

**RESTAURANTBRANDS NEW ZEALAND LIMITED
STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 28 FEBRUARY 2007**

Reporting Entity

Restaurant Brands New Zealand Limited, a company domiciled in New Zealand, is registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange (“NZX”). The company is an issuer in terms of the Financial Reporting Act 1993. The consolidated financial statements presented are those for Restaurant Brands New Zealand Limited (the Company) and the Restaurant Brands Group (the Group). The Group consists of the Company and its subsidiaries.

Statement of Compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZGAAP”). They comply with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards (“IFRS”). These are the Group’s first full year audited financial statements under NZ IFRS and NZ IFRS 1 has been applied. The financial statements were approved by the Board of Directors on 26 April 2007.

An explanation of how the transition to NZ IFRS has affected the reported financial position and financial performance is provided in Note 26.

Basis of Preparation

The consolidated financial statements comply with the Financial Reporting Act 1993 and comprise statements of the following: income statement, statement of recognised income and expenses, balance sheet, cash flows, significant accounting policies, as well as the notes to these statements.

The consolidated financial statements are presented in New Zealand dollars which is the Company’s functional currency. The financial information has been rounded to the nearest thousand.

The Group divides its financial year into thirteen 4-week periods. The 2007 full year results are for 52 weeks (364 days). Occasionally a “leap year” of 53 weeks is required to adjust the accounting year to a calendar basis.

Accounting Convention

The consolidated financial statements have been prepared on the historical cost basis, except for financial derivatives which are stated at their fair value and are discussed further below.

The policies set out as follows have been consistently applied to the comparative year and opening balance sheet as at 1 March 2005, and have been applied consistently by Group entities.

Estimates and Judgments

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are: goodwill impairment in note 7 in relation to Pizza Hut New Zealand, and costs related to the exit of Pizza Hut Victoria in note 2.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

BASIS OF RECOGNISING COMPONENTS OF THE FINANCIAL STATEMENTS

The following significant accounting policies have been adopted:

Basis of Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra group balances and profits resulting from intra group transactions are eliminated in preparing the consolidated financial statements.

Foreign Currency

Transactions in foreign currencies are translated to the respective functional currencies of individual Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences in respect of the net investment in foreign operations (see below).

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to New Zealand dollars at exchange rates at the dates of the transactions.

Exchange differences arising from the translation of the net investment in foreign operations are recognised in the foreign currency translation reserve and are released to the income statement upon disposal. All differences which arose prior to 1 March 2005 have, upon adoption of NZ IFRS, been transferred to retained earnings.

Financial Instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, which are recognised at cost less impairment losses, cash and cash equivalents, loans and borrowing, and trade and other payables which are stated at cost.

Non-derivative financial instruments are recognised initially at fair value plus, any directly attributable transaction costs, except as described below. All changes in fair value are recorded through the income statement.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed below.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risks arising from operational, financing and investment activities. The Group does not hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated

future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Revenue Recognition

Goods sold and services rendered

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs of possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Grants

A grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset.

Net funding costs

Net funding costs comprise: interest payable on borrowings calculated using the effective interest rate method; interest received on funds invested calculated using the effective interest rate method; foreign exchange gains and losses; gains and losses on certain financial instruments that are recognised (ie unhedged derivatives) in the income statement; unwinding of the discount on provisions and impairment losses on financial assets.

Lease Payments

- *Finance leases*

Minimum lease payments under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

- *Operating leases*

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Intangible Assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and business combinations.

- *Acquisitions prior to 1 March 2005*

As part of its transition to NZ IFRS, the Group elected to restate only those business combinations that occurred on or after 1 March 2005. In respect of acquisitions prior to 1 March 2005, goodwill represents the amount recognised under previous NZ GAAP.

- *Acquisitions on or after 1 March 2005.*

For acquisitions on or after 1 March 2005, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is measured at cost, less accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment.

Franchise costs

Franchise costs are those incurred in obtaining franchise rights or licences to operate quick service and take-away restaurant concepts. They include, for example, the initial fee paid to a system franchisor when a new store is opened. These are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is on a straight-line basis over the life of the applicable franchise or license agreement.

Concept development costs and fees

Concept development costs and fees include certain costs, other than the direct cost of obtaining the franchise, associated with the establishment of quick service and take-away restaurant concepts. These include, for example, professional fees and consulting costs associated with the establishment of a new brand or business acquisition.

These costs are capitalised where the concept is proven to be commercially feasible and the related future economic benefits are expected to exceed those costs with reasonable certainty. These are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over the period which future economic benefits are reasonably expected to be derived.

Property, Plant and Equipment

Owned assets

Property plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs and the cost of obtaining resource consents.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated initially at an amount equal to the lower of its fair value and present value of the future minimum lease payments. Subsequent to initial recognition the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the Group's balance sheet. The Group also leases certain plant and equipment and land and buildings by way of operating lease. The cost of improvements to leasehold assets is capitalised as buildings or leasehold improvements and then depreciated as outlined below.

Capital work in progress

All costs relating to an asset are first recorded in capital work in progress. Once all associated costs for an asset are established with relative certainty, the asset is then transferred from work in progress and capitalised into fixed assets.

Store start up costs

Costs incurred in connection with the assessing the feasibility of new sites are expensed as incurred with the exception of franchise costs and certain development costs and fees as discussed above.

Depreciation

Depreciation recognised in the income statement and is calculated on a straight line basis to allocate the cost of an asset, less any residual value, over its estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives of fixed assets are as follows:

Leasehold improvements	5 - 20 years
Plant and equipment	3 - 12.5 years
Motor vehicles	4 years
Furniture and fittings	3 - 10 years
Computer equipment	3 - 5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs of marketing, selling and distribution. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Statement of Cash Flows

The following are definitions of the terms used in the Statement of cash flows:

- Cash comprises; cash at bank, cash on hand and overdraft balances;
- Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and of investments; Investments can include securities not falling within the definition of cash;
- Financing activities are those activities which result in changes in the size and composition of the capital structure of the company;
- Operating activities include all transactions and other events that are not investing or financing activities.

Dividends

Dividends are accrued in the period that they are authorised.

Impairment

The carrying amounts of the Group's assets except for inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's Cash Generating Unit's or (CGU's) recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset or CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement. Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Except for impairment losses on goodwill, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Share Capital

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Employee Benefits

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. The fair value of the options granted is measured using an options pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's) and head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Business segments

The Group comprises the following main business segments:

- KFC
- Pizza Hut New Zealand
- Starbucks Coffee
- Pizza Hut Victoria

The main activities of these business segments is the operation of quick-service and take-away restaurant concepts.

Geographical segments

The KFC, Pizza Hut New Zealand and Starbucks Coffee segments are managed and operated in New Zealand. Pizza Hut Victoria is managed and operated in the state of Victoria, Australia.

Goods and Services Tax

The income statement and statement of cashflow have been prepared exclusive of Goods and Services Taxation.

Non-Current Assets Held for Sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Discontinued Operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

New Standards and Interpretations not yet Adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 28 February 2007, and have not been applied in preparing these consolidated financial statements:

- *NZ IFRS 7 Financial Instruments: Disclosures and the Amendment to NZ IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. NZ IFRS 7 and amended NZ IAS 1, which becomes mandatory for the Group's 2008 financial statements, will require additional disclosures with respect to Group's financial instruments and share capital.
- *NZ IFRIC 8 Scope of NZ IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. NZ IFRIC 8 which becomes mandatory for the Group's 2008 financial statements, with retrospective application required. The adoption of this interpretation is not expected to have any impact on the consolidated financial statements.
- *NZ IFRIC 9 Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. NZ IFRIC 9, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any impact on the consolidated financial statements.
- *NZ IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, and investment in an equity instrument or a financial asset carried at cost. NZ IFRIC 10, becomes mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of NZ IAS 36 and NZ IAS 39 respectively (i.e. 1 March 2005), and is not expected to have any impact on the consolidated financial statements.
- *NZ IFRIC 11 NZ IFRS 2 Group and Treasury Shares Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. NZ IFRIC 11 becomes mandatory for the Group's 2008 financial statements, with retrospective application required. The Group has not yet determined the potential impact of the interpretation.
- *NZ IFRIC 12 Service Concession Arrangements* addresses how service concession operators should apply existing New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) to account for the obligations they

undertake and rights they receive in service concession arrangements. NZ IFRIC 12 becomes mandatory for the Group's 2009 financial statements. NZ IFRIC 12 is not relevant to the Group's operation.

- NZ IFRS 8 *Operating Segments* requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet and would therefore require explanation of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet. NZ IFRS 8 is effective for accounting periods beginning 1 January 2009. The Group has not yet determined the potential impact of the standard.

Explanations of transition to New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)

These are the Group's first consolidated financial statements prepared in accordance with NZ IFRS.

The accounting policies set out in the front of the financial statements have been applied in preparing the financial statements for the year ended 28 February 2007, the comparative information presented in these financial statements for the year ended 28 February 2006 and in the preparation of an opening NZ IFRS balance sheet at 1 March 2005 (the Group's date of transition).

The impact of adjustments on the financial statements is set out as follows:

Re-measurement of business combinations

The Group has elected not to apply NZ IFRS to business combinations that have occurred prior to the adoption of NZ IFRS.

Intangible Assets

Under NZ IFRS internally generated elements of intangible assets cannot be recognised. This has resulted in \$0.08 million intangible assets previously recognised under NZ GAAP being written off to retained earnings in the year ended 28 February 2005.

NZ IFRS does not permit goodwill to be amortised, but subjects it to an annual impairment test. This has increased earnings by \$2.1 million in the year ended 28 February 2006 in relation to the New Zealand business. The goodwill of the Australian business had been fully impaired in the year ended 28 February 2006.

Taxation

NZ IFRS requires the use of the "balance sheet" approach rather than the "profit and loss account" approach required under NZ GAAP in calculating deferred taxation. Adjustments to deferred taxation of \$1.5 million for the year ended 28 February 2005 resulting from change in earnings is set out in the attached tables.

Financial Instruments

Accounting for financial instruments under NZ IFRS involves some major changes from NZ GAAP. IFRS is very prescriptive on when a financial derivative can be considered an effective hedge of an underlying position or future cashflow. All derivative contracts will be carried at fair value on the Group's balance sheet. If a derivative financial transaction does not qualify for hedge accounting, the mark-to-market fair value movement will be taken to earnings. If a derivative financial transaction does qualify for cash flow hedge accounting, the mark-to-market fair value movement will be taken to a reserve within equity. All of the financial derivative instruments entered into are to hedge the Group's future cash flows and are not speculative in nature; the majority of instruments will qualify for hedge accounting. Upon first time adoption of NZ IFRS a mark-to-market fair value gain of \$0.06 million was recognised at 1 March 2005, this was recognised in the parent company.

Long Service Leave

Long service leave is currently recognised when it vests, whereas under NZ IFRS this is recognised on an actuarial basis from the date an employee is first employed. The impact on first adoption was \$0.4 million against retained earnings as at 1 March 2005.

Foreign Currency Translation Reserve

The balance of the foreign currency translation reserve of \$1.7 million at 28 February 2005 has been transferred to retained earnings from the foreign currency translation reserve on first time adoption of IFRS. There has been no impact on earnings or equity from this change.

Revenue Recognition

The timing of revenue for certain transactions is treated differently under NZ IFRS. The impact of this is to reverse to the balance sheet a deferred portion of revenue previously recognised under NZ GAAP. The impact on first adoption was \$4.1 million against retained earnings.

Share Based Payments

The employee share growth share option plan allowed certain company employees to acquire shares of the Company. Under NZ IFRS the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. Only the 23 September 2003 issue of options was affected. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an options pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. This has resulted in \$0.04 million being transferred to share option reserve at 1 March 2005 in the parent company.

RESTAURANT BRANDS NEW ZEALAND LIMITED **INCOME STATEMENT** **FOR THE YEAR ENDED 28 FEBRUARY 2006**

	<u>YEAR ENDED FEB 2006</u>		
	Reported Using NZ GAAP* NZ\$'000s	Adjustments to comply with IFRS NZ\$'000s	Reported Using IFRS NZ\$'000s
Total store sales revenue	316,352		316,352
Other revenue	1,413	(1,024)	389
Total operating revenue	317,765	(1,024)	316,741
Cost of goods sold	(250,794)	483	(250,311)
Gross profit	66,971	(541)	66,430
Distribution expenses	(9,211)		(9,211)
Marketing expenses	(22,716)		(22,716)
General and administration expenses	(13,920)	8	(13,912)
Other non trading	(2,225)	123	(2,102)
Amortisation of goodwill	(2,733)	2,733	-
Impairment of Pizza Hut Victoria	(6,985)	(130)	(7,115)
EBIT	9,181	2,193	11,374
Interest revenue	13		13
Interest expense	(2,490)		(2,490)
Net foreign exchange gain	167		167
Net financing expenses	(2,310)		(2,310)
Profit before taxation	6,871	2,193	9,064
Taxation expense	(3,492)	(375)	(3,867)
Profit after taxation	3,379	1,818	5,197
Earnings per share from total operations (cents)	3.48		5.36

*The statement of financial performance has been reclassified in order to comply with the functional disclosures required under NZIFRS. Pizza Hut Victoria has been reclassified as a discontinued operation in the financial statements to 28 February 2007.

The cashflow statement for the year ended 28 February 2006 has not been adjusted for the adoption of NZIFRS. However a number of cashflow items have been reclassified in order to align the presentation of the financial statements with the current format.

Note 27 - Subsequent event

Subsequent to balance date, the directors have declared 3.0 cents per share final dividend for the year ended 28 February 2007.

Restaurant Brands New Zealand Limited
Balance Sheet
AS AT 28 FEBRUARY 2005

	Notes	Reported Using NZ GAAP* Feb 2005 NZ\$'000s	Adjustment Intangibles Start Up Costs NZ\$'000s	Adjustment Revenue NZ\$'000s	Adjustment Fin.Instruments NZ\$'000s	Adjustment First Time adoption FCTR NZ\$'000s	Adjustment Share based pments Share Options NZ\$'000s	Adjustment Employee Benefits Employee Benefits NZ\$'000s	Adjustment Deferred Tax NZ\$'000s	Reported Using NZ IFRS Feb 2005 NZ\$'000s
Current Assets										
Inventories	10	2,061								2,061
Financial Assets		-			57					57
Accounts Receivable	11	1,889								1,889
Income Tax Receivable		105								105
Cash		1,642								1,642
		5,697								5,754
Non Current Assets										
Fixed Assets	6	68,926								68,926
Investments in Subsidiaries	8	-								-
Deferred Tax Asset		-						86		86
Intangible Assets	7	30,713	(78)							30,635
		99,639								99,647
										-
Total Assets		105,336								105,401
Current Liabilities										
Bank overdraft		-								-
Creditors & Accruals		(25,395)		(632)						(26,027)
Amounts Payable to subsidiaries		-								-
	17	(25,395)								(26,027)
Non Current Liabilities										
Deferred tax liability	9	(1,424)							1,424	-
Provisions/Accruals		-		(3,447)				(439)		(3,886)
Bank loans and Leases	16	(27,446)								(27,446)
		(28,870)								(31,332)
Total Liabilities		(54,265)								(57,359)
Net Assets		51,071	(78)	(4,079)	57	-	-	(439)	1,510	48,042
Equity										
Share capital	14	(25,297)								(25,297)
Share Option reserve		-					(46)			(46)
FCTR		1,684				(1,684)				-
Hedging Reserve		-			(57)					(57)
Other Reserves		(27,458)	78	4,079		1,684	46	439	(1,510)	(22,642)
		(51,071)	78	4,079	(57)	-	-	439	(1,510)	(48,042)

*The balance sheet has been reclassified in order to comply with the disclosures required under NZ IFRS.

Restaurant Brands New Zealand Limited
Balance Sheet
AS AT 28 FEBRUARY 2006

	Note	Reported Using NZ GAAP* Feb 2006 NZ\$'000s	Adjustment for changes to IFRS for Feb 2005	Adjustment <u>Intangibles</u> Start Up Costs NZ\$'000s	Adjustment <u>Intangibles</u> Amortisation NZ\$'000s	Adjustment <u>Revenue</u> NZ\$'000s	Adjustment <u>Fin.Instruments</u> NZ\$'000s	Adjustment <u>Share based pments</u> Share Options NZ\$'000s	Adjustment <u>Employee Benefits</u> NZ\$'000s	Adjustment <u>Deferred</u> Income NZ\$'000s	Adjustment <u>Deferred Tax</u> NZ\$'000s	Reported Using NZ IFRS Feb 2006 NZ\$'000s
Current Assets												
Inventories	10	2,253										2,253
Financial Assets		-	57				(49)					8
Accounts Receivable	11	1,645										1,645
Income Tax Receivable		698										698
Cash		2,033										2,033
		6,629										6,637
Non Current Assets												
Fixed Assets	6	73,269								600		73,869
Investments in Subsidiaries	8	-										-
Intangible Assets		25,365	(78)	38	2,079							27,404
Deferred Tax Asset		245	86								1,049	1,380
		98,879										102,653
												-
Total Assets		105,508										109,290
Current Liabilities												
Bank overdraft		-										-
Creditors & Accruals		(27,260)	(632)			(222)				(80)		(28,194)
Amounts Payable to subsidiaries		-										-
	17	(27,260)										(28,194)
Non Current Liabilities												
Deferred tax liability	9	-	1,424								(1,424)	-
Provisions/Accruals		-	(3,886)			356			(36)	(520)		(4,086)
Bank loans and Leases	16	(33,100)										(33,100)
		(33,100)										(37,186)
												-
Total Liabilities		(60,360)										(65,380)
Net Assets		45,148	(3,029)	38	2,079	134	(49)	-	(36)	-	(375)	43,910
Equity												
Share capital	14	(25,576)										(25,576)
Share Option reserve		-	(46)					(24)				(70)
FCTR		1,571	(1,684)						2			(111)
Hedging Reserve		-	(57)				49					(8)
Other Reserves		(21,143)	4,816	(38)	(2,079)	(134)		24	34		375	(18,145)
		(45,148)	3,029	(38)	(2,079)	(134)	49	-	36	-	375	(43,910)

*The balance sheet has been reclassified in order to comply with the functional disclosures required under NZ IFRS.