12 October 2006
NZX

Directors' Report to Shareholders
For the Half Year ended 11 September 2006

Key Points

- Net Profit After Tax excluding non trading items was $3.1 million for the half year ended 11 September, down 49% on prior year comparable period.

- NPAT including non trading items was $0.2 million, down from $2.7 million on prior year largely due to a further write down of Pizza Hut Victoria of $2.6 million and other non-trading items of $1.6 million (non trading items are pre-tax).

- Directors have approved an interim dividend of 2.5 cents per share, fully imputed, payable on 24 November, 2006. This is a reduction from the prior year, recognising the difficult trading conditions in the Pizza business and significant investment being undertaken in KFC.

- A new KFC master franchise agreement was signed for a further 10 years on 14 August, 2006. An early payment of the franchise renewal fee applicable to the renewed stores, of $2.5 million, was made.

- KFC continues to perform strongly with the underlying improvement in the business and the transformation strategy. Sales increased 5.6% and EBITDA earnings were $15.5 million, up 6.2% on prior year.

- As previously announced, Pizza Hut New Zealand operations saw an 11.5% decrease in sales on prior year, which has had a direct impact on profitability. EBITDA earnings were $3.2 million, a 52.9% decrease on the prior year.

- Agreements have been reached on the sale of 24 of the Pizza Hut Victoria stores, with settlement of the first fifteen stores expected during November. Divestment of this business is proving to take longer and be more expensive than previously anticipated. The business has been classified as a discontinued operation.

- Total revenues from continuing operations (New Zealand) for the first half were $156.4 million, up 0.8% on prior year.

Group Operating Results

Restaurant Brands New Zealand Limited un-audited Net Profit After Tax for the half year ended 11 September 2006 was $0.2 million compared with $2.7 million for the equivalent period last year. Excluding non trading items, the company produced a NPAT of $3.1 million, down 49% on the prior year, largely as a result of the downturn in the New Zealand Pizza Hut business and the increased losses occurring in Pizza Hut Victoria. The company had previously advised that NPAT excluding non-trading items would be between $2.5 million and $3.0 million.

The company incurred a number of significant non trading costs totalling $4.2 million including a further write down on the Pizza Hut Victoria investment of $2.6 million. Other asset write offs from the extensive KFC refurbishment and store closure costs totalled $1.6 million.

To date, 15 Pizza Hut Victoria stores have completed the sale process and are due for transfer to the new franchisees during November. Sale agreements have also been reached on a further nine stores. Pizza Hut Victoria has been classified as a discontinued operation in the financial statements.

Total revenues from continuing operations totalled $156.4 million up 0.8% on prior year.

Continuing Operations

KFC

The KFC transformation process continues to perform to plan, building on the previous year's improvements and delivering solid growth in sales and profitability.

KFC delivered $15.5 million in EBITDA for the half year, an increase of 6.2%, absorbing cost increases, especially in labour and the loss of profitability on closed stores during the transformation process. EBITDA margin was 16.2% for the half compared to 16.1% in the prior half.

Total revenues for the half were $95.8 million, up 5.6% on prior year. This is particularly pleasing given a tightening retail environment and the impact of quite significant store closures over the period as part of the store rebuild process.

In total, seven stores were fully transformed during the first half, bringing the total transformed stores to sixteen (including two completely new stores) since the project began in December 2004. The project continues to progress well. The following transformed stores will be re-opened before Christmas: Manukau and Lincoln Road, both in Auckland, Shirley in Christchurch, Palmerston North, and a new store in Hamilton.

KFC store numbers finished the half at 86 with the closure of two stores at lease end in Orewa and Mt Roskill in Auckland.

Pizza Hut New Zealand

As previously announced, Pizza Hut New Zealand continued to encounter difficult trading conditions. A significant increase in the size and aggressiveness of competitive activity, and the tightening economic climate contributed to a significant drop in Pizza Hut sales over prior year.

Pizza Hut EBITDA was $3.2 million, a 52.9% decrease on the prior year. Cost increases in labour (as with KFC) and raw materials were not immediately recoverable in a very competitive marketplace and there was considerable de-leverage in fixed cost recoveries with the drop in sales volumes. EBITDA margin was 7.1% for the half compared to 13.4% in the prior half.

The company has been proactive in negotiations with suppliers to reduce costs which will have an immediate positive effective on the business.

A number of other initiatives are under way to address the trading downturn including an increased focus on costs and improving in-store operations, a targeted marketing programme and a management restructure.

Total sales were $44.1 million, down 11.5% on prior year and 14.1% on a same store basis.

Store numbers reduced by two over the half with the planned closure of three non performing red roof stores at lease end; Royal Oak, Wanganui and Paraparaumu, and the opening of a new delco in Hobson Street, Auckland.

Starbucks Coffee

The Starbucks Coffee business continued to deliver good sales growth for the half with total sales up 13.3% on the prior half year to $16.3 million. Same store sales increased 2.5%.

Total EBITDA for the brand was $1.8 million compared with the prior year of $2.2 million. Margin reduced from 15.1% to 10.8%. The impact of increased labour costs together with higher lease costs and a stronger US dollar exchange rate affecting the cost of imported coffee all resulted in a decrease in earnings on prior year.

A greater focus on in-store operations is expected to result in improved margins in the second half of the year.

Store numbers rose by one to 45 over the half with the opening of a new store at Sylvia Park, Auckland.

Discontinued Operations

Pizza Hut Victoria

The underlying trading position at Pizza Hut Victoria has declined since the announcement of the exit strategy. Total store earnings (EBITDA) showed a loss of NZ$1.6 million compared to a loss of NZ$87,000 in the previous year.

In order to minimise the losses while the business is still operating the level of overhead has been reduced with a number of support functions such as payroll, property and accounts being returned to New Zealand.

There are now sale and purchase agreements in place for almost half the Pizza Hut stores in Victoria. However, the process of training the new franchisees and obtaining approvals from the franchisor, Yum, is complicated and has taken longer than anticipated. It is expected that settlement will be completed on an initial tranche of 15 stores during November, with the remaining nine stores transferred before year end.

The deficit from discontinued operations includes an impairment of the assets of the Pizza Hut Victoria business of NZ$2.6 million before tax. This reflects the amount required to write-down carrying values of store assets, for which an offer for purchase has been made and a sale process underway, to fair value (based on amounts offered) net of the expected disposal costs.

Of the remaining stores, one store has been closed and there is interest in a further six stores.

Discussions are currently in progress with the franchisor, Yum, to assist with a solution of selling or exiting stores, not currently under offer. Once these have been agreed, a further evaluation of fair values of remaining stores not currently going through a process of sale can be made, and the remaining disposal costs of all stores can be quantified. This may result in a further impairment of assets held for sale up to a maximum amount of their current carrying value. As at 11 September 2006, the remaining value of property, plant and equipment held for sale is NZ$4.1 million. An assessment will be made before year end as to the full extent of any further losses relating to a full exit and this will be recognised in the full year financial statements.

Franchise Renewals
On 14 August 2006 the company announced it had signed a new KFC Master Franchise Agreement with Yum for another ten years. This was completed ten months ahead of the planned renewal date in May 2007 in order to provide increased certainty for Restaurant Brands.

Under the agreement, 50% of the KFC franchises were renewed immediately for a $2.5 million renewal fee payment. Yum have agreed to the renewal of the remaining KFC franchises in May 2007 upon the making of a similar payment.

Restaurant Brands also committed to invest $35 million into the KFC store transformation project over a three year period. To date, $16.5 million has been invested in this programme with a further $6 million expected to be expended by the end of the current financial year.

Cash Flow and Balance Sheet
Investing cash flows increased from $9.5 million to $14.7 million for the period largely because of the increased capital spend in KFC transformation and the payment of $2.7 million in additional franchise renewal fees arising from the early renewal of the KFC business. Operating cash flows decreased by $4.5 million to $8.9 million for the half.

Total assets at $119.8 million were up $9.5 million on the prior period, due to the KFC transformation expenditure and the franchise fee payment. Commensurate with the investment in the KFC business, bank term debt has risen to $43.4 million at period end, up $11 million during this year.

Dividend
Reflecting the weaker trading position of the company and the significant investment being undertaken in the KFC business, the company has completed a detailed review of its forecasts and cashflows. On this basis the directors have resolved to pay an interim dividend of 2.5 cents per share, fully imputed. The dividend will be paid on Friday 24 November to all shareholders on the register at 5.00 pm on Friday 10 November. For overseas shareholders a supplementary dividend of 0.44117 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.

Directors and Management
It was with regret that the board accepted the resignation of Bill Falconer in July of this year. Mr Falconer had been chairman of the company for the past nine years.

Ted van Arkel, joined the board in September 2004 and following the resignation of Mr Falconer was appointed as chairman. Mr van Arkel brings extensive senior management and board experience in the retail and wholesale sectors and is a professional director of a number of companies.

In June, Sue Suckling joined the board as a non-executive independent director. Ms Suckling has considerable governance experience in both the public and private sector, particularly in the food and agricultural related sectors.

During the half year there were also changes in the senior management of the company with the promotion of Simon Lipscombe to the position of General Manager Pizza Hut New Zealand. He has had eighteen years experience in the operation of KFC business and brings a new focus on driving sales through improved in-store operations. This appointment enabled Russel Creedy to focus on his commercial services role with a particular focus on reducing costs throughout the organisation.

Adoption of IFRS

The half year report is the first report to be completed under International Financial Reporting Standards (IFRS). Full details of the material changes in accounting policies will be outlined in the published half year interim report and on the company's website www.restaurantbrands.co.nz

Outlook

This has been a difficult half year for the company; however there are a number of initiatives underway to ensure an improved performance. The positive performance of the KFC business has been offset by the significant downturn in Pizza Hut New Zealand sales and the pressure on margins. The length of time taken to complete the exit of Pizza Hut Victoria has meant that the overall performance of the company has been adversely impacted.

For the balance of the year, the KFC business is expected to continue to deliver strong sales and profit growth with all stores open for the Christmas season. A further four KFC stores will be transformed in the second half, Lincoln Road (Auckland), Manukau (Auckland), Shirley (Christchurch) and Princess Street (Palmerston North) with also a new store opening in Hamilton.

While there will be some improvement in Pizza Hut New Zealand, the current competitive environment and higher input costs means this will be limited. Starbucks Coffee will continue to see sales growth with a corresponding improvement in margin as some cost recoveries take effect.

The exit from the Pizza Hut Victoria business will start to be realised as store sales are settled and transferred to other franchisees during the second half. The company is expecting an enhanced trading performance in 2008 once the Pizza Hut Victoria exit is complete.

ENDS

RESTAURANT BRANDS GROUP

Consolidated Income Statement

	1st Half 2007 11 September 2006 Unaudited (NZ $000's)		vs Prior %	1st Half 2006 12 September 2005 Unaudited (NZ $000's)	
Continuing Operations:					
Sales					
KFC	95,837		*5.6*	90,758	
Pizza Hut	44,124		*(11.5)*	49,869	
Starbucks Coffee	16,256		*13.3*	14,348	
Other Revenue	219		*6.3*	206	
Total Operating Revenue	**156,436**		*0.8*	**155,181**	
Cost of Goods Sold	(127,948)		*(5.6)*	(121,178)	
Gross Margin	**28,488**		*(16.2)*	**34,003**	
Distribution Expenses	(3,372)		*15.5*	(3,991)	
Marketing Expenses	(10,314)		*7.5*	(11,153)	
General & Administration	(6,187)		*6.5*	(6,619)	
EBIT before non trading	**8,615**		*(29.6)*	**12,240**	
Non Trading - Other	(1,458)		*(260.0)*	(405)	
EBIT	**7,157**		*(39.5)*	**11,835**	
Interest Income	440		*7,233*	6	
Interest Expense	(1,761)		*(58.8)*	(1,109)	
Net exchange gain/(loss)	-		*n/a*	95	
Net (Loss) Profit Before Tax	**5,836**		*(46.1)*	**10,827**	
Taxation Expense	(1,959)		*43.2*	(3,450)	
Net (Loss) Profit After Tax from continuing operations	**3,877**		*(47.4)*	**7,377**	
(Loss) from Discontinued Operation net of tax*	(3,668)		*21.8*	(4,692)	
Total (Loss) Profit after Tax	**209**		*(92.2)*	**2,685**	
NPAT on continuing operations excluding non trading	**4,850**		*(36.6)*	**7,647**	
Total NPAT excluding non trading	**3,053**		*(49.0)*	**5,985**	
EBITDA					
KFC	15,491	*16.2*	*6.2*	14,586	*16.1*
Pizza Hut	3,152	*7.1*	*(52.9)*	6,689	*13.4*
Starbucks Coffee	1,753	*10.8*	*(19.1)*	2,168	*15.1*
Total New Zealand	20,396	*13.1*	*(13.0)*	23,443	
Pizza Hut Victoria*	(1,581)	*(10.0)*	*n/a*	(87)	*(0.6)*

* 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 are non store related costs