Directors' Report to Shareholders
For the Half Year ended 14 September 2009

Key Points

- Net Profit after Tax for the half year (excluding non-trading items) was $9.2 million (89.4% up on prior year). Reported profit (including non-trading items) was $8.9 million, up 240% on prior year.

- Total revenues of $169.9 million were 4.6% up on prior year, with same store sales up 6.7% for the half, still driven primarily by KFC.

- Non-trading items were only $0.5 million, down from $3.2 million in the prior year. No further impairment charge to the carrying value of goodwill on the Pizza Hut business was required this year ($2.5 million last year).

- Margins in both KFC and Pizza Hut businesses were up $5 million and $1 million respectively as the benefits of improving sales and reduced input costs flowed through.

- Directors have declared a fully imputed interim dividend of 4.5 cents per ordinary share payable on 20 November 2009, up 50% on last year.

Group Operating Results

Restaurant Brands' unaudited net profit after tax (excluding non-trading items) for the half year ended 14 September 2009 was $9.2 million, 89.4% up on the prior year result of $4.9 million[1] and slightly above previous market guidance of $8.7 million. Reported profit was $8.9 million or 9.1 cents per share, 240% up on prior year.

The increase in reported profit largely arose from the fact that the company was not required to take up any further impairment charge to the carrying value of goodwill on the Pizza Hut business ($2.5 million in the previous half year). This is reflective of the improved underlying performance of the Pizza Hut business over the first half of the year.

KFC and Pizza Hut enjoyed some improvements in margin over prior year by $5 million and $1 million respectively. Incremental leverage from higher sales, better operational efficiencies and some reduced input costs all assisted in improving brand EBITDA.

Total operating revenue at $169.9 million was 4.6% up on prior year, with both KFC and Pizza Hut sales growth partially offset by a decline in Starbucks Coffee sales. Total group same store sales however continued to grow at 6.7% for the half.

Directors are pleased with the improved performance in what has been a challenging economic environment.

KFC Operations

The KFC business continued its strong growth on the back of its transformation programme, with total revenues of $118.2 million, up 7.1% on prior year and 8.8% on a same store sales basis. A strong pipeline of new product and promotional activity contributed to the strong sales growth. The first half saw the successful launch of the *Popcorn Chicken Roller,* new meals such as the *Ultimate Burger Meal with Wicked Wings* and return of old favourites such as *Hot & Spicy* and the legendary *KFC Tower Burger.*

With leverage from strong sales levels, continued operational efficiencies and a tight focus on input costs the KFC business managed to produce a solid improvement in EBITDA for the half year. KFC's EBITDA at $24.0 million (20.3% of sales) was $5.0 million (26.1%) up on prior year.

Three stores were transformed over the half year, being Alexandra, Whakatane and Quay Street (Auckland) with all performing to expectations.

---

[1] *Note: The prior year result has been restated following the previously announced change in the company's accounting policy with respect to prepaid advertising expense, following its adoption of the amendment to accounting standard NZ IAS38. This requires that all advertising material costs be expensed at time of production. The restatement of last year's comparative result produced a net increase in NPAT of $0.3 million.*

A total of 37 stores have now been transformed of the 84 stores in the network, with another three stores expected to be completed by year end bringing the total transformations to almost 50% of the total. One new store will be opened in Greenlane (Auckland) by year end.

KFC store numbers are three down on prior year at 84.

Pizza Hut

The Pizza Hut business has begun to show signs of a turnaround in sales and earnings. It delivered same store sales growth of 5.2% for both the first and second quarters of the year, the first growth in the brand's sales for nearly four years. Pizza Hut achieved sales of $35.4 million for the half, which were up 2.4% in total and 5.2% on a same store sales basis.

A number of new marketing initiatives were undertaken in producing this sales growth.

The business continues to be run very tightly. Strong operational controls over wastage and labour, loss prevention initiatives and some changes to menu with higher margin products have all assisted in improving margin. These activities, together with the leverage from higher sales growth, all assisted in producing a resulting EBITDA of $2.2 million for the half, which was $1.0 million or 85.9% up on prior year.

The company concluded an agreement with Yum! Restaurants International on the future of the Pizza Hut brand in New Zealand in June of this year. As previously explained, this agreement provides for Restaurant Brands' continued franchise of the brand, but with greater flexibility to sell down to independent franchisees. Directors believe that this is a most satisfactory outcome, enabling the company to maximise its return on its investment in the brand through retention or divestment.

Pizza Hut finished the half with 92 stores, of which seven were red roof restaurants.

Starbucks Coffee

Continued weakness in coffee and food sales hampered the Starbucks Coffee performance for the half year. With total sales of $16.1 million, down 7.1% on the prior year and 3.8% on a same store basis, this business lost some traction.

The lower sales also hampered profitability, with EBITDA of $1.4 million down $0.3 million or 17.4% on the previous year.

With management changes, a tighter emphasis on store efficiencies, a new food programme and the benefit of a higher exchange rate, it is planned to restore sales growth and profitability back to this brand by year end.

Store numbers at 42 did not change over the half, but were two down on the prior year.

Corporate & Other

General and administration expenses at $7.0 million were up 26.3% on the prior half year. This has largely arisen from some headcount increases as the underlying businesses have grown, and higher levels of incentive payments as the company enjoys higher levels of profitability. G&A costs, however, represent only 4% of total revenues.

Interest expense at $0.8 million continues to fall ($1.6 million down) against prior year as Restaurant Brands continues to see significantly lower borrowing levels and interest rates.

Non-Trading Costs

Non-trading items of $0.5 million were considerably lower than last year's $3.2 million.

Last year's non-trading items included a $2.5 million impairment charge taken up on the Pizza Hut business. With the turnaround in operating performance, there is currently no requirement to take up any further write downs.

Cash Flow & Balance Sheet

Total assets at $100.9 million were flat versus the previous year end, with property, plant and equipment at $71.4 million versus $71.8 million at year end. Capital expenditure essentially matched depreciation charges and there were no substantial write downs on intangibles. Total liabilities at $58.6 million were $5.4 million down on the full year balance, with the $7.9 million increase in creditors more than offset by the $14.6 million reduction in borrowings.

Debt levels continued to reduce, with total borrowings at $19.8 million at the half year, compared with $34.4 million at previous year end and $40.8 million for the previous half year.

Operating cash flows of $23.4 million were strongly up on the previous half year's $10.5 million, in line with the improved profitability and some timing differences in creditors' payments.

Cash outflows from investing activities were $4.5 million compared with $5.0 million for the first half last year. KFC store transformation expenditure was the most significant item in the capital budget for the half year.

Dividend

The improved profit performance and stronger balance sheet has led directors to declare an interim dividend of 4.5 cents per share (50% up on last year).

The dividend will be paid on Friday 20 November 2009 to all shareholders on the register at 5pm on Friday 6 November 2009. For overseas shareholders, a supplementary dividend of 0.79412 cents per share will be paid at the same time.

Directors have elected to continue to suspend the dividend reinvestment plan for the time being, but will review this again prior to the declaration of the final dividend.

Outlook

The KFC business will continue to deliver solid profits into the second half year, but it will be rolling over some very strong second half results for the prior year. Pizza Hut is expected to continue the positive sales growth trend of the previous two quarters and maintain the margin improvements of the first half. An improvement in the Starbucks Coffee business in sales and margin is also expected towards the end of the financial year.

KFC transformation spend will continue with another three stores to be transformed by year end. As previously announced, a small number of Pizza Hut stores will be sold to franchisees over the next few months.

Directors anticipate that the company will make a full year profit (excluding non-trading items) in the vicinity of $15 million for the 2009/10 year.

For further information, please contact:

Russel Creedy
CEO
Phone: 525 8722

Grant Ellis
CFO/Company Secretary
Phone: 525 8722