

## Chief Executive's Report

V J Salmon CHIEF EXECUTIVE



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I am very pleased to present to you this report for the 2005 fiscal year. All four brands contributed to our improved result both in improved sales and stronger margin performance.

Over the past year, we have taken a fresh look at all our businesses, implementing new operating procedures and achieved cost savings where possible and we are now beginning to see the rewards.

The improvement in our core businesses, the growth in customer numbers and the focus on store development will continue to be our key platforms for growth. We are also focused on expanding our store network, opening 14 new stores during the fiscal year and bringing us to a record 278 stores in operation at year-end.

The 2005 fiscal year has seen steady quarter on quarter gains with results against the prior year showing a significant improvement. Total group sales were \$315.5 million, an increase of \$10.9 million or 3.6% on the prior year.

Restaurant Brands delivered a 36% increase in Group Net Profit after Tax (excluding non trading items) to \$11 million for the financial year ended 28 February 2005.

The profit improvements resulted in total store EBITDA up 11.9% on the prior year.

#### PIZZA HUT NEW ZEALAND

The improved company result was led by a very strong year for Pizza Hut New Zealand, which has further consolidated its position as the number one pizza delivery business in the country.

Despite the changes in the competitive landscape, there is no slowdown in momentum for the Pizza Hut brand with 10 new stores being opened during the year to reach a total of 101 nationwide. We expect to maintain the store development programme this year. We have been particularly successful in bringing Pizza Hut to regional towns around New Zealand.

We are excited about the early results shown by our Gourmet Pizza range that has been successfully trialled in Hamilton and will look to introduce this nationwide later in the year.

Total sales are up 7.7% on the prior year to \$87.6 million. EBITDA for Pizza Hut remained stable during these competitive pressures – delivering a 10.8% improvement on last year to a total of \$13.6 million.

#### KFC

Following the difficult fiscal 2004 year for KFC we are excited about the results of the work we have done with this brand this year and we will see the full benefits in the coming year. The major improvement in KFC resulted from an improved and stable margin

performance with EBITDA up \$2.2 million or 8.5% on the prior year despite significant pressures on labour costs.

KFC EBITDA margin rose from 15.0% to 16.1% with the majority of the improvement coming in the second half of the year.

Total sales at \$173.0 million were up 1.1% on the prior year and 0.1% on a same store basis. During the year we withdrew delivery services out of 9 stores and have seen improvements in customer service levels with many of these customers returning. We also closed one store due to the lease ending early in the year.

While sales were challenging during the year, the company successfully reduced costs, primarily through the transition to Inghams our new chicken suppliers. These benefits were largely offset by the significant increase in labour costs after minimum wage and holiday legislation changes.

During the year we began to implement one of our major strategic goals to transform the KFC brand. The first stage of this plan saw the successful trial of a new brand refurbishment design in our Frankton, Hamilton store. This programme, which combines a major store upgrade with menu changes and staff retraining, will be rolled out to more stores this year. Our second refurbished store in Mangere East re-opened in March and our Hamilton East store will be re-opened in early June.

Our Franchisor, Yum! Restaurants International endorsed the success of the store and its design when its global design director recently visited both the Frankton and Mangere East stores. Following the visit she noted that the stores were “one of the freshest designs for a quick-service restaurant that I have seen ... and we have already determined that this design is so successful that it will be one of our leading recommendations for franchises around the world.”

#### STARBUCKS COFFEE

We have maintained the Starbucks Coffee business growth trend with sales up 7.8% to reach a new high of \$24.9 million for the year. This represented same store sales growth of 3.6%.

We built and opened 4 new stores during the year to end on 39 stores. We will continue to open new stores this year.

The Starbucks Coffee team have delivered another year of EBITDA growth up 21.7% to \$3.7 million, a very strong result with \$663,000 more than last year.

#### PIZZA HUT VICTORIA

We have continued to make steady improvements in Restaurant Brands Australia and for the first time we have seen it become profitable at the store EBITDA level.

Pizza Hut Victoria sales were up \$A1.4 million on last year to \$A27.3 million, a 5.6% total sales increase with growth in customer numbers. There was also same store sales growth every quarter, up 3.8% for the year. Store numbers reduced by one to 51.

While parts of the Restaurant Brands Australia division are showing strong results, we will continue to evaluate future options to further consolidate the business.

The focus on customer service this year has been a high priority across all our divisions following shareholder and customer feedback and our work in this area has seen a number of our customer satisfaction measures reach an all-time high with a corresponding drop in complaints.

We take pride in being an employer of choice and in the current tight labour market we have reduced our staff turnover with more of our people choosing to stay with the brands they are part of.

With our planned store development programme, improved customer service levels and consistent product offerings, we are confident that we can build on the solid improvement in sales performance achieved across all brands this year. Total sales growth, underpinned by same store sales growth will be a focus for the coming year.

As the KFC brand refurbishment programme continues, we expect the short-term store closures required for major store refurbishments to adversely affect sales and short-term profit performance in those stores.

We expect to continue to see improvements in our KFC business through the brand revitalisation programme, and ongoing operational focus.

The store development plans for each of the businesses are a key platform for growth that we will be building on.

The steady improvement in results this year across all four divisions is due to the dedication and hard work of all our staff right from the front line to our management team and I would like to thank them for their enormous efforts and dedication to deliver an exceptional customer experience in all our stores, which will always be at the heart of everything we do.

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



V J Salmon

Chief Executive  
28 March 2005