

Chairman's Report

W J Falconer CHAIRMAN



FELLOW SHAREHOLDERS: For the 53 week financial year ended February 28, 2005, Restaurant Brands reported a group net profit after tax (excluding non trading items) of \$11.0 million, a 36% increase on the prior year.

Directors are especially pleased to note that profit growth was seen in all four operating divisions with total store EBITDA increasing 11.9% to \$45.2 million. Highlights of the year include:

- A 3.6% increase in total net sales for the group, bringing us to a record \$315.5 million for the full year.
- A total of 14 new store openings, ending the year with the all time high of 278 stores in operation.
- The continued success of Pizza Hut New Zealand which saw the 100th store open during the year and an increase in total sales and operating profit, despite an increasingly competitive environment.
- An increase in Starbucks Coffee EBITDA margin to 14.9%, a similar level to our other two major New Zealand businesses.
- The successful trial of a new brand refurbishment programme at KFC with a substantial sales improvement since the first store was reopened in Frankton, Hamilton.

With the improvement in operating profit, 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 cents per share, a level maintained for the past five years.

The turnaround seen in the KFC business is particularly pleasing to directors. This year, KFC increased total sales by 1.1% and EBITDA by 8.5%, with margins improving from 15.0% to 16.1%. This significant improvement over the prior year was the result of innovative new product releases together with a focus on product quality, cost control, supply chain initiatives and customer service.

A similar focus on operational efficiencies helped us achieve an improvement in Restaurant Brands Australia, where we reported our first, albeit small, profit at the store EBITDA level of \$NZ 40,000, although the business reported a net loss after tax. Despite the improvement, Pizza Hut Australia continues to under-perform against directors' expectations.

This focus on the basics of operational efficiencies and customer satisfaction is the hallmark of Restaurant Brands' improvement over the past year. Our strategy has been to improve the operations at individual stores, to focus on training and retraining our 7,000 staff across all four operating divisions, and to instill a strong sense of customer service.

The company is committed to ensuring we have a balanced range of products on our menu and will continue to develop product innovations in the coming year.

Five years ago we made a commitment to working towards being GE free in Pizza Hut and KFC. At this time Restaurant Brands took the opportunity to completely review the ingredients throughout its supply chain so it could inform customers about its GM status. Over that time frame suppliers have confirmed their GM free status and our largest supplier of chicken confirmed last year that it has secured a long-term source of non-GM poultry feed that was a reliable and food safe supply.

We will continue with our non-GM policy at KFC and Pizza Hut as long as reliable world supply enables us to do so and will notify customers of any changes.

The company's financial results for the year are particularly pleasing given the retail trading environment in New Zealand. As I indicated last year, the changes to

the Holidays Act, which requires employers to pay time and a half on public holidays and give all employees a day off in lieu, have increased our total labour costs significantly. However, our ability to reduce costs in other areas offset much of this increase.

The Board has appointed three new directors during the year. Their contribution has already been invaluable.

David Pilkington, whose experience includes extensive senior international management and marketing experience, joined the Board in July. Ted van Arkel was appointed in September bringing his strong entrepreneurial knowledge and retail experience to our company. Trevor Hall, who is currently the Chief Executive of the Lotteries Commission, joined us early in the new year.

These three Directors will all be seeking re-election at our Annual Meeting in June. Their appointments were made following the resignation of Rick Bettle and on behalf of the Board, I would like to thank Mr Bettle for his outstanding contribution to the company over the past 7 years.

I would also like to extend the Board's gratitude to all employees of Restaurant Brands for their ongoing efforts to improve the performance of the businesses they operate. All our staff can be proud of the achievements over the past year as they are a direct result of staff commitment to improving customer service.

As we look ahead, barring any substantial unforeseen changes to the economic or competitive environment, we can expect the company to maintain its current rate of sales growth. And, while increased costs will put pressure on our margins, we are currently expecting a slight improvement in our operating profit in the new financial year. We look forward to reporting back to you next year on our performance.



W J Falconer

Chairman
28 March 2005