WE'RE SHARPENING OUR COMPETITIVE EDGE,

AND WON'T REST TILL EVERY "I" IS DOTTED AND EVERY "T" IS CROSSED.

GOOD PROGRESS WITH MORE TO COME

I SIGNALLED IN THE LAST ANNUAL REPORT THAT THE 2007/08 FISCAL YEAR WOULD BE A PERIOD OF SIGNIFICANT IMPROVEMENT IN PERFORMANCE; AND SO IT HAS BEEN.

Net operating profit after tax* increased 69% to $11.0 million – above expectations and significantly ahead of 2006/07 – on total group sales of more than $300 million, but significant challenges remain. The year under review can best be described as **"work in progress"** and we can expect further improvement in the current year.

Our largest division, KFC, produced another stellar performance and the Starbucks Coffee business, although small in relation to our overall brand presence in New Zealand, achieved steady growth. This underscores the company's ability to leverage off good brands – the essence of what Restaurant Brands is about – and confirms that the group is, first and foremost, a brand manager, not restricted or inhibited by its current brand portfolio.

The big disappointment of 2007/08 was the performance of Pizza Hut. It struggled despite intensive efforts by management to turn the operation around. The only comfort that can be drawn is that Pizza Hut remains the dominant participant in this mature and highly competitive market. It is no secret that the franchisees amongst Pizza Hut's competitors are also struggling but that they lack the solid backing of a company like Restaurant Brands.

Directors will continue to review Pizza Hut's future and take whatever steps necessary to protect future group growth and profitability.

BETTER FINANCIALS

With the exception of Pizza Hut, where sales fell, trading overall showed a marked improvement compared with 2007. Total group sales in New Zealand rose 3.4% to $303.5 million (also rising 3.4% on a same store basis), mainly on the back of strong growth by KFC.

The $4.5 million improvement in NPAT to $11.0 million (excluding non-trading items) was due to New Zealand operations profit being up $1.4 million with the balance of $3.1 million from a cessation of the losses in Victoria.

Non-trading charges of $3.4 million largely comprised fixed asset write-offs on KFC transformations of $0.8 million, $0.9 million in rationalisation costs from Pizza Hut store closures and a further impairment of Pizza Hut NZ goodwill of $1.2 million.

The exit of the Pizza Hut Victoria business was finally achieved just after balance date with some residual costs (net of tax) of $0.5 million which affected bottom line profit. The severance of Pizza Hut Victoria is complete and remaining costs were accounted for in 2007/08.

IMPROVED DIVIDEND

The better performance of the group persuaded directors to approve a fully imputed interim dividend of 3 cents a share that was paid on 23 November 2007. Directors have also approved a fully imputed final dividend of 3.5 cents a share, payable on 27 June, bringing the total dividend for the year to 6.5 cents a share. This is one cent a share higher than the total dividend for 2006/07 and a reflection of the **"work in progress"** I referred to earlier.

* Excluding non-trading items

MANAGEMENT GAINS

In September 2007 Russel Creedy was appointed Restaurant Brands' new Chief Executive Officer. He had been acting CEO after the departure of Vicki Salmon in February 2007 and was selected after a global search ahead of a number of highly qualified candidates.

Directors considered his strategic leadership as acting CEO made him the right person to lead Restaurant Brands through a sustained period of growth. His proven ability to work with stakeholders, including key suppliers and franchisors, to secure benefits for the group, negotiate improved supply-chain relationships and reduce costs also counted heavily in his favour.

The benefits of the appointment are already showing through. Since balance date, under his direction, Restaurant Brands and the trade union *Unite* have negotiated collective agreements for the stores and the call centre.

Russel will discuss this achievement in detail in his review but, suffice to say, the settlements allow management and staff to focus on improving sales and profitability in what is proving to be a challenging economic cycle.

KFC SHINES

Our KFC brand continues to shine with record total sales up 9% to $199.1 million in 2007/08 (or up 7.7% on a same store basis), contributing greatly to the group's pleasing result and making New Zealand once again one of the best performing KFC franchises in the world. This reflects favourably on the store transformation programme and directors' long term commitment to the brand.

Last year, we reported that the KFC franchise for most of our stores had been renewed ahead of schedule and that the company had negotiated with the franchisor, Yum Restaurants International, to secure an option to take a further 20 year franchise on its KFC transformed stores.

I am pleased to report that the franchise of a further 38 KFC stores has been renewed in the current year and we continue to lock in extended 20 year franchises for transformed stores.

PIZZA HUT CHALLENGES

Pizza Hut, as previously stated, continues to disappoint and the expected turnaround in performance is taking far longer to achieve than directors and management had hoped. Total sales fell 10.4% to $71.4 million (or down 7% on a same store basis).

The pizza market is difficult and crowded and most participants are struggling to make acceptable returns. Pizza Hut is by far the largest player and the best known brand and its poor performance has, consequently, been more public than most. Directors and management will be redoubling their efforts to ensure it ceases to be a drain on the group.

The directors will not shy away from making firm decisions over Pizza Hut in the interests of overall group profitability. Indications are that recovery is under way, although much will depend on the performance of the New Zealand economy during the next 12 months.

The good news is that the exit from Pizza Hut Victoria is now complete and the last of the exit costs have been accounted for in the year under review.

STARBUCKS COFFEE GROWS

Starbucks Coffee is by far the smallest of our brands yet its total sales growth – up 5.6% to $33.0 million (or up 4% on a same store basis) compared with 2006/07– and improved earnings continue to impress. This in part reflects the directors' decision to rationalise some stores, although its greatest strength is its power as a truly international brand.

We see Starbucks Coffee as continuing to perform well.

SOUND GOVERNANCE

The professionalism of my fellow directors made my job much easier during a busy year. Our commitment to corporate governance best practice made decision making clearer and more transparent and allowed management a free hand to improve efficiency in all sectors.

We view the decision of our Australian based director, Danny Diab, to buy more shares in the group in 2007/08 as a vote of confidence in Restaurant Brands' direction.

ACKNOWLEDGMENTS

The Board would like to thank Russel Creedy and his team for delivering a much improved result in 2007/08.

BRIGHTER PROSPECTS

Restaurant Brands is still going through a period of **"work in progress"** but directors are heartened with the progress to date and expect the good work to continue.

TED VAN ARKEL
Chairman
9 April 2008