

Chairman's Report

W J FALCONER, CHAIRMAN



For the 52-week financial year ended February 28, 2006, Restaurant Brands reported a group net profit after tax (excluding non-trading items) of \$10.5 million, 4.7% down on the previous year. Reported profit was \$3.4 million which includes \$9.2 million of non-trading charges.

Highlights of the year include:

- ★ A 2.1% increase* in total net sales for the group, bringing us to a record \$316.4 million for the full year.
- ★ A total of 14 new store openings, ending the year with an all-time high of 289 stores in operation.
- ★ The successful roll-out of the new store transformation programme at KFC, which contributed toward strong growth in sales and profit.
- ★ Continued improvements in Starbucks Coffee sales and earnings, up 14.4%* and 6.3% respectively.
- ★ The decision to exit the Pizza Hut Victoria business.

Despite an increasingly competitive landscape and the significant write-downs for this financial year, the directors have declared a final fully imputed dividend of 5.5 cents per share for the second half, bringing the total for the year to 10.0 cents per share, a level maintained for the past seven years. The dividend is payable on 16 June 2006 to all shareholders.

Annual sales for the company were up 2.1% on a 52-week comparison basis, but with a reduced performance of Restaurant Brands' Pizza Hut businesses, operating profit (excluding non-trading items) was slightly down by \$0.5 million on 2005. KFC and Starbucks Coffee businesses experienced strong positive same-store sales growth, a trend we will seek to continue throughout 2006.

The Pizza Hut business in Victoria, Australia whilst continuing to improve its operational performance, has simply not been able to generate sufficient sales to produce a sustainable financial result. Store level profitability dropped back from a marginal profit last year to a small EBITDA loss of \$0.3 million.

The NPAT loss before non-trading items for Pizza Hut Victoria was \$3.1 million, similar to last year.

The board has reviewed the ongoing performance of this business. Accordingly, the decision has been made by the directors to exit the Pizza Hut Victoria investment over the next 12 months by selling stores to independent franchisees. This has followed an in-depth review of all options for the business and Restaurant Brands in total.

The original intention in 2002 was to leverage the experience gained from the restructure of the New Zealand pizza market where the company has been successful. Even though there has been investment into the existing store base in Victoria, the business has been unable to justify the expansion of new stores required for the market. This is due to an intensely competitive marketplace, with Pizza Hut competing with low-cost independent pizza operators and, more recently, a rapid expansion of other branded pizza outlets. A relatively flat marketing calendar also contributed to the lack of sales traction.

The decision to exit has generated an immediate write-down in the carrying value of the investment assets of \$4.1 million as a charge against non trading expenses, in addition to the write-off of goodwill of \$2.9 million which was taken up in the interim accounts.

* Adjusted for the 52-week equivalent

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The decision to sell the Pizza Hut Victoria business will allow the company to remove the trading losses associated with Pizza Hut Victoria and focus on the New Zealand operations where it can generate superior returns. This is the best course of action in the interests of the overall business, and will result in a positive impact on earnings once the exit is complete.

The extensive KFC store transformation programme has delivered excellent results and has the full support of the directors. The directors are committed to the continued roll-out of the KFC brand transformation. Sales at the transformed stores have substantially increased above the pre-refurbishment level.

The proposed takeover of Restaurant Brands by a subsidiary company of CVC Asia Pacific Limited in June saw the share price reach a high for the year of \$1.65. The bid did not proceed, as the subsidiary was unable to reach agreement on a number of commercial terms with Yum! Restaurants International, the franchisor of the KFC and Pizza Hut brands.

I would like to extend the Board's gratitude to all employees (partners) of Restaurant Brands for their commitment to customer service, store performance and to their own personal development. Customer service levels are at an all-time high and this is a direct result of staff efforts.

In March the board announced the resignation of Trevor Hall as a director due to other business commitments. We appreciate the contribution Trevor made during his time on the board.

With a softer economic environment, the company is expecting tighter trading conditions in the coming year.

In March 2006 Restaurant Brands reached agreement with the union representing its employees, which was widely publicised. Together with the legislated increase in the minimum wage, this will have some impact on margins in the coming year, but these are expected to be largely recovered in price increases.

The solid improvements in the KFC business and roll-out of its transformation programme are expected to continue to drive both sales and earnings, but will result in higher depreciation and interest costs. The New Zealand Pizza Hut business will build on its market leadership position which may have an impact on margins. The Starbucks Coffee business will continue to grow and consolidate its market position.

Once the exit of the Pizza Hut Victoria business is complete, the future earnings will fully reflect the value of the New Zealand group.

In summary, the overall trading results for the coming year are expected to be similar to those achieved in the current year.

Restaurant Brands is proud to own iconic brands that are a slice of New Zealand's heritage. To sustain our market-leading position, our brands need to move forward with the times, and the transformation under way across the KFC business, Pizza Hut's new marketing campaign, and Starbucks Coffee's continued growth is testament to this. Our future is bright and we look forward to demonstrating the results of this to you in our report next year.



WJ Falconer
CHAIRMAN
5 April 2006