26 April 2007
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RESTAURANT BRANDS NEW ZEALAND LIMITED

Directors' Report to Shareholders for the Year ended 28 February 2007

Note: The company adopted International Financial Reporting Standards (IFRS) in the current financial year. All prior year comparisons have been restated under IFRS to enable a clearer comparison.

Key Points

- Total sales for New Zealand operations were $293.6 million, up 1.7% on prior year with same store sales up 0.8%.
- Record sales for KFC at $182.7 million (up 7.1% on a same store basis) and Starbucks Coffee $31.3 million, (up 3.2% same store).
- Group Net Profit after Tax (excluding non trading items) was $6.5 million, down 47% on prior year, mainly due to a disappointing result for Pizza Hut.
- Sale of the Pizza Hut Victoria business has been largely completed with 27 stores sold to independent franchisees or closed as at balance date, five more stores settled subsequent to balance date, and sale and purchase agreements in place for most the remaining 18.
- Non trading charges of $14.4 million largely arising from exit costs and write downs on the Pizza Hut Victoria investment resulted in a reported Group Net Loss after Tax of $3.6 million.
- The KFC brand transformation continued its roll out with significant sales growth in 21 transformed or new stores and further stores planned or under construction for the new fiscal year.
- The KFC master franchise for New Zealand was renewed 9 months early with extra 10+10 year franchises for transformed stores.
- The final fully imputed dividend has been reduced to 3.0 cents per share pending improvements in the company's trading performance and cash flow position.

Group Operating Results

The 2006/7 year has been a difficult one for the company with a strong performance by the KFC business offset by a major deterioration in the trading position for the Pizza Hut businesses in New Zealand and Victoria.

Net Profit after Tax excluding non trading items was $6.5 million for the year compared to $12.3 million for the prior year. A $1.6 million improvement in KFC EBITDA was not sufficient to counteract a $6.8 million decline in Pizza Hut earnings in New Zealand.

Non-trading charges of $14.4 million mainly comprised $9.9 million in write offs and exit costs from the Pizza Hut Victoria investment, together with fixed asset write offs under the KFC transformation programme, Pizza Hut New Zealand impairment charges and costs arising from recent takeover activity.

Total sales were $318.7 million up 0.7% on prior while New Zealand operations sales were $293.6 million up 1.7%. Both KFC and Starbucks Coffee demonstrated solid sales growth, up 7.1% and 3.2% respectively on a same store basis, but Pizza Hut New Zealand sales dropped $9.4 million to $79.7 million for the year.

Store EBITDA for the year was down $8.1 million to $37.0 million largely on the back of the reduced Pizza Hut earnings.

Above store overheads (G&A costs) were reduced by 7.8% on prior year with some cost reductions in New Zealand and a downsizing of the Australian operations.

Depreciation charges were flat to prior year with increases from KFC transformation capex offset by cessation of a depreciation charge in Pizza Hut Victoria with the reclassification of the Australian business as held for sale.

Year end store numbers at 237 in New Zealand were two down on February 2006 following some Pizza Hut store closures. Twenty three stores are left in Australia at balance date, with 5 settling shortly after.

KFC

KFC operations continued to build strong sales and improving margins as the impact of the store transformation programme gathered momentum. Total sales of $182.7 million set a new record for the brand up 6.3% (7.1% same store) on the prior year. This was especially pleasing given the number of stores closed for transformation work and the removal of the delivery business from the last six stores.

Earnings were also up strongly, with EBITDA improving by $1.6 million (5.4%) to $31.2 million (17.1% of sales).

A further 11 stores were transformed over the year bringing total transformed store numbers to 21, nearly a quarter of the total network. Eight are scheduled for completion in the new fiscal year.

At 87, store numbers were down one on the prior year with two stores closing at lease end and one new store opening in Rototuna near Hamilton.

Pizza Hut New Zealand

A particularly difficult year for the Pizza Hut New Zealand business saw some significant reductions in sales volumes with consequent flow on effects to profitability. The impact of major competitor growth and aggressive pricing activity saw sales drop 10.5% to $79.7 million for the year (down 11.8% same store).

The impact of the drop in sales, together with cost increases, particularly in labour, saw margins suffer accordingly, with the brand producing an EBITDA result of $5.1 million for the year, $6.8 million down on prior year.

A number of new operational and marketing initiatives are underway to address the shortfall which will arrest this decline in the new financial year.

One store opened in the period, being Hobson Street in Auckland. A number of stores were relocated and delco stores built to replace red roof restaurants. As part of the announced strategy of progressively closing red roofs, four of these restaurants were closed over the year, bringing store numbers to 103.

Starbucks Coffee

With continued sales growth of 12.2% the Starbucks Coffee business produced total sales of $31.3 million for the year. Sales grew 3.2% on a same store basis.

The combined impact of higher labour costs and lower exchange rate last year meant that the brand was under some margin pressure. Starbucks EBITDA was $3.6 million, $0.3 million behind prior year. Some price increases and a weaker US dollar will assist in addressing this in the new year.

Three new stores were opened at Symonds Street and Sylvia Park in Auckland and Chartwell in Hamilton. This brought store numbers to 47 by year end.

Pizza Hut Victoria, Australia
Following the company's announcement in April 2006 of its intention to exit this business, there has been an active campaign to sell stores off to independent franchisees. This has proved to be a difficult and drawn out process in dealing with landlords, potential new franchisees and Yum! as franchisor.

Twenty-seven stores were sold or closed over the year with another five settling immediately after year end. The company has agreements for sale on twelve out of the remaining eighteen with full exit expected by the end of the calendar year.

As the sale process has proceeded, the business has incurred further losses, finishing the year with an EBITDA loss at $2.9 million. No further losses are anticipated to be incurred for this business in the new financial year.

Cash Flow and Balance Sheet
The deterioration of the Pizza Hut trading position in both Australia and New Zealand has flowed through to a reduction in operating cash flows to $20.8 million from $28.2 million in the prior year.

The Company made net investments totaling $29.7 million in new stores, store upgrades and information technology over the year. Expenditure on KFC stores comprised more than half of the total invested, with franchise fees (mainly KFC franchise renewals) comprising another $2.9 million.

As a result, borrowing levels have increased over prior year with bank debt up to $48.6 million. New banking facilities of $70 million were put in place at year end to meet future requirements.

Accounting Policies
This is the Company's first annual report to shareholders to be completed under the International Financial Reporting Standard (IFRS). Full details of material changes to accounting policies will be in the annual report and are published on the Company's website, www.restaurantbrands.co.nz.

Under the new accounting standards, the company no longer amortises goodwill. It has however reviewed the carrying value of goodwill for its Pizza Hut New Zealand investment on the basis of future estimated cash flows from the business and taken up an impairment of $1.1 million on the carrying value of its investment. The company has also recognized in the current year an estimated value for any future losses on the remaining stores in its Australian investment.

Franchise Renewals
The company renewed the KFC franchise for most of its stores in August 2006, nine months ahead of schedule. As part of these negotiations it secured an option to take a further 20 year franchise on its KFC transformed stores. A further number of Pizza Hut franchises become eligible for renewal in May 2007.

Board and Management
During the year, Mr Bill Falconer resigned as a director. The board records its thanks to Mr Falconer who had been chairman since the company was floated in 1997. Mr Ted van Arkel assumed the role of chairman in July 2006.

Sue Suckling was appointed to fill a casual vacancy in June 2006.

Vicki Salmon resigned as director and chief executive in March 2007. She too had been a director of the company from the beginning and the board also recognizes her contribution.

Dividend
Given the reduction in earnings in the past year and the associated adverse impact on cash flow, together with the significant capital commitments in the KFC transformation project and franchise renewal payments, the board has elected to reduce the final dividend to 3.0 cents per share. This brings the total dividend for the year to 5.5 cents.

The dividend will be paid on 29 June 2007 as fully imputed to all shareholders on the register as at 5pm, 15 June 2007. A supplementary dividend of 0.52941 cents per share will also be paid to overseas shareholders on that date.

The dividend reinvestment plan will remain suspended for this dividend.

Outlook
KFC is expected to continue to generate sales and margin growth at levels consistent with the current year. The company will continue to invest significant levels of capital in order to complete its store transformation programme.

Directors expect the Pizza Hut New Zealand business to see a recovery in both sales and margin, but this will take some time as new operational and marketing initiatives take effect. The progressive closure of a number of red roof stores will assist margins.

Starbucks Coffee will see continued sales growth and a margin improvement on prior year.

While the 2006/7 year was particularly difficult, the directors fully expect that the large number of changes being made to the Pizza Hut New Zealand business, coupled with the final exit from Victoria and the continuing positive momentum in KFC, will deliver a significant improvement in operational performance in 2007/8.

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