

the 'people'

# Like knowing how to recognise raw management talent in our young people and develop it into the best in the business.

If they've got it we'll spot it; and we'll nurture and develop it. We're talking talent. Ambition. The kind of raw material that, with the right training, sees a young manager of 21-22 years of age managing a store turning over \$3 million a year with assets of over \$2 million and a staff of more than 30 reporting to them.

More than 500 of the company's managers have been developed through the National Certificate of Achievement Programme. It is rigorous and exacting, and combines study for high-level NZQA qualifications in hospitality management with practical training and support from Support Centre in Penrose assisted by 227 regional assessors and trainers up and down the country. Every one of those 500 can count themselves among the best in the industry.

It doesn't matter where a young employee partner starts out with us - cooking chicken, waiting tables, or making coffee - if they have what it takes we can offer them a superb career opportunity to go all the way. Our 28 area managers have been working with Restaurant Brands an average of 12 years, a quarter of them for well over 15 years, and all have risen through the ranks.

The key thing here is it's a two way street. By nurturing the right talent for the right roles and offering people a valuable career path, Restaurant Brands secures their commitment in return. They go the extra mile for their staff and their customers, and they care about their business. And that's good for our business.

## Rhys Grosvenor - Restaurant Manager, Pizza Hut Quay Street

Rhys started with Pizza Hut Karori in early 2002 as a part time team member. Rhys has only recently been promoted to restaurant manager, and has the drive and determination to push his store all the way to the top.

After finishing with high school Rhys began working more hours, and was eventually trained to take on the role of shift supervisor. A small overseas excursion playing cricket didn't stop his passion for the Pizza Hut brand, and he eventually returned back to Karori, where he ran the store as temporary manager.

Taking up studies led him to relocate to Auckland, where he took a role in the Quay St city store as a shift supervisor. After two years Rhys finished his music course, and was offered the role of assistant manager.

The resignation of the store manager, combined with Rhys's continued drive to perform, saw him jump at the chance to apply for the position, even though he had only been an assistant for a short time.

Two months into the role as the store manager Rhys has seen the store progress nicely, and with the support of further training and leadership courses, he is heading for a solid 2009.

Rhys has a passion for music, and you can often find him at the helm of the record player, at select music stops around the city, and in recent months he came second at a national music festival.

Combining management skills with energy and enthusiasm, Rhys is a core part of the Pizza Hut team, and is a great example of the younger management Pizza Hut has working within the brand.

## Renee Huatana - Restaurant Manager, KFC Frankton

Renee started with KFC Napier as a part time team member at the young age of 15. Almost 10 years on, Renee has an impressive list of achievements during her time with the company and continues to progress up the career ladder; her ambition is clear and unstoppable!

She is well respected by her team and her peers and continues to grow KFC Frankton year on year with stunning results!

She began her management career with her promotion to shift supervisor at KFC Napier before heading to KFC Taupo in 2003 to take on the assistant manager role.

Renee was then offered the chance to join the 'transformation' team at KFC Frankton where she was assistant manager at the very first transformation store in 2004. Renee was part of the success when Frankton became Top Store in the country in 2005.

She continues her dream run with becoming KFC Rookie of the Year in 2007 following her promotion to manager of KFC Frankton. She was part of the "Champions Club" for 2008, being amongst the top 5% of store managers in Australia and New Zealand.

This young lady has leapt at, learnt from and landed many opportunities during her time with Restaurant Brands and her open mind and passion for the company has inspired many to follow in her tracks!

the 'product'



Like knowing how to serve consistently fresh and **great tasting food** that keeps people coming back for more week in week out.

Some would have it that you can have too much of a good thing. Yet every day, 61,428 New Zealanders continue to demand the products that have been the mainstay of our menus since we first opened for business.

Products like *Zingers*, the *Quarterpack* (4.6 million a year), the *Meat Lover*, *Super Supreme*, and the *BBQ Bacon* pizzas (750,000 a year) are all acknowledged as market leaders in their own right. The *Java Chip Frappuccino* has also defined its place as a people's special.

We could put it down to familiarity and the advantage of enjoying a good name. But the popular reputations of our iconic products and the loyalties they enjoy also come down to the consistent high quality and freshness of their ingredients and their meticulous preparation.

Again it's consistency, consistency, consistency. And freshness. Right down to every single one of the 75 million pieces of chicken we cook each year, to every sprinkling and slice of the 875 tonnes of cheese used by Pizza Hut, and every cup of coffee we serve from the 66 tonnes of roasted coffee beans.

We know what our customers want and how to serve it. And with 430,000 of them telling us in our 219 stores every week, so we should.



the 'promotion'



Like knowing how to excite, entice and **stimulate customers** back into our stores with compelling promotions.

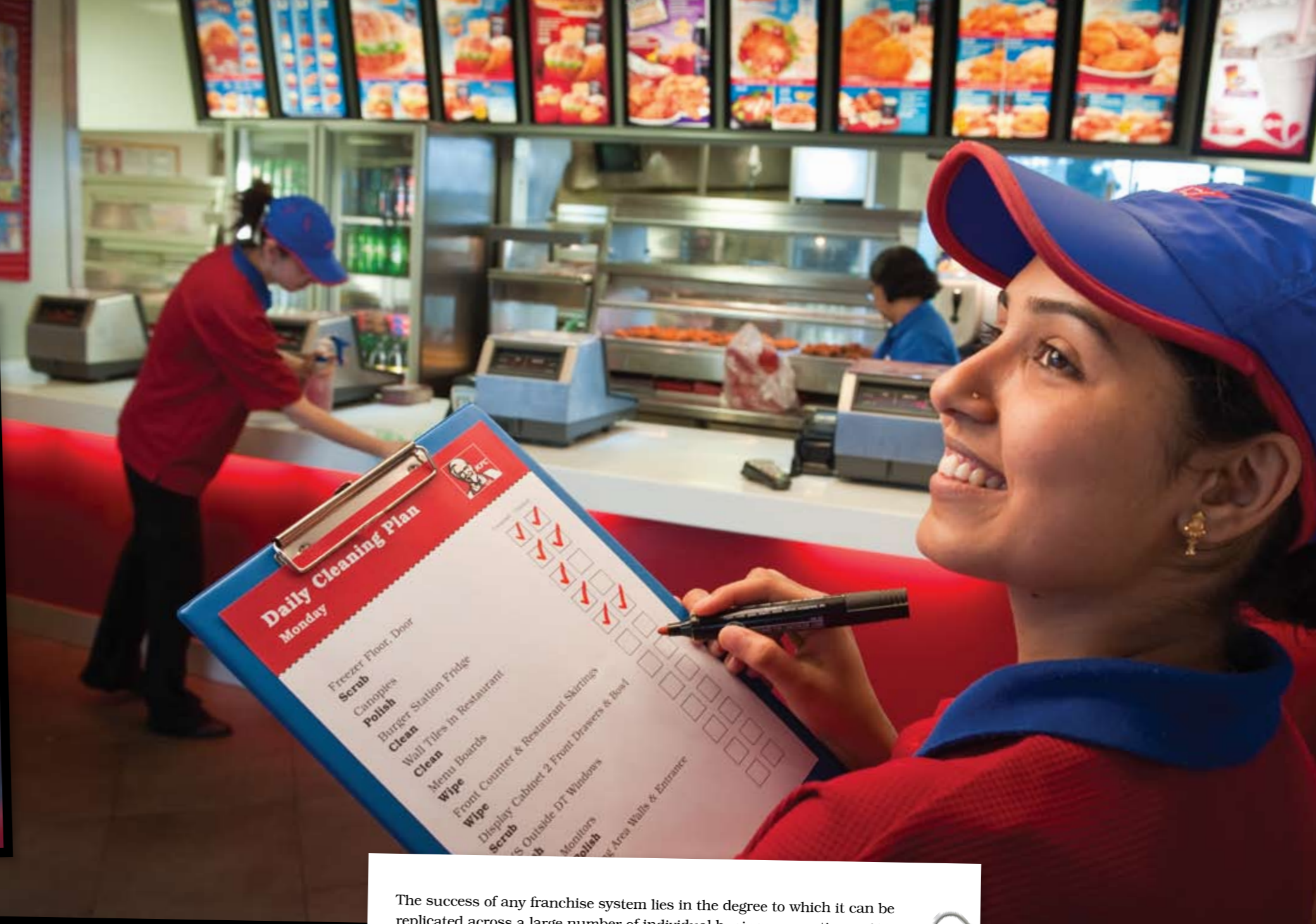
Even the best product will languish on the shelf unless the customer knows about it. Restaurant Brands knows how to take the world's best practice promotional activities of its franchisors and apply them to the local market.

Constant refreshment of advertising campaigns and the regular release of new products are all part of the promotional activity that drives continued interest in our brands and therefore sales. Delicious new releases such as *More-4-All* pizza and *Wicked Wings* in KFC are examples of tailoring the best of franchisor offerings for the New Zealand consumer.

Both locally developed and franchisor campaigns are also carefully crafted around telling a story to the customer. KFC's "Cravings" and "Fresh to You" are examples of taking the best of campaign themes to the market.

Consistent promotion of Pizza Hut's delivery ordering facility – 0800 83 83 83 is one of New Zealand's highest recalled telephone numbers – has led to 1.5 million pizza orders being taken every year. No surprise that Pizza Hut is the country's leading pizza brand. Orders via the web ([www.pizzahut.co.nz](http://www.pizzahut.co.nz)) are also playing their part.

the 'practise'



Like knowing how to keep all **219 restaurants'** operations performing perfectly and precisely, **100% of the time.**

The success of any franchise system lies in the degree to which it can be replicated across a large number of individual business operations. At Restaurant Brands, nothing less than 100% consistency is good enough.

Delivering the same customer experience for each brand in every one of our stores is something we're particularly proud of. Each one is a well-oiled, highly-tuned operation demanding the constant monitoring of hundreds of variables.

From temperature checks, daily freshness and use-by stock rotation, wastage ratios, product stock ordering tied to regular sales predictions, and maintenance planning through to staff shift scheduling, cleaning rosters, health and safety disciplines, and staff recognition, there are literally checklists upon checklists. There are no shortcuts, and any one of these multitude of checks could jump the queue and call for immediate attention at any time.

We spend over a million dollars a year training our people in the art of restaurant operations. All stores across all three brands are subject to independent third party auditing to make sure everything is humming.

Yes it's complicated running a tight ship, but when all the daily, weekly, and irregular tasks are organised into a well-managed system implemented by trained and disciplined people, it works.

the 'place'



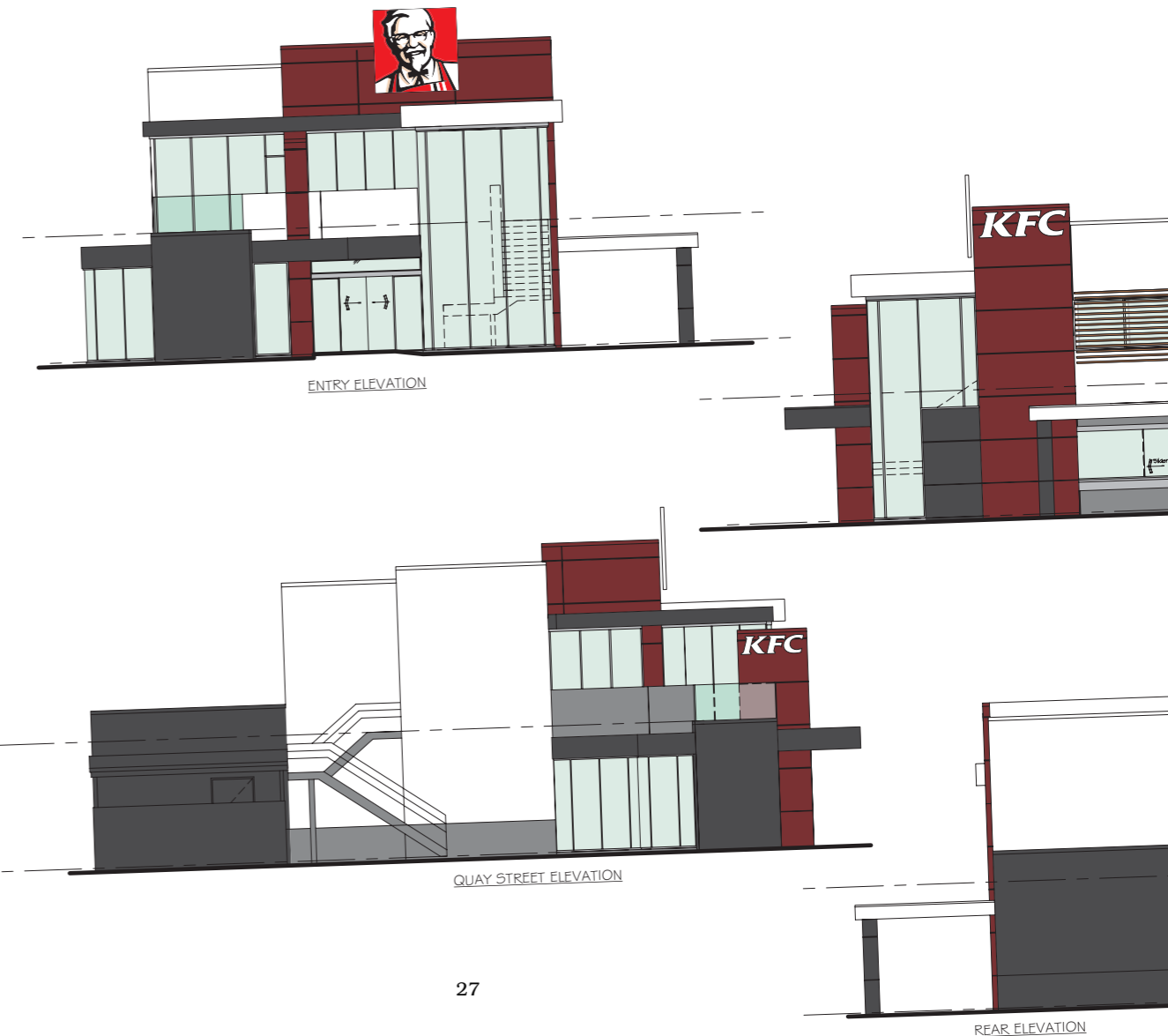
Like knowing how to create and maintain a **rewarding** in-store experience.

We want our customers to enjoy our food in a clean, modern and stimulating environment. We want them to feel like they can sit down and take time out, either alone or with friends, colleagues or family and indulge in a complete experience.

Reviewing the in-store experience and the health of all our restaurant properties is a continuous exercise. Any one of them may be the subject of either a simple maintenance schedule, or a minor or major capital upgrade.

KFC has been the focus of significant reinvestment in major capital upgrades, with over \$40 million spent since 2004. This investment has paid dividends through substantial sales growth.

The company has received accolades from its franchisor, Yum! Restaurants International, for the KFC transformation work and sales outcomes. To date, 34 stores have been fully upgraded and there are still plenty more that will benefit.



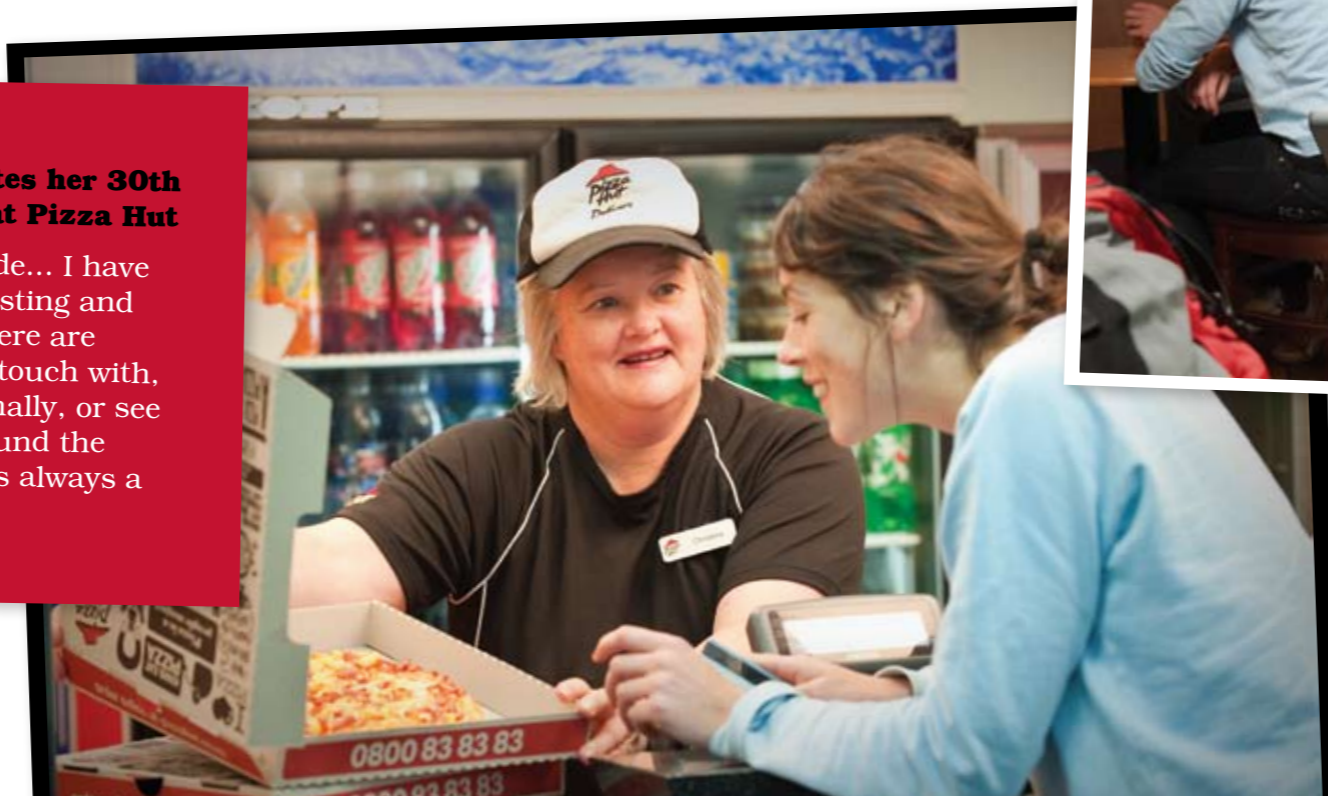
## the 'experience'

Like knowing how to take all the individual parts of the business – the people, the product, the promotion, the practise and the place – and blend them together to create something else: profitable performance. That's the secret.



### **Christine Knock celebrates her 30th year of service working at Pizza Hut**

"It has been an exciting ride... I have met some very nice, interesting and regular customers, and there are some whom I still keep in touch with, and meet up with occasionally, or see in the supermarket or around the area I live in. For me it was always a pleasure to serve them."



# kfc operations



The KFC brand maintained its momentum of the last three years, building sales and profits again as it continues with the transformation of the network. Whilst the pace of the physical store transformation slowed as the company reduced capital spend in favour of debt reduction in the current economic climate, an additional four stores were refurbished in the 2008/09 year, bringing total numbers of transformed stores to 34.

Total sales reached a new record of \$211.5 million, up \$12.4 million (6.2%) on last year's record of \$199.1 million. This is still strong growth, especially in the current economic environment (even if slightly assisted by an additional sales week in the current year). On a same store basis, sales were up 4.1%, on top of last year's 7.7% same store growth.

Earnings growth continued to reflect the improved revenues, despite ongoing raw material price increases (particularly in chicken) and labour cost escalation. EBITDA for 2008/09 was \$38.0 million, up \$2.1 million or 5.8% on prior year – a new high.

At the EBIT level (after depreciation expense and above-store overheads (G&A)), KFC made \$29.4 million, up \$1.8 million on 2007/08. Depreciation and amortisation costs were both up on prior year as a result of continued transformation spend and last year's franchise renewals.

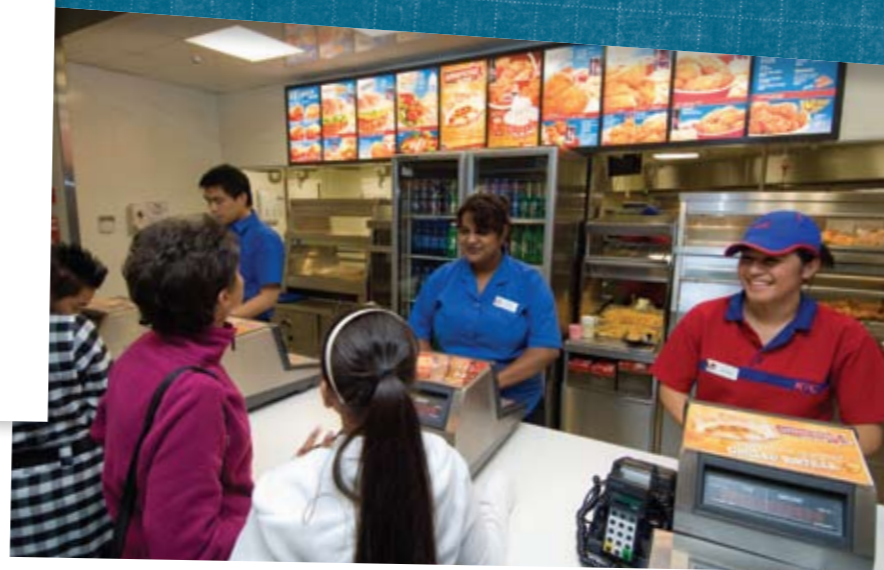
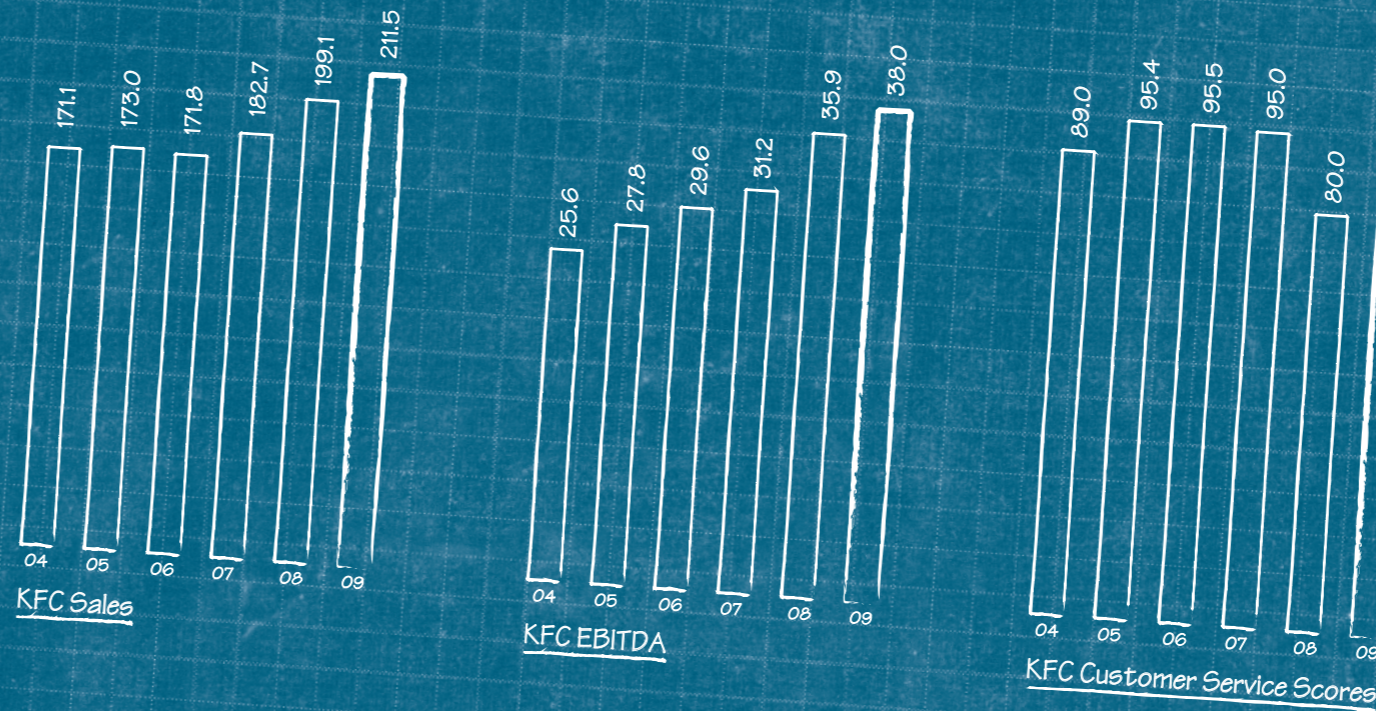
Customer service measures, as reflected by the CHAMPS programme, were up on the prior year at 80.6%.

The in-store operations performance measure (CER) achieved a score of 76%, up 2% on last year and still above the company's equivalent KFC markets in Australia.

Partner turnover at 67% is a considerable improvement on last year's 85%, a commendable effort in the tight labour environment.

The continued focus on accident prevention within the KFC stores has lost time injuries per million hours worked at 30, a solid reduction on prior year. Whilst most injuries are minor, management is very focused on reducing this number further.

Continuing facility upgrades, together with an excellent customer service ethic and solid operational controls, have produced another very sound result for KFC for 2008/09.



## pizza hut operations

Whilst Pizza Hut continued to face tough trading conditions, there were some signs of turnaround in the market.

Total sales for the year were \$64.6 million, down 9.6% on prior year or 6.5% on a same store basis. However, quarterly same store sales improved over the year from -7.1%, -11.1% and -4.3% in the first three quarters to -1.2% in the last quarter and they are expected to turn positive in the new financial year.

Despite considerable focus on improving profitability in the brand through tighter margin management (especially over waste, discounting and labour scheduling), together with extensive loss control programmes, earnings continued to fall. Full year EBITDA was \$2.8 million, down \$1.7 million on the previous year. Continued cost pressures in raw materials and labour, together with deleverage from falling sales, were the main reasons for a further drop in earnings.

The brand saw some successful product releases over the year, including *More-4-All* and *Triple Dippers*, and it continues to work on developing new offers. Marketing strategies continued to develop, with the brand increasingly becoming more aligned to those of its franchisor.

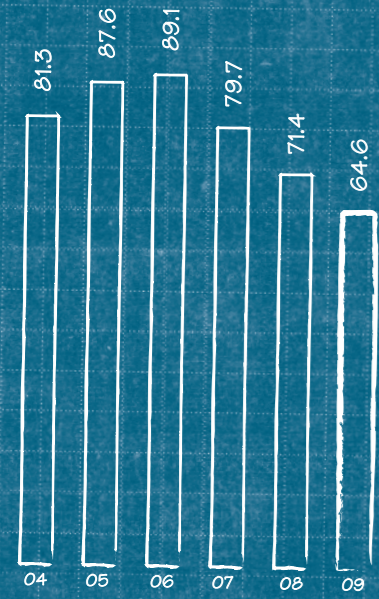
Four poorly performing stores (two red roofs in Tauranga and Invercargill and two delcos at Mana in Wellington and Mangere East in Auckland) were closed. At year end, there were 93 stores, of which eight were red roofs.

Customer service levels, as measured by the CHAMPS mystery shopper programme, improved to 82.3% for the year, slightly up on last year's 81%. The score remains comparable with the Pizza Hut Australian counterparts.

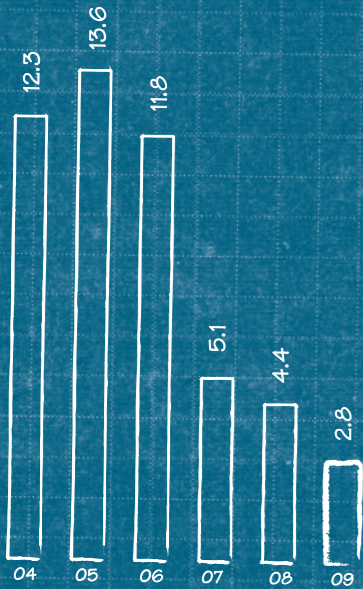
Staff turnover at 79% improved on prior year, as did management turn at 41%, both creditable results for this business.

Staff training levels continued to improve, with 100% of store managers and 81% of store supervisors fully qualified for their particular roles.

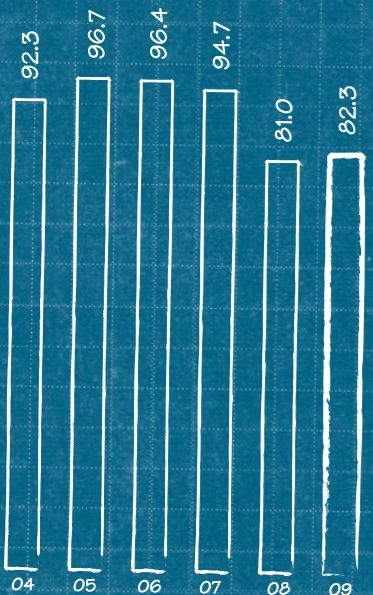
Pizza Hut continues to struggle for profitability in the current environment, hampered by high levels of competition and continued increases in input costs. The company remains committed to keeping this brand as the leader in the New Zealand pizza market and is ensuring the business is well positioned for an eventual turnaround.



Pizza Hut Sales



Pizza Hut EBITDA



Pizza Hut Customer Service Scores

## starbucks coffee operations

Starbucks Coffee continues to hold its niche as a small but important part of the Restaurant Brands' portfolio.

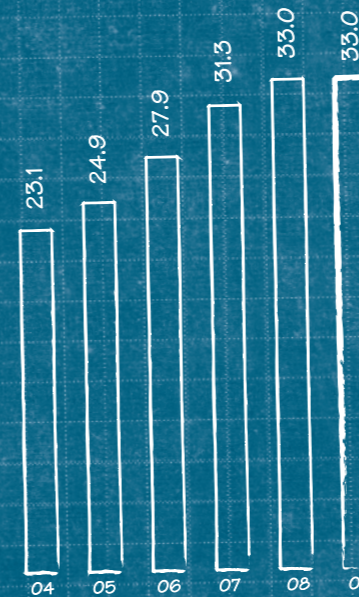
Sales of \$33.0 million were flat on prior year (although up 3.6% same store). Two stores at Bayfair (Tauranga) and Pakuranga (Auckland) closed over the year, bringing store numbers down to 42.

Despite sales levels holding, profitability was severely impacted by increased materials costs, with the imported content (coffee, cups and packaging) of raw materials seeing severe price escalation from major devaluation of the NZ dollar against the US dollar over the year. Labour costs also went up significantly. As a result, EBITDA was 23.6% down on prior year to \$2.9 million.

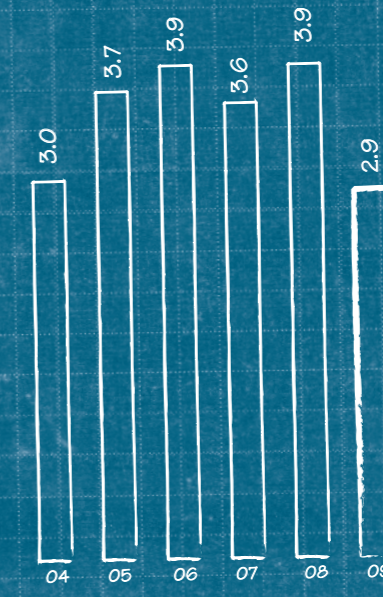
Customer service ratings were comparable to prior year at a very satisfactory 90%. Partner turnover at 84% was much the same as prior year.

Training levels remained at a satisfactory level, with all store managers fully certified.

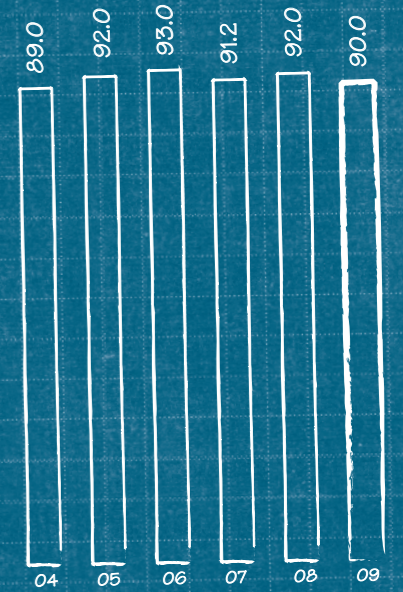
Whilst still maintaining sales momentum, the Starbucks business will focus strongly in the new year on restoring margins.



Starbucks Coffee Sales



Starbucks Coffee EBITDA



Starbucks Coffee Customer Service Scores



# board of directors

## Eduard (Ted) Koert van Arkel FNZIM

### CHAIRMAN

Mr van Arkel has been a professional director since retiring from the position of Managing Director of Progressive Enterprises Limited in November 2004. He joined the board in September that year and was elected chairman in July 2006. Mr van Arkel currently serves as Chairman of Charlie's Group Limited and Unitec New Zealand Limited. He is also a director of NZX listed companies Allied Work Force Group Limited, The National Property Trust and Postie Plus Group Limited, as well as a director of the following private companies: Danske Mobler Limited, Paper Plus New Zealand Limited and Lockwood Group Limited. Mr van Arkel is a director of the Auckland Regional Chamber of Commerce and Industry Limited, is President of Youthtown Inc. and is a director of his family-owned companies Lang Properties Limited and Van Arkel & Co Limited. Mr van Arkel sits on the board's audit committee and remuneration committee.

## Shawn R Beck BA, MBA

### DIRECTOR

Mr Beck has been an executive director of Pencarrow Private Equity Limited since its inception in 1993. He is currently a director of Wellington Drive Technologies, Eastern Equities Corporation (and subsidiary Farmers Transport), Kiwi Kat (trading as 360 Discovery) and Pacific Horizon Limited. He has previously served on boards in a range of industries, including specialty manufacturing, retail, aviation transport, media, tourism, engineering consulting and food. Mr Beck has been a director of Restaurant Brands for eight years and currently sits on the board's remuneration committee.

## Sue H Suckling B.Tech (Hons), M.Tech (Hons), OBE

### DIRECTOR

Ms Suckling is a professional director with over 20 years governance experience, with public and private companies. She was appointed to the board in June 2006. She is currently Chairperson of National Institute of Water and Atmospheric Research, New Zealand Qualifications Authority, Barker Fruit Processors Limited, HSR Governance Limited, ECL Group Limited, Carter Price Rennie Limited, the Risk & Assurance Committee for the Ministry of the Environment and the Risk & Audit Committee Education Review Office. She is a director of TYTM Development Limited, Air Scientifics NZ Limited and Acemark Holdings Limited, and a member of the Takeovers Panel and the Risk & Audit Committee NZ Food Safety Authority. Ms Suckling sits on the board's audit and remuneration committees.

## Danny Diab FAICD, Dip CD, Dip CM, FICM

### DIRECTOR

Mr Diab was appointed to the board in October 2002 and is based in Australia where he owns and operates a number of Pizza Hut restaurants in Sydney in addition to other business interests. He has more than 23 years' experience in the pizza industry and is regarded as one of the leading Pizza Hut franchisees in Australia. He is currently president of the Australasian Pizza Association Inc, and is a director on the Pizza Hut Advertising cooperative. Mr Diab sits on the board's remuneration committee.

## David A Pilkington BSc, BE(Chem), Dip Dairy Sci & Tech

### DIRECTOR

The former Managing Director of New Zealand Milk Limited, Mr Pilkington is also Chairman of Prevar Limited and Ruapehu Alpine Lifts Limited. He is also a director of Douglas Pharmaceuticals Limited, Ballance Agri-Nutrients Limited, Ports of Tauranga, Rangatira Limited and Zespri Group Limited. Mr Pilkington is also a shareholder and director of NZ Biotechnologies Limited and his own consulting company, Excelsa Associates Limited. He is an independent appointee to the Wellington City Council Audit and Risk Management Sub-Committee and a trustee for the New Zealand Community Trust. Mr Pilkington was appointed to the board in July 2004 and chairs the board's audit committee.



## CONSOLIDATED INCOME STATEMENT

\$NZ000'S	28 FEB 2009 AUDITED	VS PRIOR %	RESTATE 29 FEB 2008 AUDITED	
<b>Continuing operations:</b>				
<b>Sales</b>				
KFC	211,531	6.2	199,116	
Pizza Hut	64,595	(9.6)	71,419	
Starbucks Coffee	32,980	(0.1)	33,012	
<b>Total sales</b>	<b>309,106</b>	<b>1.8</b>	<b>303,547</b>	
Other revenue	472	5.6	447	
<b>Total operating revenue</b>	<b>309,578</b>	<b>1.8</b>	<b>303,994</b>	
Cost of goods sold	(256,879)	(3.3)	(248,579)	
<b>Gross margin</b>	<b>52,699</b>	<b>(4.9)</b>	<b>55,415</b>	
Distribution expenses	(4,221)	14.2	(4,922)	
Marketing expenses	(17,438)	9.8	(19,334)	
General and administration expenses	(10,572)	3.6	(10,962)	
<b>EBIT before non-trading</b>	<b>20,468</b>	<b>1.3</b>	<b>20,197</b>	
Non-trading	(4,974)	(46.1)	(3,404)	
<b>EBIT</b>	<b>15,494</b>	<b>(7.7)</b>	<b>16,793</b>	
Interest income	21	(75.0)	84	
Interest expense	(3,943)	21.7	(5,037)	
<b>Net profit before tax</b>	<b>11,572</b>	<b>(2.3)</b>	<b>11,840</b>	
Taxation expense	(3,317)	(9.5)	(3,029)	
<b>Net profit after tax (NPAT) from continuing operations</b>	<b>8,255</b>	<b>(6.3)</b>	<b>8,811</b>	
<b>Discontinued operations:</b>				
(Loss) from discontinued operation net of tax*	-	100.0	(456)	
<b>Total profit after tax (NPAT)</b>	<b>8,255</b>	<b>(1.2)</b>	<b>8,355</b>	
<b>Total NPAT excluding non-trading</b>	<b>11,736</b>	<b>13.0</b>	<b>10,384</b>	
<b>EBITDA before G&amp;A</b>		% sales		% sales
KFC	37,993	18.0	35,918	18.0
Pizza Hut	2,771	4.3	4,422	6.2
Starbucks Coffee	2,941	8.9	3,847	11.7
<b>Total</b>	<b>43,705</b>	<b>14.1</b>	<b>44,187</b>	<b>14.6</b>
<b>Ratios</b>				
Net tangible assets per security (net tangible assets divided by number of shares) in cents	12.7c		5.9c	

\* Pizza Hut Victoria is a discontinued operation

Cost of goods sold are direct costs of operating stores: food, paper, freight, labour and store overheads  
Distribution expenses are costs of distributing product from store  
Marketing expenses are call centre, advertising and local store marketing expenses  
General & administration expenses (G&A) are non store related overheads