



COLLINS FOODS LIMITED

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8 August 2014

Dear Shareholder,

**RESPONSE TO CORRESPONDENCE FROM STEPHEN COPULOS AND THE COPULOS GROUP
REGARDING NON-SUPPORT FOR ITEMS 2 AND 3 AT THIS YEAR'S AGM**

On 31 July 2014, Collins Foods Limited announced that Stephen Copulos, in his capacity as non-Executive Director, had advised the Company that he did not support two of the Board recommendations for the upcoming AGM.

**All other Directors (with Russell Tate abstaining) continue to recommend Shareholders vote
IN FAVOUR of Item 2, being the re-election of Russell Tate as a non-executive Director.**

Your Board's current size, composition and mix of skills and experience is appropriate for a company the size of Collins Foods:

- Four of five Board members – Russell Tate, Bronwyn Morris, Newman Manion, and Stephen Copulos – are non-executive directors.
- Three of five Board members – Russell Tate, Bronwyn Morris, and Newman Manion – are independent directors.
- Three of five Board members – Newman Manion, Stephen Copulos, and Kevin Perkins – have significant industry experience garnered over many years with KFC.

As Chairman of your Company, Russell Tate enjoys the full and unqualified support of all other Directors except Stephen Copulos. In the view of Kevin Perkins, Bronwyn Morris and Newman Manion, Russell's broad business background, extensive sales and marketing experience including at CEO level, and listed Company experience/grounding in Director and Chairman roles, brings to the Board ideal qualifications and insights to complement those of the other Directors.

Russell Tate's leadership of the Board has been characterised by an emphasis on providing strategic oversight and constructive support to management. Strict adherence to governance guidelines appropriate to all shareholders and stakeholders is a key focus of this Board and the shared responsibility of the Chairman together with Bronwyn Morris, who chairs the Audit and Risk Committee, and Newman Manion who chairs the Remuneration and Nomination Committee.

Russell Tate's Chairmanship of the Collins Foods Board commenced immediately following the Company's listing on ASX in 2011, and as such has seen the Company through some challenging and difficult periods. He also played a pivotal role in the successful acquisition of KFC WA/NT restaurants which has substantially diluted the Company's overall exposure to Sizzler. In the view of Kevin Perkins, Bronwyn Morris and Newman Manion the Company is now well placed for an exciting new period of development and shareholders will be best served by the continuation of Russell Tate's involvement as a Director and as Chairman.

Russell's CV is annexed to this letter for your information and consideration.

**All Directors other than Stephen Copulos continue to recommend Shareholders vote IN FAVOUR of
Item 3, being the adoption of the Company's Remuneration Report.**

Shareholder support for the Company's remuneration practices is evident from the overwhelming support received from shareholder votes adopting the previous Remuneration Reports in each of 2012 (approved by 92.16% of voting shareholders) and 2013 (approved by 97.1% of voting shareholders).

There has been no change to the Company's remuneration practices since 2012, apart from the implementation of a Long Term Incentive Plan that was approved by shareholders at last year's AGM.

Collins Foods' remuneration policies are well known, understood and supported by shareholders. The Company's remuneration framework is designed to provide competitive and appropriate remuneration so that skilled employees can be attracted, retained and motivated to build long term shareholder value. The Remuneration and Nomination Committee regularly engages with remuneration consultants, and as a result the Company's remuneration practices are appropriate and in line with market practice.

Collins Foods' Remuneration and Nomination Committee meets all of the Corporate Governance Principles and Recommendations (2nd edition) and has done so since its listing on ASX. While Kevin Perkins is a member of the Remuneration and Nomination Committee, he has no involvement in any of the discussions regarding his own remuneration. Shareholders should also note that all Directors, their related parties and other key management personnel of the Company previously have not voted and cannot vote on the Remuneration Report.

Your Board and management have delivered growing shareholder returns.

From the commencement of the 2014 financial year on 29 April 2013 to 1 August 2014 (the day after the release of the Notice regarding the 2014 Notice of Annual General Meeting), the Collins Foods share price increased 27% to \$2.42, compared to the overall market (ASX All Industrials Index) which was up 7%. At the same time, your total dividend payments for the 2014 financial year increased by 10.5% to an aggregate of 10.5 cents per share fully franked (compared to the 2013 financial year).

This growth in shareholder value reflects your Board's strong strategic focus and your management team's strong operational focus.

Since informing the market of Stephen Copulos' non-support for the two resolutions, the Company has received a letter (*attached*) from Stephen Copulos, as Managing Director of the Copulos Group, outlining his reasons for not supporting the Board's recommendations. That letter also outlines matters that are unrelated to the re-election of Russell Tate and the adoption of the remuneration report. Nevertheless, in order to allow shareholders to form a considered opinion in relation to the position of the Copulos Group, the Company outlines the following facts:

- Your Board and management applies significant, detailed scrutiny and focus to the Sizzler Australia business – a review of all areas of the Sizzler business was conducted for the Board, with the unanimously supported outcome involving the "Get Refreshed" initiative. Your Board and management expect to be in a position to properly evaluate the impact of this initiative, and based upon that evaluation to make a decision on the future direction of the Sizzler brand, by the end of our current financial year. That decision will be made solely on the criterion of maximising shareholder value.
- The successful acquisition of KFC WA/NT restaurants has substantially diluted the Company's overall exposure to Sizzler and provided a new growth channel with KFC, a business that Collins Foods knows well and operates efficiently.
- Sizzler USA is not related to Collins Foods' Sizzler business, and Kevin Perkins has no conflict of interest – his association with Sizzler USA was fully disclosed on page 77 of the Company's IPO Prospectus and noted in the Company's Annual Reports in 2012, 2013 and again in 2014.
- If shareholders adopted Stephen Copulos' line of reasoning regarding Kevin Perkin's Sizzler USA shareholding, then there would be a conflict of interest for Stephen Copulos given the Copulos Group owns 100% of QSR Pty Ltd that in turn owns KFC's largest NSW franchisee. Notably, Stephen Copulos claims no conflict with that interest.
- The Company's investment in Snag Stand provides an attractive early stage entry into a new market sector and was never expected to immediately generate profits.
- Since joining your Board in April 2013, Stephen Copulos has been actively involved in all strategic decisions made by the Company and supported the acquisition of a 50% interest in Snag Stand and Sizzler's "Get Refreshed" initiative.
- Since joining your Board, Stephen Copulos has attended four out of six Remuneration and Nomination Committee meetings. He has attended all Board Meetings which have approved and adopted Remuneration and Nomination Committee recommendations.

- The Company's administration costs to revenue are appropriate for its size, operating format and strategic direction. The efficient structure of the Support Centre facilitated the seamless integration of the 42 KFC stores in WA/NT, resulting in administrative cost as a percentage of revenue being reduced to 4.2% with a target of 4%. The Company's investment in administration and management has allowed the Company to achieve higher KFC operating margins than its Australian peers.
- Your Directors have adopted, and continue to adopt, a measured and methodical approach to the governance and management of the Company. This is clearly seen through the recent succession plan that led to the appointment of Graham Maxwell as CEO, while retaining Kevin Perkins' over 30 years of industry expertise via his continued role as an Executive Director of the Company.

Kevin Perkins, Bronwyn Morris and Newman Manion continue to recommend Shareholders vote IN FAVOUR of Item 2, being the re-election of Russell Tate as a non-executive Director.

All Directors other than Stephen Copulos continue to recommend Shareholders vote IN FAVOUR of Item 3, being the adoption of the Company's Remuneration Report.

Yours sincerely,



Russell Tate
Chairman



Kevin Perkins
Managing Director and CEO



Bronwyn Morris
Chairman, Audit and Risk Committee



Newman Manion
Chairman, Remuneration and Nomination Committee

Annexure to response to correspondence from Stephen Copulos and the Copulos Group regarding non-support for Resolutions 2 and 3 at this year's AGM

RUSSELL TATE: CURRICULUM VITAE

Russell Tate has over 30 years' experience in Senior Executive and Consulting roles in marketing and media companies, over 20 years' experience as a Director of listed companies, and almost 10 years' experience as Chairman of listed companies.

EDUCATION

BCom (Econ) (UNSW)

CURRENT ROLES

Chairman of Collins Foods Limited (ASX listed)	Since 2011
Executive Chairman of Macquarie Radio Limited (ASX listed)	Since 2008
Chairman of One Big Switch Pty Ltd	Since 2012
Advisory Board Director – B.C.C Ad Systems	Since 2014
Chairman Russell Tate Corporate Advisory	Since 2008

PREVIOUS ROLES

Managing Director – John Singleton Advertising Pty Ltd (ASX listed)	1992-1997
Group Managing Director – STW Communications Group Limited (ASX listed)	1997 – 2001
Group CEO – STW Communications Group Limited (ASX listed)	2001 – 2005
Executive Chairman – STW Communications Group Limited (ASX listed)	2006 – 2008
Deputy Chairman (non-executive) – STW Communications Group Limited (ASX listed)	2008 – 2011
Chairman – Central Coast Stadium Limited	2002 – 2012
Director – Macquarie Radio Network Limited	2004 – 2007
Director – Waratahs Rugby Limited	2009 – 2011
Executive Director – John Singleton Advertising	1987 – 1992
Chairman & CEO – Russell Tate and Associates Pty. Ltd	1982 – 1987
Executive Director – Dairy Promotions Council of NSW	1977 – 1981
Various Sales and Marketing Roles – C.S.R. Ltd, Rheem Manufacturing Company, Ampol Petroleum Ltd, Heuga Carpet Company	1965 -1977



[] August 2014

[Shareholder name]

[Shareholder address]

Dear fellow Collins Foods shareholders

Time for change at Collins Foods:

Need to deal with Sizzler Australia and need for board renewal and improved corporate governance

I am the managing director of Copulos Group, the second largest shareholder in Collins Foods Limited (**Collins Foods**) with a shareholding of 17.11%. I have also been a non-executive director of Collins Foods since April 2013.

I am writing to you to express my concerns about the performance of our company (and in particular Sizzler), the corporate governance of Collins Foods and the remuneration report.

For reasons set out below, I recommend that you vote against the re-election of the current chairman, Russell Tate, and the remuneration report at the upcoming annual general meeting of Collins Foods shareholders on 3 September 2014 (**AGM**). We need change in the make-up of the Board of Directors to make these changes happen. We need to do this urgently.

In my view, Collins Foods faces several key issues which need to be fixed by taking the following actions:

1. **Sizzler's performance is rapidly deteriorating. The ownership of Sizzler needs to be critically reviewed and, in my view sold or closed down.**
2. **The Snag Stand strategy is flawed and requires investigation as to further involvement.**
3. **The company's corporate governance and remuneration practices are poor and urgently need to be improved.**
4. **The Company's overhead cost structure is bloated and must be significantly reduced.**
5. **The Board lacks relevant strategic vision in the current competitive market environment. There has not been enough focus on driving strategies to add value and improve shareholder returns. The Board needs new members.**

I elaborate on the issues facing our company below:

1. Repeated poor performance of Sizzler Australia weighing down the share price

Collins Foods's 2014 Annual Report shows that both overall revenue and same store sales (SSS) for Sizzler declined by 9.3% in 2013/14. This deteriorating performance has been a consistent theme since the IPO, with Sizzler SSS declining 4.0% in 2011/12 and 2.4% in 2012/13. The rate of deterioration is clearly accelerating.

The former CEO, and a current executive director, Kevin Perkins, owns 55% of Sizzler® USA. To my knowledge, this information was first disclosed to shareholders only in the 2013/14 Annual Report. In my view, this holding of Mr Perkins is a fundamental conflict of interest with Mr Perkins owning the majority of Sizzler® USA and at the same time managing the strategy in relation to Sizzler in Australia through Collins Foods.

The “Get Refreshed” campaign being applied to Sizzler Australia is, I believe, a band-aid solution to a business which requires major surgery. It simply will not be sufficient to turn around a business the patronage of which shows has passed its use-by date.

In my view, it is time for the company to sell, close or otherwise eliminate its exposure to the Sizzler Australia business, to allow Collins Foods to instead focus on the profitable businesses of KFC. A rigorous analysis of alternatives to the status quo is required. The current chairman and current management seem unwilling to embark on this exercise.

I am very concerned that the continued poor performance of Sizzler is weighing down our Collins Foods share price.

2. Snag Stand strategy is flawed

The early signs for this business, in my view, are not encouraging. Its financial performance is falling well short of targets. A rigorous analysis of the future prospects of this business is required before further capital is committed towards it. In my view, Snag Stand should be abandoned before it becomes a major distraction to management.

3. Lack of strategic oversight

Despite repeated requests by myself and some other shareholders to abandon the Sizzler investment, Russell Tate and Kevin Perkins have kept on with a losing strategy. In the 3 years since the IPO, Sizzler’s deteriorating performance has accelerated.

I am concerned that in my view insufficient strategic oversight is being provided by Russell Tate. Kevin Perkins has had over 30 years in the business. In my view, the same old ideas are being applied to a tired concept. Sizzler in Australia used to have restaurants in most states of Australia including NSW, Victoria and South Australia where they closed many years ago. I don’t believe Russell understands today’s fast paced casual dining environment and it seems he is not willing to canvass a change in strategic direction of this business unit or the company generally.

An effective Chairman leads the Board and is highly influential in driving the Board and senior executives towards a value-adding, strategically-focused team. I believe we need a Chairman who has broader experience and is more prepared to contribute towards strategy formulation, is independent, and who works together with the other non-executive directors to extract the best possible outcomes for the company.

A new Chairman is needed to provide an environment where fresh ideas and alternative strategic thinking is embraced and encouraged.

4. Poor corporate governance

In my view a key role of the Board in general, and the Chairman in particular, is to provide proper oversight of management. I am concerned that Kevin Perkins has, in my view, been allowed to run the company with little oversight, questioning or monitoring from Russell Tate. The same failing strategies are being applied at Sizzler. Mr Perkins’ management and decision-making for this failing business has continued despite his conflicted position as majority owner of Sizzler USA.

I don’t see this changing now Graham Maxwell has been appointed CEO, particularly because Mr Perkins, after a long duration as CEO, is proposed to continue in an Executive Director role with the company. This is highly unusual and is contrary to the accepted view of strong corporate governance. I believe there will be implied pressure on the new CEO to protect the legacy of his predecessor, and to resist significant change to strategy even if it is necessary.

In my view it is highly inappropriate for the former CEO to remain on the board. There have been a number of recent cases in other high profile listed companies where this issue has arisen and, mostly, been dealt with by the former CEO not continuing in an executive or Board role. I believe that the Chairman of Collins Foods is not showing leadership in addressing this issue.

A further corporate governance failing is that the former CEO has been, and on my understanding will continue to be, a member of the company’s Remuneration Committee. This is further discussed below.

I believe a new Chairman is needed to take charge of the corporate governance of the company and rectify these failings.

5. Key management overpaid

Given the poor financial performance of key businesses, and the significant shortfall between the company's actual performance and that projected in its IPO prospectus, it is my opinion that the former CEO has been overpaid.

I have not been invited to join the Remuneration Committee of the company despite indicating an interest in doing so. In my view, the current remuneration structure of at least some members of Collins Foods's senior management team should be reviewed to determine its appropriateness. As noted earlier, Kevin Perkins has been a member of the Remuneration Committee, another clear conflict of interest. Consistent with the ASX listing rules, this Committee needs to be recast to consist entirely of non-executive directors so that a truly independent assessment of remuneration and management structure can be made.

The company's current ratio of Administration Costs to Sales is well above comparable industry peers, indicating a bloated overhead structure. This needs to change quickly.

I encourage you to vote against the remuneration report at the AGM.

6. Time for additional directors with relevant strategic vision to be added

I believe it is fundamentally important for the performance of Sizzler, and of Collins Foods as a whole, for the board to be actively engaged with the activities of the Collins Foods business.

In my view, the Board needs additional commercial and industry experience. This will ensure that the level of focus and scrutiny being applied to the Sizzler business – and indeed all parts of the company is lifted to protect the interests of all Collins Foods shareholders.

I believe this additional oversight and independent perspective is necessary to ensure that all businesses of the company are on the right strategic course and maximising their opportunities, and where appropriate, failing strategies are discarded without further unnecessary losses.

If Russell Tate was not re-elected, the board could seek a suitable replacement with appropriately broad commercial, and specific industry, experience.

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We need to get Collins Foods focused on profitable businesses quickly.

I urge you to vote against the proposed Resolutions at the forthcoming AGM.

Yours sincerely,



Mr Stephen Copulos

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