.5 million) for the acquisition.

The primary reason for the acquisition was to expand the Group's European operations in the quick service restaurant market.

Details of the purchase consideration is as follows:

	$000
Cash paid	3,532
Total purchase consideration	**3,532**

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 and cash equivalents	53
Receivables	46
Inventories	29
Prepayments	44
Property, plant and equipment	34
Right of use assets	3,590
Trade and other payables	(532)
Provisions	(1,859)
Lease liabilities	(3,590)
Net identifiable assets acquired	**(2,185)**
Goodwill	5,717
Net assets acquired	**3,532**

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

ACQUISITION RELATED COSTS

The acquisition related costs have been recognised in the Group's Consolidated Income Statement (Other expenses) and in operating cash flows in the Consolidated Statement of Cash Flows (Payments to suppliers and employees). Refer to note A1 for further details on acquisition related costs.

PURCHASE CONSIDERATION – CASH FLOW

	As at acquisition date $000
Cash consideration	3,532
Less: balances acquired	(53)
Outflow of cash - investing activities	**3,479**

The fair value of assets acquired and liabilities assumed may be amended during the measurement period, however, management do not expect material differences from the amounts recognised in the half year to 17 October 2021.

The acquired business contributed revenues of $2.2 million and Underlying EBITDA of $0.5 million for the period the store was owned, up to 17 October 2021.

A3/ Business combinations continued

DOORNBOS - SUMMARY OF ACQUISITION

On 1 July 2021, Collins Foods Netherlands Limited, a wholly owned subsidiary of Collins Foods Limited, entered into an Asset Purchase Agreement to acquire 5 KFC Restaurants located in the Netherlands. These restaurants have been purchased from a local franchisee in the Netherlands region. The Group have paid €6.1 million ($9.6 million) for the acquisition of the assets and assumed liabilities relating to the 5 restaurants, plus transaction costs, utilising the Group's existing debt facility.

Similarly to the Lelystad acquisition, the primary reason for the acquisition was to expand the Group's European operations in the quick service restaurant market.

Details of the purchase consideration is as follows:

	$000
Cash paid	9,615
Total purchase consideration	**9,615**

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 and cash equivalents	20
Receivables	3
Inventories	107
Prepayments	69
Property, plant and equipment	5,800
Right of use assets	6,586
Trade and other payables	(169)
Provisions	(1,509)
Lease liabilities	(6,586)
Net identifiable assets acquired	**4,321**
Goodwill	5,294
Net assets acquired	**9,615**

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

ACQUISITION RELATED COSTS

The acquisition related costs have been recognised in the Group's Consolidated Income Statement (Other expenses) and in operating cash flows in the Consolidated Statement of Cash Flows (Payments to suppliers and employees). Refer to note A1 for further details on acquisition related costs.

PURCHASE CONSIDERATION – CASH FLOW

	As at acquisition date $000
Cash consideration	9,615
Less: balances acquired	(20)
Outflow of cash - investing activities	**9,595**

The fair value of assets acquired and liabilities assumed may be amended during the measurement period, however, management do not expect material differences from the amounts recognised in the half year to 17 October 2021.

The acquired business contributed revenues of $5.7 million and Underlying EBITDA of $1.0 million for the period the stores were owned, up to 17 October 2021.

If all acquisitions this reporting period had occurred on 3 May 2021, the consolidated revenue and consolidated Underlying EBITDA for the reporting period ended 17 October 2021 would have been $537.5 million and $95.4 million respectively.

A3/ Business combinations continued

(B) PRIOR PERIOD

KFC RESTAURANTS (EUROPE) - SUMMARY OF ACQUISITION

In the 2021 financial year, three KFC restaurants were acquired through a Share Purchase Agreement. Details of this business combination were disclosed in Note A2 of the Group's 2021 Annual Report.

At 2 May 2021, the fair value of some assets and liabilities assumed were recognised on a provisional basis. In the current reporting period, additional information came to light that has adjusted the fair value of the assets acquired and liabilities assumed. The amounts which have been altered and the effect on the financial statements have been summarised below:

	Provisional fair value at 2 May 2021	Purchase price adjustment	Provisional fair value at 17 Oct 2021
Goodwill arising on acquisition	**$000**	**$000**	**$000**
Purchase consideration	4,378	–	4,378
Less: fair value of net identifiable assets	(576)	1,323	747
Goodwill on acquisition	**3,802**	**1,323**	**5,125**
Net identifiable assets	**$000**	**$000**	**$000**
Assets			
Cash	435	–	435
Receivables	613	–	613
Inventories	50	–	50
Property, plant and equipment	971	–	971
Right of use assets	–	2,702	2,702
Total assets	**2,069**	**2,702**	**4,771**
Liabilities			
Trade and other payables	(1,493)	–	(1,493)
Provisions	–	(1,323)	(1,323)
Lease liabilities	–	(2,702)	(2,702)
Total liabilities	**(1,493)**	**(4,025)**	**(5,518)**
Net identifiable assets acquired	**576**	**(1,323)**	**(747)**

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/ Borrowings

B2/ Dividends

B1/ Borrowings

A subsidiary of the Company, CFG Finance Pty Limited, is the primary borrower under a Syndicated Facility Agreement. The Syndicated Facility Agreement includes bank loan facilities (Revolving Bank Loans) and a Working Capital Facility Agreement (Working Capital Facility). On 14 September 2021, the Group entered into a new Syndicated Facility Agreement for a total of $200 million and €120 million, which includes both the bank loan facilities and working capital facilities. The new term of the facility is a blend of maturities with $120 million and €75 million maturing on 31 October 2024 and the remaining $80 million and €45 million expiring on 31 October 2026.

The Revolving Bank Loans and Working Capital Facility are subject to certain financial covenants and restrictions such as net leverage ratios, interest cover ratios and others which management believe are customary for these types of loans. During the reporting period ended 17 October 2021, 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.

As at 17 October 2021, the Group's available financing facilities were as follows:

	17 Oct 2021		2 May 2021	
	Working Capital Facility	Revolving Bank Loans	Working Capital Facility	Revolving Bank Loans
	$000	$000	$000	$000
Used [(1)]	12,571	275,880	10,190	263,794
Unused	23,064	76,103	25,386	90,240
Total	**35,635**	**351,983**	**35,576**	**354,034**

(1) $845,000 (FY21: $845,000) of the Working Capital Facility has been used for bank guarantees rather than drawn down cash funding.

B2/ Dividends

	Period ended 17 Oct 2021	Period ended 18 Oct 2020
	$000	$000
Ordinary shares		
Dividends provided for or paid during the half-year	14,857	12,241
Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 12.0 cents per fully paid ordinary share (prior half-year: 10.5 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 22 December 2021 out of retained earnings at 22 October 2021, but not recognised as a liability at the end of the half-year, is $14,003,533.	14,004	12,241

C/ RECOGNISED FAIR VALUE MEASUREMENTS

This Note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

FAIR VALUE HIERARCHY

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. An explanation of each level is as follows:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** 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); and
- **Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at the end of the current reporting period and the prior reporting period, the Group has derivative financial instruments which are classified as Level 2 financial instruments. There are no Level 1 or Level 3 financial instruments.

LEVEL 2 FINANCIAL INSTRUMENTS

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.

There were no transfers between the levels of fair value hierarchy in the six months to 17 October 2021. There were also no changes made to any of the valuation techniques applied as of 2 May 2021.

VALUATION PROCESSES

The finance department of the Group engages a third-party expert valuation firm that performs the valuation of derivative financial instruments that are required to be measured, recognised and disclosed in the financial statements, at fair value. This includes Level 2 fair values. The finance department reports directly to the Group Chief Financial Officer (CFO) and the Audit and Risk Committee (ARC). Discussions of valuation processes and results are held between the 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 2 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 fair values are analysed at the end of each reporting period during the half-year valuation discussion between the 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.

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 Consolidated 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.

C/ Recognised fair value measurements continued

BORROWINGS

The fair value of borrowings is as follows:

	17 Oct 2021			2 May 2021		
	Carrying amount	Fair value	Discount rate	Carrying amount	Fair value	Discount rate
	$000	$000	%	$000	$000	%
Bank Loan (net of borrowing costs)	286,305	245,350	4.1	271,490	250,670	4.1

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 2 values in the fair value hierarchy due to the use of observable inputs, including the credit risk of the Group.

For further details on Borrowings, refer to note B1.

D/ CONTRIBUTED EQUITY

RECONCILIATION OF ORDINARY SHARE CAPITAL

The following reconciliation summarises the movements in issued capital during the period. Detailed information on each issue of shares is publicly available via the ASX.

EQUITY OF PARENT COMPANY

	17 Oct 2021		18 Oct 2020	
	Shares	Share capital	Shares	Share capital
	(thousands)	$000	(thousands)	$000
Issues of ordinary shares during the half-year:				
Balance at beginning of the period	116,582	290,788	116,582	290,788
Senior executive performance rights plan	114	602	–	–
Balance at the end of the period	**116,696**	**291,390**	**116,582**	**290,788**

E/ DISCONTINUED OPERATIONS

DESCRIPTION

On 2 October 2020, the Group announced its intention to permanently close its remaining nine Sizzler restaurants in Australia. The restaurants were formally closed on 15 November 2020 and Sizzler Australia was reported as a discontinued operation in the financial statements for the full year ending 2 May 2021.

Financial information relating to the discontinued operation for the current and prior reporting periods is set out below. For further information about the discontinued operation please refer to note F in the Group's annual report for the financial period ending 2 May 2021.

FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

The financial performance and cash flow information presented are for the half-year periods ended 17 October 2021 and 18 October 2020.

	Period ended 17 Oct 2021	Period ended 18 Oct 2020
	$000	$000
Revenue	–	7,377
Expenses	–	(12,381)
Loss before income tax	**–**	**(5,004)**
Income tax benefit	–	558
Loss after income tax of discontinued operation	**–**	**(4,446)**
Loss from discontinued operation	**–**	**(4,446)**
Net cash inflow from ordinary activities	–	643
Net cash outflow from investing activities	–	(18)
Net increase in cash generated by the segment	**–**	**625**

	Cents per share	Cents per share
Basic earnings per share from discontinued operations	–	(3.81)
Diluted earnings per share from discontinued operations	–	(3.80)

F/ OTHER INFORMATION

F1/ Property, plant and equipment

	Land & buildings	Leasehold improvements	Plant & equipment	Construction in progress	Total
	$000	$000	$000	$000	$000
At 2 May 2021					
Cost	13,774	264,633	163,545	9,983	451,935
Accumulated depreciation	(968)	(158,055)	(103,993)	–	(263,016)
Net book amount at 2 May 2021	12,806	106,578	59,552	9,983	188,919
Additions	9,986	2,018	2,265	17,561	31,830
Acquisition through controlled entity purchased	–	3,267	2,567	–	5,834
Transfers	–	10,721	6,699	(17,752)	(332)
Depreciation expense	(166)	(10,604)	(8,925)	–	(19,695)
Disposals	–	(93)	(329)	(140)	(562)
Exchange differences	–	91	8	(186)	(87)
Net book amount at 17 Oct 2021	22,626	111,978	61,837	9,466	205,907
At 17 Oct 2021					
Cost	23,760	279,033	171,779	9,466	484,038
Accumulated depreciation	(1,134)	(167,055)	(109,942)	–	(278,131)
Net book amount at 17 Oct 2021	22,626	111,978	61,837	9,466	205,907
At 3 May 2020					
Cost	13,774	256,296	143,273	7,078	420,421
Accumulated depreciation	(606)	(142,272)	(90,074)	–	(232,952)
Net book amount at 3 May 2020	13,168	114,024	53,199	7,078	187,469
Additions	–	10,835	10,681	25,383	46,899
Acquisition through controlled entity purchased	–	18	953	–	971
Transfers	–	8,089	14,494	(22,087)	496
Depreciation expense (1)	(362)	(21,172)	(18,192)	–	(39,726)
Impairment charge	–	(3,322)	(1,154)	–	(4,476)
Disposals	–	(23)	(251)	36	(238)
Exchange differences	–	(1,871)	(178)	(427)	(2,476)
Net book amount at 2 May 2021	12,806	106,578	59,552	9,983	188,919
At 2 May 2021					
Cost	13,774	264,633	163,545	9,983	451,935
Accumulated depreciation	(968)	(158,055)	(103,993)	–	(263,016)
Net book amount at 2 May 2021	12,806	106,578	59,552	9,983	188,919

(1) Includes depreciation charge of $nil (FY21: $352,000) relating to Sizzler Australia, which was discontinued in the prior reporting period.

F2/ Intangible assets

	Goodwill (1)	Franchise rights	Brand names	Software (2)	Total
	$000	$000	$000	$000	$000
At 2 May 2021					
Cost	455,959	19,577	29,648	9,844	515,028
Accumulated amortisation	(28,070)	(8,220)	(21,183)	(5,510)	(62,983)
Net book amount at 2 May 2021	427,889	11,357	8,465	4,334	452,045
Additions	–	(398)	–	879	481
Acquisition through controlled entity purchased	11,011	–	–	–	11,011
Transfers	–	–	–	332	332
Amortisation expense	–	(527)	(398)	(1,316)	(2,241)
Exchange differences	(108)	(38)	410	347	611
Net book amount at 17 Oct 2021	438,792	10,394	8,477	4,576	462,239
At 17 Oct 2021					
Cost	466,862	19,194	30,450	11,531	528,037
Accumulated amortisation	(28,070)	(8,800)	(21,973)	(6,955)	(65,798)
Net book amount at 17 Oct 2021	438,792	10,394	8,477	4,576	462,239
At 3 May 2020					
Cost	459,231	17,819	33,585	8,157	518,792
Accumulated amortisation	(28,070)	(7,017)	(22,335)	(3,981)	(61,403)
Net book amount at 3 May 2020	431,161	10,802	11,250	4,176	457,389
Additions	–	3,379	–	2,633	6,012
Acquisition through controlled entity purchased (1)	5,125	–	–	–	5,125
Transfers	–	–	–	(495)	(495)
Amortisation expense	–	(1,029)	(881)	(1,677)	(3,587)
Impairment charge	–	(175)	–	(57)	(232)
Disposals	–	(1,327)	–	–	(1,327)
Exchange differences	(8,397)	(293)	(1,904)	(246)	(10,840)
Net book amount at 2 May 2021	427,889	11,357	8,465	4,334	452,045
At 2 May 2021					
Cost	455,959	19,577	29,648	9,844	515,028
Accumulated amortisation	(28,070)	(8,220)	(21,183)	(5,510)	(62,983)
Net book amount at 2 May 2021	427,889	11,357	8,465	4,334	452,045

(1) Goodwill in the prior reporting period has been restated due to adjustments to the provisional fair value of a business combination. Refer to note A3(B) for further details.
(2) Software in the prior reporting period includes a restatement as a result of a change in accounting policy for the recognition of cloud computing arrangements. Refer to note G2 for further details.

F2/ Intangible assets continued

IMPAIRMENT

All cash-generating units ('CGU's'), as disclosed in the 2021 Annual Report, were assessed for impairment indicators at the end of the current reporting period. If impairment indicators were present, an impairment assessment was performed. The assessments performed were consistent with the methods and assumptions as disclosed in the 2021 Annual Report, note G5, except for those outlined below.

TACO BELL

During the reporting period ended 17 October 2021 all Taco Bell stores, where indicators of impairment were identified, were tested for impairment in accordance with AASB 136 *Impairment of assets*. In all instances the recoverable amount of the assets (measured as the higher of fair value less costs to sell and value in use) was higher than their carrying values; therefore, the testing did not result in any impairment charges for the Taco Bell restaurants during the reporting period. The key assumptions used for the value in use calculations are listed in the following table.

	17 Oct 2021	2 May 2021
Post-tax discount rate	Store specific range of 7.3 - 8.5%	Store specific range of 6.3 - 9.3%
Growth rates		
Revenue for year 1 to year 5 (1)	11.7%*	9.3%*
Revenue for year 6 to year 20	2.5%*	2.5%
Annual growth for terminal values	2.5%	2.5%

(1) The revenue growth rates applied relate specifically to the same restaurant assets where detailed impairment models were prepared at FY21 balance date (2 May 2021).
* Store specific plans with average annual growth rate.

Management identified indicators of impairment amongst the Taco Bell stores network due to their financial performance compared to the individual store forecasts during the 1st half of FY22. Impairment models were prepared for these Taco Bell stores. Value in use recoverable amount valuations were performed for each individual store, which represents a cash generating unit for the purpose of testing Property, Plant and Equipment, Right of Use assets and other store-specific assets. Value in use recoverable amount valuations were not performed at the Taco Bell cash generating unit level as there is no goodwill or other indefinite life intangible assets for Taco Bell.

Taco Bell is in the early phases of the lifecycle of the brand and it is expected to experience significant sales growth at the point when the brand reaches scale in the market. Growth projections have been updated to reflect the adjustment to the estimates that had been prepared at the end of FY21, as a result of the time needed to achieve scale being longer than previously estimated by management. This has been in part driven by challenging first-half trading with restrictions on development activity in place in the first half, due to the impacts of COVID-19.

The store specific impairment models have been prepared as follows:

- The cash flows projections for the individual restaurant assets have been estimated after applying growth rates from half-year FY22 through to half-year FY42. The value in use calculations were based on a 20 year-period due to the analysis required to conform with AASB 16 *Leases* Accounting standard.
- The year one projections have been aligned to the division's specific cash flows as re-forecasted at half year FY22. Management believes that these growth percentages are reasonable considering the growth that has been seen in existing restaurants in the first half of FY22 and the plans in place for the second half of the year.
- The annual growth rates applied in the first 5 years are reflective of significant growth expected for the Taco brand in Australia once it reaches scale – achieved as a result of opening a number of restaurants within certain tightly clustered geographies and a marketing campaign that enables greater brand awareness and drives greater frequency of visitation. The average annual revenue growth is 11.7% in the first five years (FY21: 9.3%).
- Average annual growth rates of 2.5% have been applied from year 6 onwards (FY21: 2.5%).
- An indefinite terminal cash flow calculation has been applied for cash flows beyond half year 2042, using that year's cash flow as a base. The growth rate of 2.5% (FY21: 2.5%) 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.
- The post-tax discount rates applied to each individual store have been adjusted by the IBR applied to each lease liability. This has resulted in post-tax discount rates in the range of 7.3 - 8.5% for the stores assessed for impairment (FY21: 6.3 - 9.3%).

F2/ Intangible assets continued

SIGNIFICANT ESTIMATE: IMPACT OF POSSIBLE CHANGES IN KEY ASSUMPTIONS

Management recognises that a change in one of the assumptions could result in impairments of the Group's Taco Bell store assets.

A significant number of stores are currently in the pipeline for development. The building of these stores combined with improved marketing campaigns to increase brand awareness and drive trial, is expected to drive significant growth in the following 5 years. Within the first five years of the revenue growth models prepared, the growth rates used for years 4 and 5 are the highest. Not achieving these expected growth rates would have the biggest impact on the Taco Bell impairment analysis.

Management has considered the likelihood of the assumed growth rates and believes that the strong revenue growth is appropriate based on the current strategy and life cycle stage of the Taco Bell business.

F3/ Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax expense for the full financial year. The effective tax rate of continuing operations during the current period is 30.8% compared with the corresponding period of 37.5% (restated to exclude discontinued operations – refer to note E). The prior reporting period effective tax rate is higher, mainly due to the derecognition of deferred tax assets associated with tax losses ($1,113,000).

The effective tax rate of continuing and discontinued operations is 30.8% (HY21: 42.1%). Prior period includes the derecognition of deferred tax assets associated with tax losses, as mentioned above, as well as a derecognition of deferred tax assets associated with Sizzler building assets of $942,000.

F4/ Commitments

CORPORATE FRANCHISE AGREEMENT FOR KFC NETHERLANDS

On 7 October 2021, one of the Group's wholly owned subsidiaries, Collins Foods Netherlands Management B.V. ('the entity') signed an agreement with KFC Europe S.à r.l. ('KFC'), a wholly owned subsidiary of Yum! Brands Inc., for the appointment of the entity as KFC's corporate franchisee in the Netherlands under a corporate franchise agreement ('CFA').

Under the CFA, the entity will develop, manage, market, support and operate the KFC business in the Netherlands, including the introduction, management and oversight of existing and future franchisees.

The CFA sets out a framework for the development of up to 130 net new KFC restaurants in the Netherlands over the next 10 years. These new restaurants will be a mix of independent franchisees and Group owned restaurants. The Group's current Netherlands Development Agreement will be superseded by the CFA.

The CFA puts in place an innovative franchising model whereby the entity will receive a fee from KFC towards the costs of running the market. The entity can also earn various incentives over the term of the CFA through meeting various objectives including those relating to development and other performance measures. The variable nature of these incentives means the economic materiality of the CFA cannot be precisely estimated but is below the threshold of materiality for the Group.

Other terms of the CFA include:

- Effective Date of 31 December 2021 subject to satisfaction of conditions precedent based on meeting various contractual requirements;
- An initial term of five years from the Effective Date, with a conditional option for the entity to extend the term by a further five years;
- Acquisition by the entity of all relevant assets, contracts and employees of KFC required to run KFC Netherlands.

ACQUISITION OF KFC RESTAURANTS IN THE NETHERLANDS

On 14 October 2021, one of the Group's wholly owned subsidiaries, Collins Foods Netherlands Operations B.V. entered into a Share Purchase Agreement with RDK Holding B.V. and MDK Holding B.V. to acquire nine KFC restaurants in the Netherlands for €10.25 million ($16.29 million).

The acquisition consideration is subject to various adjustments to be made at completion, and will be funded from the Group's existing debt facilities. Completion is expected to be in or around December 2021, and is subject to satisfaction of various conditions precedent including obtaining all relevant government permits to operate the restaurants and obtaining the consent of Yum! Restaurants International Ltd. and Co. KG as franchisor of the KFC restaurants.

Once completed, this acquisition will increase the Collins Foods KFC network in the Netherlands to 44 restaurants, or 55% of the market.

The financial effects of this transaction have not been recognised at 17 October 2021. The Group will complete the accounting for the acquisition within the year-end financial statements.

CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	17 Oct 2021	2 May 2021
	$000	$000
Right-of-use assets (1)	41,488	29,908
Property, plant and equipment	8,543	2,637
Land and buildings	-	4,300
Total commitments	**50,031**	**36,845**

(1) This represents any agreements for leases the Group has signed before the period end date, that have not yet proceeded to an executed lease agreement. This is the value repayable over the primary term of the lease. As there is not yet a commencement date, the values have not been discounted to present value.

G/ BASIS OF PREPARATION OF HALF-YEAR REPORT

G1/ Basis of preparation of half-year report

G2/ Changes in accounting policies

G1/ Basis of preparation of half-year report

This condensed consolidated interim financial report is for the half-year reporting period 3 May 2021 to 17 October 2021. This report has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The financial information provided does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the period ended 2 May 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted in this interim financial report are the same as those applied in the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The International Financial Reporting Standards Interpretations Committee (IFRIC) has issued two final agenda decisions which impact software as a service ('SaaS') arrangements:

- *Customer's right to receive access to the supplier's software hosted on the cloud* (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- *Configuration or customisation costs in a cloud computing arrangement* (April 2021) – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Group's accounting policy has historically been to capitalise all costs related to SaaS arrangements as intangible assets in the Consolidated Balance Sheet. This change in accounting policy has been applied retrospectively resulting in a change to retained earnings as at 2 May 2021. The impact of the adoption and the new accounting policy is presented in Note G2.

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 operate as a going concern having regard to available non-current debt facilities and the Group's internally generated cash resources.

In the current reporting period, the Group has a net current liability position of $33.9 million. The predominant reason for this net current liability position is the introduction of AASB 16 *Leases*, with lease payments due in the next financial year recognised as current liabilities. The Group does not deem this to be a risk to its' going concern, as without the introduction of AASB 16 the Group would be in a net current liability position of $2.6 million with undrawn bank loan facilities of $76.1 million and undrawn working capital facilities of $23.1 million partially due for repayment by 31 October 2024, with the remainder due for repayment by 31 October 2026. The Group's loan covenants are based on results excluding the impact of AASB 16. The current covenant ratios have significant headroom at current performance and there are sufficient undrawn facilities available, both within the Working Capital Facility and Bank Loan Facility, should the Group require access to additional funds, all repayable beyond 12 months (refer to note B1).

G2/ Changes in accounting policies

This note explains the impact of the adoption of the IFRIC final agenda decisions on SaaS arrangements on the Group's financial statements and discloses the new accounting policies that have been applied from 4 May 2020, where they are different to those applied in prior periods.

SAAS ARRANGMENTS - ACCOUNTING POLICY APPLIED FROM 4 MAY 2020

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. As such the Group does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

G2/ Changes in accounting policies continued

The following outlines the accounting treatment of costs incurred in relation to SaaS arrangements:

Cost treatment	Stage of implementation process
Recognise as an operating expense over the term of the service contract	• Fee for use of application software • Customisation costs of provider offerings
Recognise as an operating expense as the service is received	• Configuration costs of provider offerings • Data conversion and migration costs • Testing costs • Employee training costs • Post-implementation maintenance • Post-implementation access to the SaaS
Recognise as an asset that depreciates over the shorter of the term of the related service contract or estimated useful life	• Acquisition or development of bridging modules to existing systems and applications • Development of training materials • Acquisition or development of data conversion software

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets. Refer to the annual report for the period ended 2 May 2021 for an outline of accounting for intangible assets.

IMPACT OF ADOPTION

In previous reporting periods, the Group has capitalised software implementation costs where future economic benefits are expected to be derived from its use. These costs were recognised as intangible assets and from the point at which the asset was ready for use, were amortised on a straight-line basis over their estimated useful life.

In the current reporting period, the Group has adopted the IFRIC agenda decisions on SaaS arrangements, resulting in such costs being recognised as an expense as services are received. This change in accounting policy has been applied retrospectively and the prior period comparative amounts restated.

The impact of the change in accounting policy in relation to SaaS arrangements affective the prior reporting period is as follows:

Consolidated Balance Sheet	As previously reported	Saas Policy adjustments	Other adjustments (1)	As restated
As at 2 May 2021	**$000**	**$000**	**$000**	**$000**
Intangible assets	451,063	(341)	1,323	452,045
Total non-current assets	**1,042,969**	**(341)**	**1,323**	**1,043,951**
Total assets	**1,153,805**	**(341)**	**1,323**	**1,154,787**
Provisions (current)	6,231	-	1,323	7,554
Total current liabilities	**143,400**	**-**	**1,323**	**144,723**
Total liabilities	**790,866**	**-**	**1,323**	**792,189**
Net assets	**362,939**	**(341)**	**-**	**362,598**
Retained earnings	61,395	(341)	-	61,054
Total equity	**362,939**	**(341)**	**-**	**362,598**

(1) Other adjustments relate to a change in the provisional accounting for the KFC Restaurants (Europe) acquisition. They have been included in this table to display a full impact to the restated balance sheet. Refer to note A3(B) for further details.

The adjustment above related to transactions in the second half of FY21. As such, there is no impact to the prior reporting period of the Consolidated Income Statement, Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows presented within this report. The adjustments relating to the second half of FY21 will be disclosed in the annual report for the period ending 1 May 2022.

DIRECTORS' DECLARATION

In the Directors' opinion:

- the financial statements and notes set out on pages 4 to 25 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 17 October 2021 and of its performance for the half-year 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.

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
Director

Brisbane
30 November 2021

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Independent auditor's review report to the members of Collins Foods Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Collins Foods Limited (the Company) and the entities it controlled from time to time during the half-year (together the Group), which comprises the consolidated balance sheet as at 17 October 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year from 3rd May 2021 to 17th October 2021, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Collins Foods Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 17 October 2021 and of its performance for the half-year from 3rd May 2021 to 17th October 2021,

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 17 October 2021 and of its performance for the half-year from 3rd May 2021 to 17th October 2021, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

PricewaterhouseCoopers

Michael Crowe

Michael Crowe
Partner

Brisbane
30 November 2021