

Chief Executive's Report

V J SALMON, CHIEF EXECUTIVE



It gives me pleasure to bring you my report and share with you my insights on the business for the 2006 fiscal year.

The 2006 fiscal year has seen sustained growth with total group sales of \$316.4 million, up 2.1% on the prior year on a 52-week pro-rata basis.

Restaurant Brands' group net profit after tax (excluding non-trading items) was \$10.5 million for the financial year ended 28 February 2006, a small 4.7% decrease on the prior year. The overall result of NPAT of \$3.4m includes the \$7.0 million significant write-down on the Pizza Hut Victoria investment.

We were very pleased with the strong positive same-store sales growth over the year, and especially the last quarter, from our KFC and Starbucks Coffee businesses. This contributed to steady sales growth for Restaurant Brands, despite the competitive pressures felt by our Pizza Hut business in New Zealand.

Overall, it has been an exciting year for the company as 2005 marked the start of the transformation of the KFC brand. We began the roll-out of our internationally recognised transformation programme for KFC in December 2004, with seven stores undergoing a complete interior and exterior redesign. This was coupled with improved operations and training systems designed to enhance operations and customer service.

We will also launch a new marketing campaign for Pizza Hut New Zealand, sell the Pizza Hut Victoria business and build on our new store development successes in both Starbucks Coffee and Pizza Hut in New Zealand.

During the year the company experienced industrial action which was widely publicised. We were pleased to come to a final agreement on 24 March 2006 that resolved some of these issues. Negotiations with the union went on for nearly a year, and it was good to get the matter settled in a manner that has the commercial nature of our business in mind.

We remain focused on ensuring our pay rates are kept relative to our competitors.

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KFC transformed



KFC

KFC has been in New Zealand since 1971 and is iconic to our lifestyle – families celebrate at KFC, friends dine at the restaurants and over 11,000 people use the drive thru's across the country every day. Even so, 2005 marked the beginning of a revolution for the KFC brand in New Zealand.

International brands are cyclical and all reach a stage where a revitalisation is necessary. In 2004, our KFC business had reached that point, and in order to further grow in this market it needed a radical transformation.

Our brand transformation programme, led by KFC's General Manager, Rod de Vries, has seen seven stores transformed to date. The programme has proved hugely successful, having a direct impact on same-store sales in those stores, which increased on average by 20% on the prior year. Continued excellent operating disciplines and an improved promotional calendar also contributed to growth across the rest of the business. New store development is key to the health of the business, and we are pleased to report the opening of two new stores at Taihape and Kaikohe.

This improved performance resulted in EBITDA up by \$1.6 million or 5.9%. KFC EBITDA margin rose from 16.1% of sales to 17.1% and total sales of \$171.8 million were up 1.1%.* Same-store sales growth was 1.9% for the year and store numbers rose to 88.

Staff motivation and operational key performance indicators, such as customer service scores throughout the transformed stores, are also at an all-time high, resulting in lower staff turnover, increased stability for the business and improved customer service. The transformation programme will continue this year with 13 more stores undergoing transformation in 2006. We expect this to continue to drive the business into the future.

Starbucks Coffee

Starbucks Coffee has been a part of the Restaurant Brands family for eight years and has delivered nine solid quarters of same-store sales growth – an outstanding result. Total sales for Starbucks Coffee were \$27.9 million for the year, up a healthy 14.4%*, with the opening of six new stores this year. Same-store sales were up 2.6% on a full-year basis.

We are extremely proud of what we have achieved with Starbucks Coffee in this country. We have a strong relationship with the Starbucks Coffee Asia Pacific team, where we have been recognised internationally for our local marketing activity. Starbucks Coffee New Zealand topped the international Starbucks markets in launching the new *Java Chip Frappuccino*™ blended beverage – with average store sales during the launch period setting a new record.

Steve Montgomery, who leads the Starbucks Coffee business, has been with Restaurant Brands for over 15 years. Steve moved to our Starbucks Coffee business when it first opened back in 1998, but more importantly has led the last two years of Starbucks Coffee growth and performance in New Zealand.

The Starbucks Coffee team has delivered another year of EBITDA growth, to \$3.9 million. We have had stores open up in new locations which have been extremely well received by the local Queenstown, Nelson, Lower Hutt, Mt Maunganui, Botany Downs (Auckland) and Westgate (Auckland) communities, bringing store numbers to 44. Store development for this brand is imperative to the success of the business.

* Based on a 52-week prior-year comparison

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Pizza Hut New Zealand

Pizza Hut New Zealand has contributed to the company's overall result with sales of \$89.1 million, an increase of 3.6%* on the prior year. The growth was primarily due to increased store numbers as same-store sales for the full year declined 2.9%. Four of our new stores were in-fills in Auckland and contributed to the overall increase in total sales but had negative impact on same-store sales.

Continuing competitive pressures, cannibalisation from new-store growth and a light promotional calendar resulted in a general slow-down in Pizza Hut New Zealand sales in the final quarter of the year. This year you will see the launch of a new marketing campaign designed to claw back some of Pizza Hut's market share and reinforce its position as market leader in New Zealand. EBITDA was \$12.2 million, a decrease of \$1.4 million on the prior year. Pressure on margins came from increases in cheese, freight and labour costs.

Six new stores were opened in 2005, bringing store numbers to a high of 107 at year-end.

Pizza Hut Victoria

Pizza Hut Victoria reported a sales decline of 4.9%* over the year, to A\$25.5 million. Same-store sales declined 3.8% for the year. Earnings also struggled to make progress on last year, especially with the sales decline, ending the year with an EBITDA loss of \$314,000. The NPAT loss before non-trading items was \$3.1 million which was similar to last year.

As previously indicated to shareholders, Pizza Hut Victoria has been a difficult business for Restaurant Brands. We underestimated the amount of investment required to get the business to a critical mass where it was operationally efficient and in a position to further drive sales and increase market share.

We have continued to restructure this business and evaluate our options. During this process we received strong interest from potential purchasers for individual stores. It is the right time for Restaurant Brands to exit and sell the Pizza Hut Victoria business. We have already received offers for a number of stores and will continue this process over the next 12 months.

The sale will allow us to focus on our New Zealand businesses, which continue to demonstrate growth.

This decision has resulted in a pre-tax write-down of the investment of \$7.0 million which includes the goodwill write-off of \$2.9 million.



People

Restaurant Brands is one of the largest flexible employers in New Zealand, employing nearly 7,000 people. Every day across the country a New Zealander is interacting with one of our store partners, and the experience our customers have in-store directly impacts our business. This is why customer service continues to be a key focus across all three brands.

As a company we are constantly monitoring our performance in this area, and it is clear that there is a parallel between improved customer service and staff motivation levels.

Our training programmes reflect this, and we are well-recognised throughout the industry for offering excellent on-the-job training – not only in customer service but also to help people achieve their hospitality qualifications. Our flexible working arrangements are another attractive option for employees, particularly students and working parents. Our store partners continue to make a difference across the business and I am proud of their dedication and ongoing contribution.

We head into this financial year with a clear direction of where we want the business to develop. We expect the KFC transformation programme to show significant returns for us into the future. We will build on our strong position in the pizza market and capitalise on the growth potential and market leadership position that Starbucks Coffee continues to demonstrate. Our ultimate goal is to seek superior returns for our shareholders and we will continue to look for opportunities that allow us to do this.

I would like to take this opportunity to thank our partners across the whole business. It is their dedication and hard work that allows us to deliver these results and ensure that every customer gets a great experience, which will always be of great importance.

On behalf of Restaurant Brands management, I would also like to thank you, our shareholders, for your continued support.

Vicki Salmon
CHIEF EXECUTIVE
5 April 2006