REPORT 2009

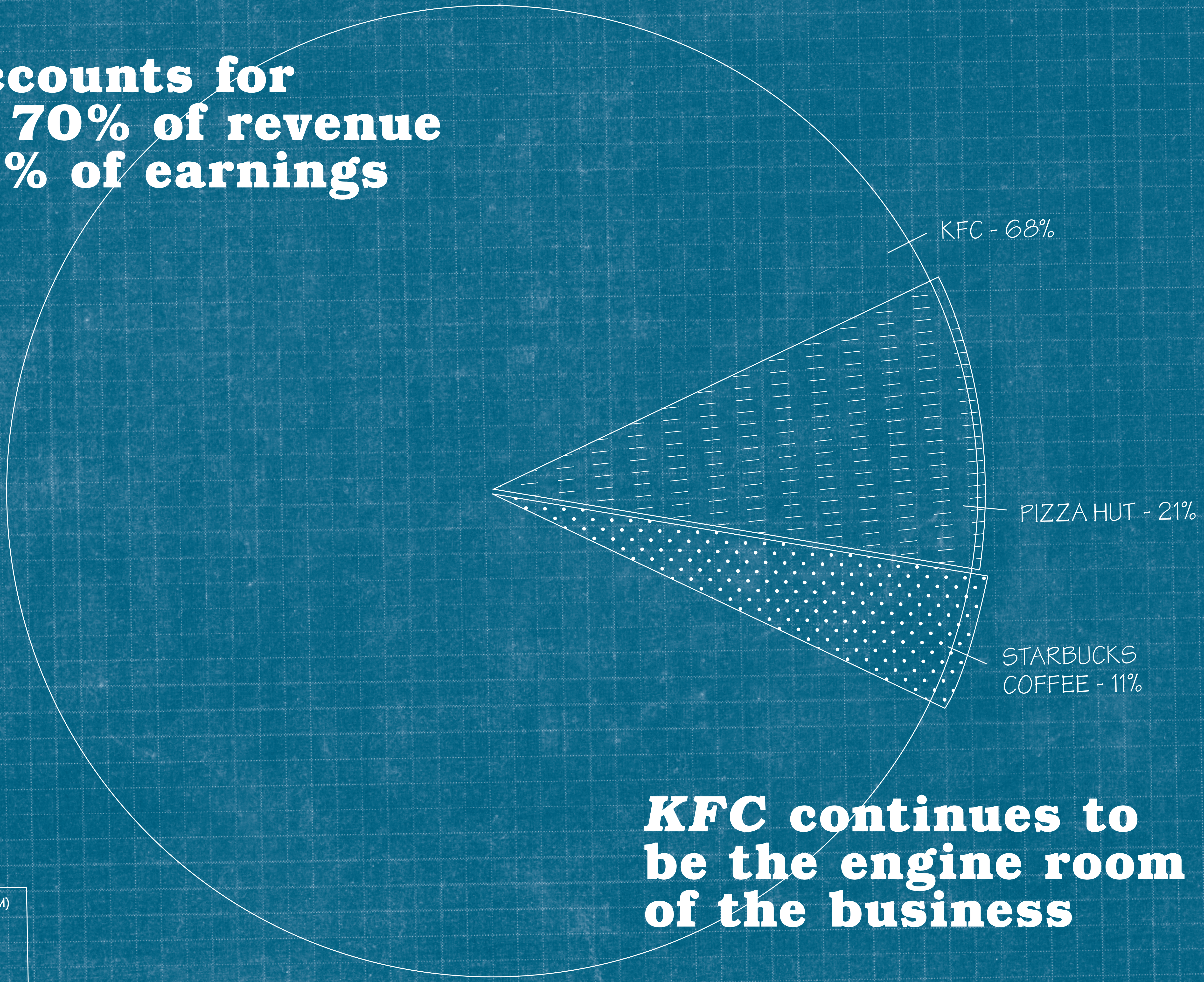
12

the colonel's twelfth secret ingredient for continued business success revealed :

CONFIDENT

it takes more than 11 herbs & spices for *KFC* to break through the *$200M* sales barrier

KFC accounts for almost 70% of revenue and 90% of earnings



KFC continues to be the engine room of the business

FINANCIAL PERFORMANCE SALES ($M)

- KFC $211.5
- PIZZA HUT $64.6
- STARBUCKS COFFEE $33.0

It takes more than 11 herbs and spices to break though the $200 million KFC sales barrier. There's another secret to the recipe that continues to give Restaurant Brands the confidence to meet its challenges no matter the conditions.

The answer lies in the 12th ingredient, the know-how that combines the experience and expertise of all our branded operations.

year in review

Group Net Profit after Tax (excluding non trading items) was $11.7 million (12.1 cents per share), up $1.4 million or 13% on prior year, mainly because of the strong result for KFC.

Reported Net Profit (including non trading items – primarily Pizza Hut impairment charges) was $8.3 million (8.5 cents per share) compared to $8.4 million in the prior year.

Total NZ sales for the company were $309.1 million, up $5.6 million on prior year with same store sales up 1.6%.

KFC achieved yet another sales record at $211.5 million (up 4.1% on a same store basis) with Starbucks Coffee flat at $33.0 million (up 3.6% same store). These were partly offset by lower sales of $64.6 million for Pizza Hut (down 6.5% same store).

The KFC brand transformation continued its roll out with significant sales growth in the 34 transformed stores.

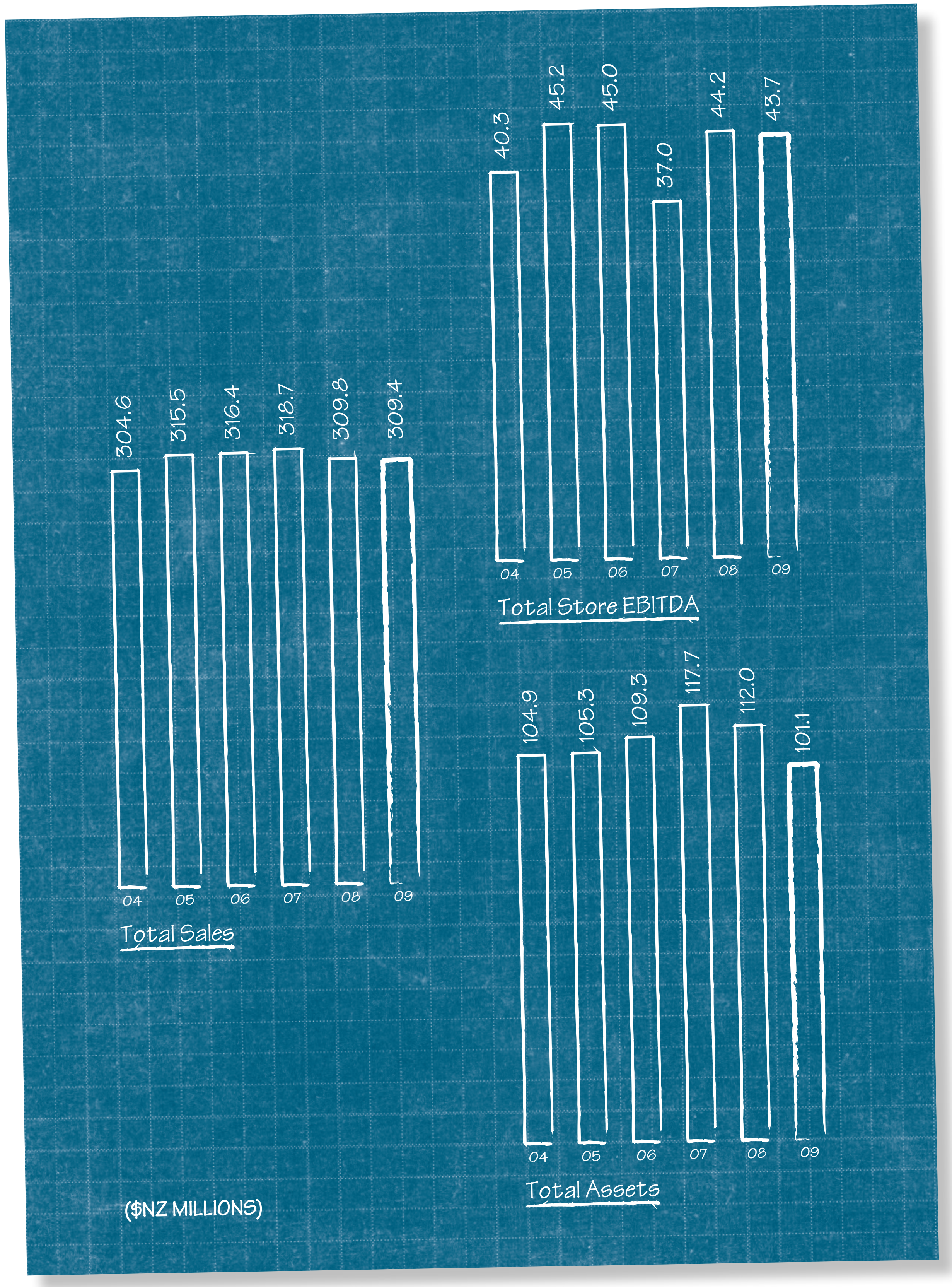
Bank debt was down by $8.2 million (on top of the $6.1 million reduction in the prior year) as the company continued its debt reduction programme in the current economic environment.

A final full year fully imputed dividend of 4.0 cents per share has been declared making a full year dividend of 7.0 cents, up 0.5 cents on prior year.

Note 1. Results for the 2008/09 financial year are on a 53 week basis vs 52 weeks for the previous year. Because the company normally uses a 52 week (364 day) year, a “leap” year is occasionally required; hence an extra week.

Note 2. A change in the company’s accounting policy with respect to prepaid advertising and promotional expense following its adoption of the amendment to accounting standard NZ IAS 38 now requires all advertising material (including television advertisements) to be expensed at time of production. This has meant a restatement of last year’s result and all comparatives are based on these restated numbers. The net result was an increase in NPAT for 2008/09 of $0.7 million and a corresponding decrease in NPAT for 2007/08.

year in review



financial highlights

HISTORICAL SUMMARY

All figures $NZm unless stated

	2004	2005	2006(1)	2007	2008(2)	2009
Financial performance						
Sales						
KFC	171.1	173.0	171.8	182.7	199.1	211.5
Pizza Hut	81.3	87.6	89.1	79.7	71.4	64.6
Starbucks Coffee	23.1	24.9	27.9	31.3	33.0	33.0
Pizza Hut Victoria	29.1	30.0	27.6	25.0	6.3	0.3
Total	304.6	315.5	316.4	318.7	309.8	309.4
Store EBITDA						
KFC	25.6	27.8	29.6	31.2	35.9	38.0
Pizza Hut	12.3	13.6	11.8	5.1	4.4	2.8
Starbucks Coffee	3.0	3.7	3.9	3.6	3.9	2.9
Pizza Hut Victoria	(0.6)	0.1	(0.3)	(2.9)	-	-
Total	40.3	45.2	45.0	37.0	44.2	43.7
EBIT	14.7	19.1	11.3	(1.1)	16.1	15.6
NPAT (reported)	8.1	10.7	5.2	(3.6)	8.4	8.3
NPAT (excluding non-trading)	8.1	11.0	12.3	6.5	10.4	11.7
Financial position/cash flow						
Share capital	24.5	25.3	25.6	25.6	25.6	25.6
Total equity	49.7	51.1	43.9	32.6	35.2	37.1
Total assets	104.9	105.3	109.3	117.7	112.0	101.1
Operating cashflows	24.5	23.4	28.2	20.8	31.3	23.3
Shares						
Shares on issue (year end)	96,192,826	96,843,475	97,081,875	97,128,956	97,128,956	97,128,956
Number of shareholders (year end)	9,190	7,992	7,067	6,733	6,214	6,095
Earnings per share (full year reported)	8.5c	11.1c	5.4c	(3.7)c	8.6c	8.5c
Ordinary dividend per share	10.0c	10.0c	10.0c	5.5c	6.5c	7.0c
Other performance indicators						
Number of stores (year end)						
KFC	88	87	88	87	87	84
Pizza Hut	91	101	107	103	97	93
Starbucks Coffee	35	39	44	47	44	42
Pizza Hut Victoria	52	51	50	23	1	-
Total	266	278	289	260	229	219
Partners (employees) paid (year end)	6,912	7,083	6,787	5,949	4,957	4,526

Notes:
(1) The results for 2006 and onwards have been restated on a post IFRS basis. Data provided prior to 2006 are on a pre IFRS basis.
(2) 2008 results have been restated to reflect a change in accounting policy on treatment of advertising expenditure. Net result is a reduction in previously reported EBITDA of $943k.

chairman's report
creditable performance in challenging times

Last year we made good progress rebuilding Restaurant Brands' profitability. This year, 2008/09, we are further along this path to recovery, although with some mixed results. It has been a satisfactory performance, largely on the back of continued solid growth in our KFC operations.

Net profit after tax (excluding non-trading items) was $11.7 million (12.1 cents per share), up $1.4 million on prior year.[1,2]

The comparative result was assisted by an additional trading week and a change in the company's accounting policy on advertising spending, but nonetheless it was a creditable effort in a challenging economic environment.

Reported bottom line net profit after tax (after accounting for non-trading items) was $8.3 million, slightly down on last year's $8.4 million.

While KFC continued to shine, the Pizza Hut and Starbucks Coffee brands did not fare as well, with flat or declining sales and escalating input costs putting continuing pressure on margins. However, the company remains committed to all three brands and is close to reaching an agreement with our franchisor, Yum! Restaurants International, to extend the Pizza Hut franchise for a further ten years. The Chief Executive Officer will outline the benefits of the agreement in his review.

Satisfactory trading results

Total NZ sales for the company were $309.1 million, up $5.6 million on 2007/08 and up 1.6% on a same store basis. Again, the growth was largely due to KFC, which generated $211.5 million in sales — a new record. Pizza Hut sales, at $64.6 million, were down $6.8 million on 2007/08 and Starbucks Coffee recorded flat sales of $33 million.

Brand earnings before interest, tax, depreciation and amortisation (EBITDA) totalled $43.7 million, marginally down on last year's $44.2 million. The KFC improvement of $2.1 million to $38 million was completely offset by EBITDA reductions in Pizza Hut of $1.7 million and Starbucks Coffee of $0.9 million respectively.

Non-trading costs of $5 million primarily comprised impairment charges against goodwill in the Pizza Hut business of $3.7 million, together with continuing fixed asset write-offs arising from the transformation programme and $0.4 million in Pizza Hut store closure costs. We will continue to take up these write-downs on the carrying value of the Pizza Hut business until it begins to demonstrate some turnaround in profit performance.

Despite the lower overall EBITDA at the store level, reduced general and administration expenses (above store overheads) of $0.4 million on 2007/08 and lower interest costs (down $1 million on prior year) brought net profit after tax (excluding non-trading items) up to $11.7 million (up $1.4 million on prior year).

1. Results for the 2008/09 financial year are on a 53-week basis versus 52 weeks for the previous year. Because the company normally uses a 52-week (364-day) year, a leap year is occasionally required; hence an extra week.
2. A change in the company's accounting policy with respect to prepaid advertising and promotional expense following its adoption of the amendment to accounting standard NZ IAS 38 now requires all advertising material (including television advertisements) to be expensed at time of production. This has meant a restatement of last year's result and all comparatives are based on these restated numbers. The net result was an increase in NPAT for 2008/09 of $0.7 million and a corresponding decrease in NPAT for 2007/08.

Improved balance sheet and cash flow

Total assets of $101.1 million were down on the $112 million at last year end, reflecting the $3.7 million in Pizza Hut impairment charges and the differential between lower capital spending and depreciation over the year. This will reduce as we increase our capital spending again into the new year.

Despite the increase in reported net profit after tax (excluding non-trading items), operating cash flows at $23.3 million were below 2007/08, mainly because of changes in working capital and an increased taxation expense. However, investing cash outflows at $8.1 million were also significantly down as we reduced the pace of our transformation spending in an uncertain economic environment (and reached our $35 million contractual commitment with Yum! Restaurants International). Investing cash flows last year also had $3.1 million in franchise renewal fees, not repeated in the current year.

The improved free cash flow position meant that we were able to retire a further $8.2 million in bank debt over the year (in addition to the $6.1 million reduction last year). Year end bank debt was $34.3 million, well within current facility limits of $55 million and giving us a relatively conservative gearing.

Lower borrowings, together with the impact of our continued policies of funding at the shorter end of the interest rate curve, were reflected in a significant reduction in funding costs of $1 million over 2007/08 to $3.9 million.

Dividend

The company has produced an adequate result for the current year, despite some issues in the Pizza Hut and Starbucks Coffee operations. In keeping with the board's view that the continued improved performance of the company should be reflected in an increased return to shareholders, a final dividend of 4 cents per share has been declared. This brings the total dividend to 7 cents per share, up from 6.5 cents last year.

The dividend will be paid as fully imputed on 26 June 2009 to all shareholders on the register as at 12 June 2009. Overseas shareholders will also receive a supplementary dividend.

A solid team on board

Board members continue to work closely with management in guiding the company through these challenging times, while maintaining high standards of corporate governance. The independent directors continue to approve further investment in the company by Danny Diab, who now holds more than four million shares and provides excellent input into matters affecting the Pizza Hut business. Chief Executive Officer Russel Creedy has also purchased shares (under our approved securities trading rules), demonstrating his commitment to Restaurant Brands.

The board notes with regret the pending resignation of Shawn Beck at the coming annual meeting and acknowledges the excellent input Shawn has given to the board in his eight years as a director.

Directors' fees

The board is recommending an increase in directors' fees — the first for 11 years. This reflects the company's improved profitability and increased dividend. It should be noted, however, that directors' remuneration remains low compared with similar companies.

Acknowledging our people

As always, our people (or "partners", as we call them) are the key factor in delivering the sort of results our shareholders require. The board acknowledges the effort of staff and management in the company's result.

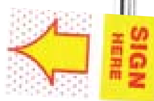
New opportunities

While the management focus has been on improving the performance of existing businesses over the past 12 months, the company is always open to new brand opportunities. This annual report talks about the "12th ingredient" — the company's expertise in operating food retail brands — and as the existing businesses stabilise, we will be looking for new opportunities to leverage that expertise, especially where they arise in the current economic environment.

Outlook

While this year's trading results must be considered as satisfactory in this economic environment and continue to show improvement over the previous two years' performance, directors remain cautious as to next year's outcomes.

Continued improvement in bottom line results requires the momentum of the KFC brand to continue and the other two brands to demonstrate a solid turnaround in earnings performance. This will not be easy in the face of continued cost pressures and uncertain economic climate and therefore directors are anticipating a similar profit result (excluding non-trading items) in the new year.



Ted van Arkel
Chairman

"we will be looking for new opportunities to leverage the company's **expertise**"

ceo's report effective management of brands to enhance performance

While 2008/09 has been tough for many, Restaurant Brands has done relatively well, although results for our brands have been mixed.

KFC enjoyed another record year in terms of sales and profitability, breaking through the $200 million sales level for the first time to produce total sales of $211.5 million. Earnings similarly increased to a new high of $38 million EBITDA.

On the other hand, Pizza Hut and Starbucks Coffee slipped back on profitability compared with 2007/08. Pizza Hut's EBITDA result of $2.8 million was $1.7 million down and Starbucks Coffee produced earnings of $2.9 million, down $0.9 million.

KFC

KFC continues to be the engine room of the business, generating some 70% of revenues and 90% of earnings. The renaissance of the KFC brand has continued and is expected to continue into the future.

We will keep reinvesting in store transformations, with another five major rebuilds (and some smaller ones) planned for the new financial year, bringing our total number of transformed stores to just under 50% of the network. In addition, the economic environment has opened up opportunities for new sites and we will be increasing our levels of new store builds with up to three planned over the next 12 months.

The new product pipeline remains sound with two major new product releases under trial for the coming year, being an exciting new beverage line called *Krushers* and a major new variant of grilled chicken.

The marketing of the brand has undergone an extensive review and a consequent closer alignment with the Yum! Restaurants International marketing strategy will provide considerably more resource to promote the KFC brand, give more effective and targeted advertising expenditure and allow access to a wider range of international marketing material and new product development opportunities.

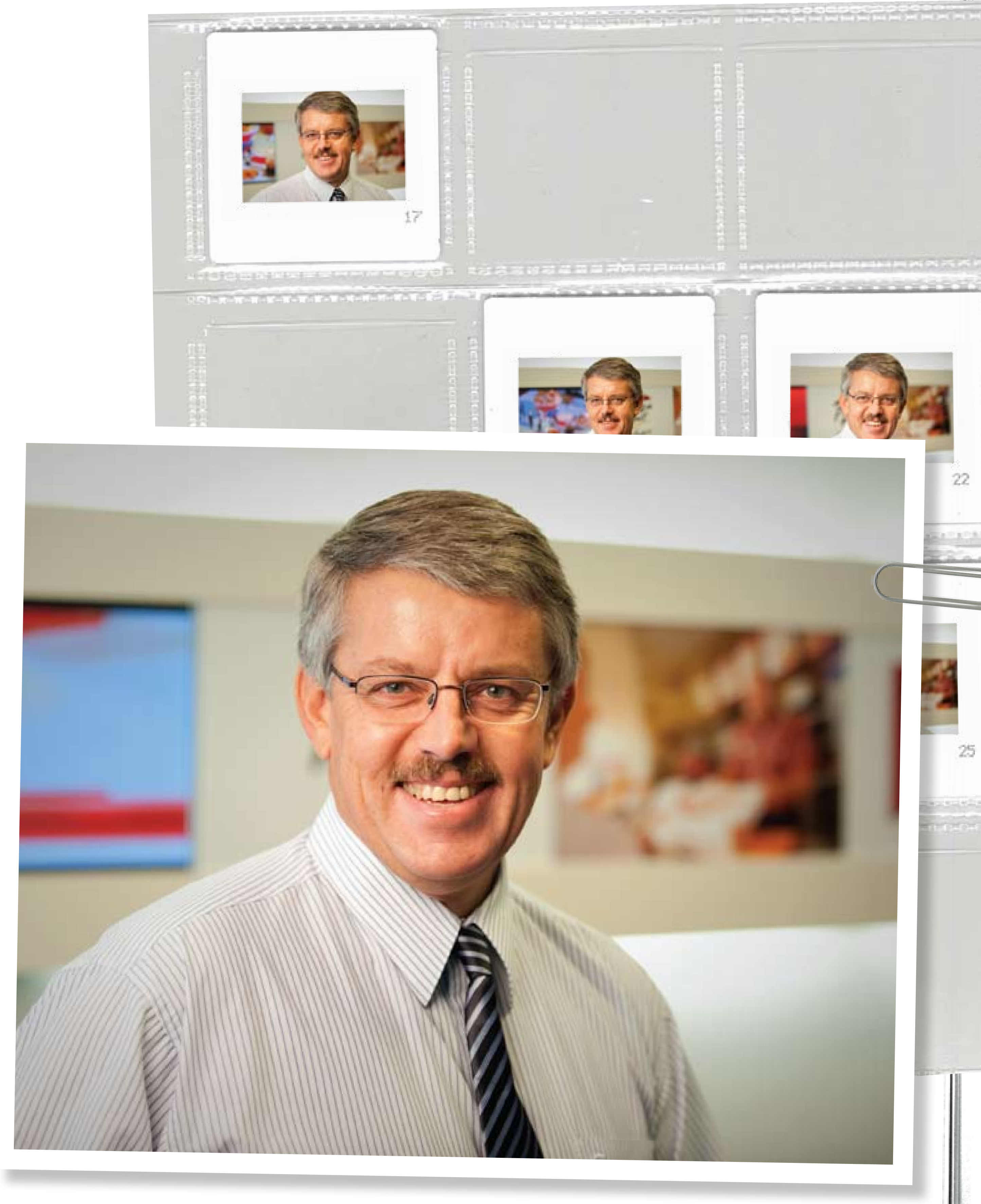
Pizza Hut

The challenges in the Pizza Hut business have been well documented. An extremely competitive marketplace, a flattening in pizza consumption growth, raw material price pressures (cheese and flour), continuing wage cost increases and the impact of deleverage of fixed costs on declining sales all contributed to a reduced profit.

We have, however, been fully focused on arresting this decline. During the past 12 months we have bedded down our new computer system for greater control and analysis of the business, increased our loss prevention activity and introduced a number of improved controls into our store operations. There is, however, still some way to go.

Restaurant Brands is committed to preserving the position of Pizza Hut as the number one pizza brand in New Zealand and will continue to take whatever actions are necessary to do so.

At a strategic level, as the chairman reported, we are in the process of concluding an agreement with our franchisor, Yum! Restaurants International, that maps out a positive future for the Pizza Hut business. The franchise will be renewed for another ten years, with a number of additional provisions providing Restaurant Brands with options to restructure the business as required. The agreement will allow us much more flexibility in closing stores and, most importantly, introduces the option of selling off individual stores to franchisees.



The new arrangement will allow us to best rationalise the network for better profitability, but still provide Restaurant Brands with the day-to-day control and direction of the brand.

Our immediate priority over the next 12 months is to rebuild sales. On current trends we expect the new year to produce positive same store sales growth for the first time in three years. A range of new product releases (including a pasta range that has already proved highly successful in international markets), better use of marketing resource, some more innovative promotional activity and continued focus on customer service will all contribute to this positive outcome.

We will also be addressing our costs. We anticipate some relief in material costs from both supply chain outcomes and product re-engineering. The Pizza Hut business is tightly controlled, but there still remain opportunities in loss prevention and store efficiencies.

Some store rationalisation will continue, mainly in the progressive closure of loss making red roof restaurants, which will also assist margin growth.

Starbucks Coffee

The Starbucks Coffee operation continued its now established trend of steady same store sales growth. At $33 million in sales, the business is small but fills an important niche in our portfolio of brands.

However, this year has not been a good one. EBITDA fell by $0.9 million on 2007/08, mainly because of significant increases in our cost of sales. The imported content, especially coffee and packaging, saw significant price escalations as the New Zealand dollar relativity with the United States dollar nearly halved over the year.

In the new year, a number of actions are in place to offset these cost increases in areas of product sourcing, wastage control, pricing reviews and mix management, and we are confident of improved profitability.

There may be a small amount of store rationalisation around lease ends and new store opportunities continue to be evaluated on a selective basis.

General and administration (G&A) expenses

Administration overheads remain a constant focus. Our general and administration costs of $10.6 million were down $0.4 million on 2007/08 as we further flattened the organisation and improved our internal efficiencies. G&A costs as a percentage of sales have fallen from 3.8% two years ago to 3.4% today.

People

We continue to have the benefit of a committed and competent workforce of 4,500 partners working for us.

Elsewhere in this annual report we talk about the importance of training our people and the kind of returns we are getting for our $1 million in training spending every year, together with the provision of qualifications in food safety and hospitality well recognised by other industry operators.

As always, partner safety is paramount. The company has strong leadership and commitment from its Health and Safety Council, which has made a significant impact with injury prevention initiatives and safety awareness. Comprehensive safety training programmes are in place and speedy delivery of active rehabilitation supports early return to work for injured partners. As a result, we continue to maintain our ACC Partnership Programme at the tertiary (highest) level and our accident rates continue to fall, with lost time injuries down 49% on 2007/08.

the "12th ingredient" is the ability of Restaurant Brands to effectively manage its brands

Environment

As a responsible corporate citizen, Restaurant Brands is environmentally aware. Over the past year, a number of initiatives were established to improve the company's environmental footprint and enhance profitability. These included setting up a measurement process for Restaurant Brands' carbon footprint, operating automated electricity controls in KFC restaurants (annual power saving of 3%), beginning to move our fleet to hybrid cars, waste management in stores (separation of cardboard, oil waste recycling) and reduced water usage through in-store controls.

Conclusion

The 2008/09 year has been challenging but the continued strength of the KFC brand has seen us through. This annual report talks about the "12th ingredient" — the ability of Restaurant Brands to effectively manage its brands. That's what we have done and what we will continue to do — enhancing the KFC performance, whilst bringing increased profitability to Pizza Hut and Starbucks over the coming year.

SIGN HERE

Russel Creedy
Chief Executive Officer