

26 November 2019

## Group Chief Financial Officer's Statement and Introduction to Collins Foods Limited

Collins Foods Limited (**Collins Foods** and/or **Company**) is an Australian Listed Public Company (ASX; CKF) which operates, manages and provides administration for restaurants, currently comprising three restaurant brands: KFC, Sizzler and Taco Bell.

Collins Foods is the largest KFC franchisee in Australia and is a franchisee in Germany and the Netherlands. It is the owner of Sizzler restaurants in Australia and the franchisor for Sizzler in Asia, comprising Thailand, China and Japan. The Company also operates Taco Bell restaurants in Australia, with more planned to be opened in the coming year.

Collins Foods operates from Brisbane, Queensland, Australia and opened its first KFC restaurant in Kedron, QLD, Australia in 1969.

Collins Foods currently employs over 16,000 people who are dedicated to our purpose. We invest in our people to ensure we have a well-trained workforce.

We are proud to present in this report details of our tax contributions in the 2019 Financial Year, as well as providing information about our approach to our taxation obligations, our effective tax rate in Australia and internationally, and how our profit relates to our total income tax liability.

We are committed to providing transparency of our tax payments and obligations to demonstrate our commitment to ensuring we pay our fair share of tax in the countries in which we operate.

This report provides a detailed explanation of our tax profile and follows the guidelines set out in the Tax Transparency Code recommended by the Australian Board of Taxation and adopted by the Australian Federal Government.



**Nigel Williams**

Group CFO  
Collins Foods Limited

## 1 Our tax policy, strategy and governance

- 1.1 Collins Foods has a strong history of complying with our taxation obligations in both Australia, and all other countries in which we operate. The Company is committed to ensuring continuing full compliance with all statutory taxation obligations in all countries in which it operates and to provide full disclosure to tax authorities. It seeks to maintain its status as a lower risk taxpayer.
- 1.2 The Company maintains strong internal processes, training and compliance programs to ensure it meets its taxation obligations in all business locations. The Company maintains documented policies and procedures in relation to tax risk management and thorough risk assessments, including Board approval where appropriate, before entering into any structuring, financing or other arrangement which may have significant taxation impacts.
- 1.3 The key focus of this policy is to:
- (a) ensure the group fulfils its tax reporting obligations;
  - (b) ensure that all of the group's tax activities are carried on within the Company's business ethics guidelines;
  - (c) assist and advise the business units in designing tax structures for business transactions that comply with relevant laws and regulations; and
  - (d) monitor proposed changes in tax laws and regulations and advise management of the consequences.
- 1.4 The Board delegates the oversight of tax risk management to the Audit and Risk Committee. The compliance and risk procedures include regular reporting by management to the Audit and Risk Committee which in turn updates the Board, and review and sign off from external tax advisers for all significant tax matters. The Company's statutory financial statements, including tax calculations and disclosures, are subject to annual external audits as well as six monthly reviews.
- 1.5 In managing our tax risk, we make the following commitments:
- (a) we seek to obtain a high level of comfort and certainty with respect to managing and minimising all identifiable tax risks;
  - (b) we do not and will not engage in activities which artificially shift profits to low or no tax jurisdictions; and
  - (c) we are committed to working with revenue authorities in an open, transparent and cooperative manner and in accordance with the legislative requirements of the countries where we operate.
- 1.6 We believe this is the best way to ensure we continue to protect our ongoing business interests and develop long-term sustainable returns for our shareholders.

## 2 Total tax contributions

- 2.1 Total tax contribution during the year ended 30 April 2019:

	Global \$000	Australia \$000	Rest of World \$000
Corporate income tax	17,298	16,654	644
GST/VAT paid	46,388	45,900	488
Total	63,686	62,554	1,132

- 2.2 The amounts above exclude other indirect taxes paid by Collins Foods or collected and passed on to the ATO and other local authorities responsible for the collection of taxes, such as fringe benefits tax, payroll tax, PAYG withholding and stamp duty.

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### **3 Effective tax rate and reconciliation of accounting profit to income tax payable**

- 3.1 We have presented in Appendix A and B the reconciliation of accounting profit to income tax payable for the 2019 financial year for the Australian operations only. The tax impact of the international operations is minor when compared to the Australian operations and the calculation of the International and Australian effective tax rates (being accounting income tax expense expressed as a percentage of the profit before tax) is reasonably similar.
- 3.2 The effective tax rate reflects the income tax payable on the profit for a particular year. It differs from the actual income tax payable in that year due to timing differences (where the timing of income and expense recognition differs for accounting and tax purposes).
- 3.3 As identified in Appendix B, our effective tax rate is above the statutory 30% rate and has been for the past few years. The key reason for this is due to non-deductible expenditure, some of which is attributable to our rapid expansion through a number of acquisitions over the past few years. Acquisition costs are often not immediately deductible for tax purposes even though they may be recognised as an expense in determining accounting profit before tax. As a result, taxable income is higher than accounting income, and the effective tax rate is higher than 30%. In addition, our income tax liability is affected by temporary differences such as provisions and accruals of expenditures that are not deductible for tax purposes until the expenditures are paid. This is generally in the subsequent financial year.

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### **4 International related party dealings**

- 4.1 Collins Foods operates in Australia, Germany, Netherlands, United Kingdom and across the Asian region.
- 4.2 The main dealings between the Collins Foods' Australia operations and Europe operations are:
- (a) Shareholder-related activities;
  - (b) providing share-based remuneration to Europe based employees.
- 4.3 The main dealings between the Collins Foods' Australia operations and Asia operations are:
- (a) providing administrative support and shareholder-related activities;
  - (b) providing sales and marketing services and technical support to overseas-controlled entities.
- 4.4 All international related party dealings are conducted in accordance with Australian transfer pricing laws utilising arm's length methodologies prescribed by the Organisation of Economic Cooperation and Development (OECD).

## Appendix A – Reconciliation of Australian accounting profit to income tax payable for the year ended 30 April 2019

	\$AUD \$000
Closed group profit disclosed in financial statements	63,891
Foreign eliminations	(1,337)
Australian profit before income tax	62,554
Prima facie tax at 30%	18,766
Non-deductible expenditure	587
<b>Income tax expense</b>	<b>19,353</b>
Effect of temporary differences:	
Movement in employee provisions	267
Movement in accruals	69
Movements in fixed assets	1,046
Movements in intangibles	(410)
Deductions related to acquisitions	(287)
Other	38
<b>Income tax payable for current year</b>	<b>20,076</b>
Less: Instalments paid	15,472
Less: Losses brought forward claimed	80
Current tax payable - Australia	4,524
Current tax payable - Rest of world	15
Interest on refunds	13
Tax effect of prior year amendments	(149)
<b>Tax payable per financial statements</b>	<b>4,401</b>

## Appendix B – Effective tax rate for the year ended 30 April 2019

	Global \$000	Australia \$000
Accounting profit	59,333	62,554
Current tax expense	19,668	20,076
Deferred tax expense	807	(723)
(over)/under provided in prior reporting periods	(253)	(1,244)
Income tax expense as per financial statements	20,222	18,109
<b>Effective tax rate – Total tax</b>	<b>34%</b>	<b>29%</b>
<b>Effective tax rate – Current tax</b>	<b>33%</b>	<b>32%</b>