OFFERING CIRCULAR

AmRest Holdings NV

(Incorporated as a limited liability company in The Netherlands)

Offering of 7,860,000 Ordinary Shares

(subject to an option in respect of certain ordinary shares as described below)

at an initial offer price of PLN 24 per ordinary share

AmRest Holdings NV (the **Company**) is offering up to 3,500,000 new ordinary shares, nominal value €0.01 per share, in the Company (the **New Shares**) and International Restaurant Investments LLC (**IRI** or the **Selling Shareholder**) is offering up to 4,360,000 existing ordinary shares, par value €0.01 per share, in the Company (the **Existing Shares** and, together with the New Shares, the **Offer Shares**), in each case by way of an offering of 1,518,000 Shares in a public offer to retail investors in Poland (the **Public Offering**) and 6,342,000 Shares to institutional investors outside the United States of America (the **Institutional Offering** and, together with the Public Offering, the **Offering**). The ordinary shares in the Company, including the Offer Shares, are referred to in this Offering Circular as the **Shares**.

As part of the Offering, IRI has granted to the Managers (as defined under "*Subscription, Purchase and Sale*") an option (the **Sale Option**), exercisable within a period of 30 days after the Closing Date (as defined below), to sell to IRI up to a maximum of 900,000 Existing Shares, see "*Subscription, Purchase and Sale*".

15,000,000 Shares (including the Offer Shares) have been admitted to public trading by the Polish Securities and Exchange Commission and 13,500,000 Shares are expected to be admitted for listing on the main market of the Warsaw Stock Exchange.

Investing in the Offer Shares involves risk, see "*Risk Factors*".

It is expected that delivery of the Offer Shares will be made on or about 26th April, 2005 (the **Closing Date**) through the facilities of the Polish Securities Depositary.

Global Coordinator, Bookrunner and Lead Manager

The date of this Offering Circular is 25th April, 2005

The Company accepts responsibility for the information (other than the Selling Shareholder Information) contained in this Offering Circular. To the best of the knowledge and belief of the Company (which has taken all reasonable care to ensure that such is the case) the information (other than the Selling Shareholder Information) contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Selling Shareholder accepts responsibility for the information relating to it under "*Principal and Selling Shareholder***" (the** Selling Shareholder Information**). To the best of the knowledge and belief of the Selling Shareholder (which has taken all reasonable care to ensure that such is the case) the Selling Shareholder Information is in accordance with the facts and does not omit anything likely to affect the import of such information.**

This Offering Circular is being furnished solely for use by institutional investors outside the United States of America in connection with their consideration of a purchase of Offer Shares in the Institutional Offering. The Public Offering will be made by means of a Polish language prospectus (the Polish Prospectus**) that complies with the requirements of the Law on Public Trading of Securities dated 21st August, 1997 (Dz. U. of 2000, No. 49, entry 447). Under Polish law and regulations, the Polish Prospectus is the only authorised and official document pursuant to which the offering of Offer Shares may be made.**

This Offering Circular, which is being distributed to a limited number of persons in connection with the Institutional Offering, is not a translation of the Polish Prospectus and does not contain all the information included in the Polish Prospectus. In the event of any discrepancy between the Offering Circular and the Polish Prospectus, the Polish Prospectus will prevail. Copies of the Polish Prospectus are available upon request to the Company or CA IB Securities Limited.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and/or the Polish Prospectus and any information or representation not contained in this Offering Circular and/or the Polish Prospectus must not be relied upon as having been authorised by the Company, the Selling Shareholder or the Managers. The delivery of this Offering Circular at any time does not imply that the information contained herein is correct as of any time subsequent to its date.

This Offering Circular, which should not be considered as a recommendation by the Managers that any recipient of this Offering Circular should purchase any securities offered hereby, is being furnished by the Company and the Selling Shareholder solely for the purpose of enabling a prospective investor to consider the purchase of the securities offered hereby. The information contained herein has been provided by the Company and, to the limited extent stated above, the Selling Shareholder and other sources believed to be reliable and identified herein. In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of the Offering, including the risks involved. No representation or warranty, express or implied, is made by the Managers as to the accuracy or completeness of such information, and nothing contained herein is, or shall be relied upon as, a promise or representation by the Managers as to the past or future.

The Company, the Selling Shareholder and the Managers reserve the right to reject any offer to purchase Offer Shares, in whole or in part, for any reason or to sell less than the aggregate number of Offer Shares offered hereby. Each prospective purchaser, by accepting delivery of this Offering Circular, agrees to the foregoing.

Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the securities offered hereby without the prior consent of the Company is prohibited, except to the extent such information is otherwise publicly available.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company, the Selling Shareholder or the Managers or any affiliate or representative thereof to subscribe for or purchase, any securities or an offer to sell, or the solicitation of an offer to buy, such securities by any person in circumstances in which such offer or solicitation is unlawful. The Offer Shares may not be offered or sold, directly or indirectly, and this Offering Circular may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. Persons into whose possession this Offering Circular comes are required by the Company, the Selling Shareholder and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Offer Shares and distribution of this Offering Circular, see "*Subscription, Purchase and Sale***".**

The Offering is not directed at persons who are established or resident in The Netherlands, except for natural or legal persons who deal or invest in securities in the conduct of a profession or trade (which includes banks, brokers, insurance companies, pensions funds, investment funds and treasury departments of large commercial enterprises). The Offering, the Polish Prospectus, this Offering Circular and the advertisements and documents announcing the Offering satisfy all applicable rules laid down by or pursuant to statutory provisions of Poland, being the country in which the persons to whom the Public Offering is directed are established or resident, and of all countries in which the institutional investors to whom the Institutional Offering is directed are established or resident.

THE CONTENTS OF THIS OFFERING CIRCULAR ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL, BUSINESS AND TAX ADVISERS AS TO LEGAL, BUSINESS AND TAX ADVICE.

PURCHASERS OF THE OFFER SHARES SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISK OF THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

IN CONNECTION WITH THE OFFERING, CA IB SECURITIES LIMITED OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON CA IB SECURITIES LIMITED OR ANY AGENT OF IT TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

In this Offering Circular, references to PLN **and** złoty **are to Polish złotys, references to** CZK **and** koruna **are to Czech crowns, references to** U.S. dollars**,** dollars **and** U.S.$ **are to United States dollars and references to** € **and** euro **are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.**

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Offering Circular contains:

- **audited consolidated financial statements of the Company and its subsidiaries as at and for the years ended 31st December, 2001, 2002 and 2003 (the** Initial Financial Statements)**; and**
- **audited consolidated financial statements of the Company and its subsidiaries as at and for the year ended 31st December, 2004 (the** 2004 Financial Statements **and, together with the Initial Financial Statements, the** Consolidated Financial Statements)**.**

The Consolidated Financial Statements and the other financial information contained in this Offering Circular has (except where otherwise stated) been prepared in accordance with International Financial Reporting Standards (IFRS) **and should be read in conjunction with the notes to the respective consolidated financial statements included in this Offering Circular. Certain figures presented in this Offering Circular may not add to the totals presented due to rounding.**

References in this Offering Circular to AmRest are, except where the context does not permit, to the Company and its consolidated subsidiaries and affiliates, taken as a whole.

AmRest currently operates, at 12 sites, restaurants which comprise both a Kentucky Fried Chicken restaurant and a Pizza Hut restaurant. These 12 restaurants are known as multi-branded restaurants and are counted, except where the contrary is stated, in this Offering Circular as two restaurants for the purpose of determining restaurant numbers in this Offering Circular. For the purposes of AmRest's franchise agreements and development agreement, described elsewhere in this Offering Circular, multi-branded restaurants are counted as a single restaurant.

IRI is a limited liability company wholly-owned by American Retail Concepts, Inc. (ARC) **and acts as the vehicle through which ARC owns its shares in AmRest. References in this document to ARC as shareholder in AmRest are to ARC as shareholder through its ownership of IRI.**

Any reference to Applebee's International, Inc. or any potential transaction with Applebee's International, Inc. does not indicate or imply (by use of the Applebee's marks or otherwise) that Applebee's International, Inc. is sponsoring, endorsing, approving or otherwise participating in the offering described or that Applebee's International, Inc. will receive any part of the proceeds from such offering.

FORWARD-LOOKING STATEMENTS

Certain information in this Offering Circular, in particular in "*Financial Review***" and "***The Company***", contains forward-looking statements with respect to the financial condition, results of operations and business of AmRest. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. As a result, no assurance can be given as to the future results of operations or financial condition of AmRest or as to any other matters covered by such forward-looking statements and AmRest cautions prospective investors not to rely on them. In addition, AmRest does not undertake, and specifically disclaims, any obligation to update any forward-looking statements which speak only as of the date made.**

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SUMMARY

*The following summary does not purport to be complete and is taken from, is qualified in its entirety by, and should be read in conjunction with, the more detailed information and the Consolidated Financial Statements (including the notes thereto) contained elsewhere in this Offering Circular. References in this Offering Circular to **AmRest** are, as stated under ''*Presentation of Financial and Other Information*'' and except where the context does not permit, to the Company and its consolidated subsidiaries and affiliates, taken as a whole.*

The Company

AmRest operates Kentucky Fried Chicken (**KFC**) and Pizza Hut franchised restaurants in Poland and the Czech Republic and a proprietary ''Ice*Land'' ice-cream brand in Poland. AmRest is a joint venture established in October 2000 between American Retail Concepts, Inc. (**ARC**) and a subsidiary of Yum! Brands Inc. (**Yum!**), formerly known as Tricon Global Restaurants, Inc. Yum! Restaurants International Switzerland, Sàrl, a subsidiary of Yum!, is also the current franchisor for AmRest of the KFC and Pizza Hut brands.

AmRest's 156 restaurants as at 28th February, 2005 and sales of PLN 463.2 million in 2004 make it the second largest chain of quick service restaurants, after McDonald's, and the largest chain of casual dining restaurants in Central and Eastern Europe (**C&EE**). AmRest is the only franchisee of KFC and Pizza Hut restaurants in both Poland and the Czech Republic with the exception of four restaurants franchised to Spolpep S.p. z o.o. (**Spolpep**) that are operated by AmRest in return for a management fee, see ''*Financial Review — Overview*''.

Prior to the creation of the joint venture, ARC had built its operations from one restaurant in 1993 to 40 restaurants through internal growth and, in 1998, the acquisition of the KFC franchise and six restaurants in the Czech Republic. At the time of the joint venture, ARC contributed these 40 restaurants whilst the Yum! group joint venture partner, Kentucky Fried Chicken Poland Holdings B.V. (**KFCPH**), contributed 35 single-sited restaurants in Poland plus an additional 14 combined KFC and Pizza Hut restaurants, in which both brands operate from a single building, known as **multi-branded restaurants**. Subsequently, towards the end of 2000, AmRest acquired and rebranded an additional 23 Polish restaurants from the operator of the Burger King franchise in Poland, see ''*The Company — History*'' below. By 31st December, 2004, AmRest employed approximately 4,900 staff.

Towards the end of 2001, AmRest, ARC and KFCPH recognised that AmRest needed additional capital. The two shareholders were, however, unable to agree on an appropriate way to provide this capital. As a result, AmRest's ability to expand and develop its business was adversely impacted. From the end of 2001, the parties worked to resolve their differences and this process culminated in the signing of a new development agreement between AmRest and KFC International Holdings, Inc. (**KFCIH**) and Pizza Hut International, L.L.C. (**PHI**) and the two shareholders agreeing certain amendments to their shareholders' agreement in September 2003, see ''*The Company — Material Agreements*'' below.

Going forward, AmRest seeks to expand its operations in three market segments (quick service, casual dining and delivery) in Poland and the Czech Republic, invest in other C&EE markets, and introduce a selected number of new restaurant concepts to the region. Under the terms of its franchise agreements, AmRest must obtain the consent of its franchisor to develop KFC and/or Pizza Hut restaurants outside Poland and the Czech Republic or to engage in another food-related business.

Strategy

AmRest aims to be the leading operator of quick service and casual dining restaurants in C&EE and its business strategy is based on expanding penetration within existing geographical territories and introducing new concepts, continuing to improve profitability and a commitment to customer satisfaction. See ''*The Company — Strategy*'' for a detailed discussion of this strategy.

The Offering

The Offering comprises 7,860,000 Offer Shares. The Offer Shares are being offered to the public in Poland and to institutional investors outside the United States by the Managers in accordance with Regulation S under the U.S. Securities Act of 1933, as amended (the **Securities Act**).

The Issuer will issue 3,500,000 New Shares and 4,360,000 Existing Shares are being sold by IRI.

The Offer Shares

Prior to the Offering, the issued share capital of the Company comprised 10,000,000 fully paid ordinary shares of nominal value €0.01 each. The Offer Shares will rank equally as to any dividend declared for the financial year ended 31st December, 2005 with the other Shares in issue and the New Shares will be identical in all respects with the other Shares in issue.

Sale Option

As part of the Offering, IRI has granted to the Managers an option, exercisable within a period of 30 days after the Closing Date, to sell to IRI up to a maximum of 900,000 Existing Shares, see "*Subscription, Purchase and Sale*".

Offer Price

The Offer Price of the Offer Shares is PLN 24. The public offer price for the Offer Shares in the Public Offering will be the same as the Offer Price in the Institutional Offering.

Use of Proceeds

The net proceeds of the New Shares, which are expected to amount to approximately PLN 78.6 million, are intended to be used by the Company in two ways. First, the Company will use the net proceeds to implement its strategy of expanding its business through the construction and/or acquisition of new KFC and Pizza Hut restaurants in Poland and the Czech Republic (including the acquisition of Big Food, if completed, see "*The Company — History*") and, possibly and subject to franchisor approval, in other countries and through the introduction of new brands and concepts in its existing territories (including the acquisition of CEFG, if completed, see "*The Company — History*"). Second, pending such investment, the Company will use the net proceeds to reduce its interest expense burden by repaying debt. Management of the Company believes that up to 40 per cent of the net proceeds received by the Company in the Offering may ultimately be used to repay existing borrowings. The Company will not receive any proceeds from the offering of the Existing Shares by the Selling Shareholder.

New Loan

The Company and certain of its subsidiaries entered into a PLN 110 million facility agreement on 4th April, 2005 under which, conditional, *inter alia*, upon completion of the Offering, up to PLN 100 million may be drawn to refinance existing indebtedness and up to PLN 30 million may be drawn to finance capital expenditure (subject to an overall borrowing limit of PLN 110 million), see "*The Company — Material Agreements — Loan Agreement*".

Dividends

The Offer Shares will be entitled to dividends to the same extent as the other Shares in issue and will be eligible to participate in the dividend (if any) declared in respect of the financial year ended 31st December, 2005. Payments of dividends will be subject to deduction of any applicable Dutch withholding tax, see "*Taxation*".

The payment and amount of any annual dividend on the Shares are approved by a resolution of the shareholders at a meeting of the General Assembly of shareholders. In addition, the Management Board, with the approval of the Supervisory Board, has the power to declare and pay interim dividends out of reserves.

The Company has not previously paid any dividends and does not expect to pay any dividends in the near future as profits generated by the business are expected to be used in the Company's expansion programme.

Voting Rights

Each Share confers the right to exercise one vote at general meetings of the shareholders.

Taxation

Cash distributions, including dividends, paid with respect to the Shares to any non-Dutch holder of Shares are generally subject to Dutch dividend withholding tax at a rate of 25 per cent although this rate may be reduced for non-Dutch residents by application of an applicable double tax treaty. There are no Dutch capital gains taxes levied on gains made by non-Dutch investors on any resale of the Shares provided that certain conditions are met. There are no Dutch stamp duties charged on transfers of the Shares, see "*Taxation*".

Lock-up

Pursuant to the Subscription Agreement, the Company, ARC and certain members of senior management of AmRest have agreed with the Managers that, subject to certain restrictions, they will not directly or indirectly offer or sell any Offer Shares (or securities convertible into Offer Shares) for a period of one year after the Offering without the prior written consent of CA IB Securities Limited. See "*Subscription, Purchase and Sale*".

Listings and Market for the Shares

Prior to the Offering, there has been no market for the Shares. The Shares have been admitted to public trading by the Polish Securities and Exchange Commission and are expected to be admitted for listing on the main market of the Warsaw Stock Exchange not later than 15th May, 2005.

Settlement and Delivery

Payment for the Offer Shares will be in złoty. The Offer Shares are expected to be accepted for clearance through the facilities of the Polish Central Securities Depository. It is expected that payment for the Offer Shares and delivery of the Offer Shares to securities accounts of institutional investors will be made on or about 26th April, 2005. See "*Subscription, Purchase and Sale — Settlement and Delivery*".

The ISIN for the Offer Shares is NL0000474351.

Risk Factors

Prior to making an investment decision, prospective investors should consider carefully the matters discussed under "*Risk Factors*".

Summary Financial Information

The summary financial information set out below has been derived from, and should be read in conjunction with, the Company's audited consolidated financial statements as at, and for the years ended, 31st December, 2001, 2002 and 2003 and 2004, including the respective notes thereto. The Consolidated Financial Statements (which are set out in full under "*Financial Information*" at the end of this Offering Circular) have been prepared in accordance with IFRS and have been reported on by KPMG Audyt Sp. z o.o.

The following table sets out the consolidated profit and loss account of the Company for the years ended 31st December, 2001, 2002, 2003 and 2004.

	Year ended 31st December,			
	2001	**2002**	**2003**	**2004**
	(PLN millions, except ratios which are percentages)			
Restaurant sales	**353.7**	**383.7**	**430.8**	**463.2**
Cost of food	(124.4)	(136.7)	(153.4)	(159.1)
Direct marketing expenses	(18.9)	(19.8)	(21.2)	(22.9)
Direct depreciation and amortisation expenses	(26.1)	(28.8)	(30.6)	(30.2)
Payroll and employee benefits	(66.5)	(68.3)	(75.2)	(82.9)
Continuing franchise fees	(21.1)	(22.9)	(25.7)	(27.6)
Occupancy and other operating expenses	(61.2)	(66.2)	(73.6)	(81.9)
Total restaurant expenses	**(318.1)**	**(342.8)**	**(379.8)**	**(404.7)**
Gross profit on sales	**35.6**	**40.9**	**51.0**	**58.5**
General and administrative (G&A) expenses	(36.3)	(41.4)	(38.6)	(41.1)
Depreciation and amortisation expense (G&A)	(2.2)	(2.2)	(1.9)	(1.7)
Other operating income/(expense), net	8.2	8.5	5.1	5.4
Gain/(loss) on the disposal of fixed assets	(2.0)	(2.1)	(0.1)	0.3
Impairment losses	(5.0)	—	(7.1)	(2.4)
Goodwill and negative goodwill amortisation	(1.0)	1.2	0.2	0.8
Profit from operations	**(2.6)**	**4.9**	**8.6**	**19.8**
Net financing costs	(19.8)	(22.5)	(16.1)	(6.0)
Net profit/(loss) before tax	**(22.3)**	**(17.6)**	**(7.5)**	**13.9**
Income tax expense	(2.4)	(3.2)	(3.9)	(1.8)
Minority interest[1]	—	—	—	—
Net profit/(loss) for the year	**(24.7)**	**(20.8)**	**(11.3)**	**12.0**

Notes:

(1) Minority interest, which arose for the first time in 2004, was PLN 36,000 in that year.

(2) The net loss per Share was PLN 2.47 in 2001, PLN 2.08 in 2002 and PLN 1.13 in 2003 (see note 23 to the Initial Financial Statements included at the end of this Offering Circular). The net profit per Share was PLN 1.20 in 2004 (see note 23 to the 2004 Financial Statements included at the end of this Offering Circular). All numbers have been adjusted to reflect the 100 for 1 stock split which took place on 30th September, 2004

The following table sets out the balance sheet of the Company as at 31st December, 2001, 2002, 2003 and 2004.

	As at 31st December,			
	2001	2002	2003	2004
	(PLN millions)			
Property, plant and equipment, net	180.6	183.4	174.6	168.8
Intangible assets	6.6	7.7	7.5	6.9
Goodwill/(negative goodwill), net	(6.2)	(3.7)	(3.5)	(4.5)
Investments	0.1	0.5	0.3	0.7
Other non-current assets	0.6	1.6	4.8*	5.0
Deferred tax assets	1.8	1.5	2.2	3.9
Total non-current assets	**183.4**	**191.1**	**185.9***	**180.7**
Investments	0.1	0.6	0.6	—
Inventory	5.4	7.7	6.4	5.8
Trade and other receivables	8.4	10.4	12.7	10.6
Other current assets	5.6	5.8	6.2*	5.6
Cash and cash equivalents	7.6	7.3	8.6	11.5
Total current assets	**27.2**	**31.9**	**34.4***	**34.6**
Total assets	**210.6**	**223.0**	**220.4**	**214.4**
Issued capital	0.4	0.4	0.4	0.4
Share premium	132.4	132.4	136.6	138.8
Retained deficit	(75.5)	(100.2)	(121.0)	(132.4)
Current year net loss	(24.7)	(20.8)	(11.3)	12.0
Cumulative translation adjustment	0.7	4.1	3.4	0.1
Total equity	**33.2**	**15.8**	**8.0**	**19.0**
Minority interest(1)	—	—	—	—
Interest-bearing loans and borrowings	33.1	33.7	26.0	20.7
Employee benefits	1.0	1.0	1.0	1.8
Other non-current liabilities(2)	—	—	—	—
Deferred tax liabilities	0.1	0.4	—	—
Total non-current liabilities	**34.1**	**35.1**	**27.1**	**22.5**
Interest-bearing loans and borrowings	71.2	105.6	125.7	119.1
Trade and other accounts payable	64.0	63.2	52.9	52.3
Income tax payable	—	2.1	3.7	—
Provisions	8.0	1.1	3.1	1.5
Total current liabilities	**143.3**	**172.0**	**185.3**	**172.9**
Total liabilities	**177.4**	**207.1**	**212.4**	**195.4**
Total equity and liabilities	**210.6**	**223.0**	**220.4**	**214.4**

Notes:

* Certain items were re-classified, for comparative purposes, from other current assets to other non-current assets in the 2003 presentation to conform to the 2004 presentation as set out in the 2004 Financial Statements. Accordingly, the numbers for 2002 and 2001 are not directly comparable.

(1) Minority interest, which arose for the first time in 2004, was PLN 36,000 in that year.

(2) Other non-current liabilities were less than PLN 50,000 in each year.

The following table sets out summary cash flow statements of the Company for the four years ending 31st December, 2001, 2002, 2003 and 2004.

	Year ended 31st December,			
	2001	2002	2003	2004
	(PLN millions)			
Net cash provided by operating activities	26.4	9.3	17.3	29.1
Net cash used in investing activities	(39.0)	(37.4)	(30.7)	(26.0)
Net cash provided by financing activities	13.8	27.6	14.0	0.1
Cash and cash equivalents at end of period	7.6	7.3	8.6	11.5

The following table sets out certain ratios of the Company as at, or for the years ending, 31st December, 2001, 2002, 2003 and 2004.

	As at/year ending 31st December,			
	2001	2002	2003	2004
Profitability Ratios				
EBITDA[(1)] (PLN millions)	31.7	34.6	48.0	53.3
Gross profit margin[(2)]	10.1%	10.7%	11.8%	12.6%
EBITDA margin[(3)]	9.0%	9.0%	11.1%	11.5%
Operating margin[(4)]	(0.7)%	1.3%	2.0%	4.3%
Net margin[(5)]	(7.0)%	(5.4)%	(2.6)%	2.6%
Return on assets[(6)]	(12.0)%	(9.6)%	(5.1)%	5.5%
Return on equity[(7)]	(53.7)%	(84.9)%	(95.0)%	88.9%
Working Capital Ratios				
Average collection period (days)[(8)]	17.15	8.84	9.64	9.05
Average payment period (days)[(9)]	61.42	43.15	31.63	22.50
Inventory turnover[(10)]	76.56	58.27	60.98	75.77
Debt Service Ratios[(11)]				
Long-term debt (PLN millions)	33.1	33.7	26.0	20.7
Interest expense (PLN millions)	13.1	13.3	9.0	8.3
Interest bearing debt/total equity	3.14	8.80	19.07	7.37
Total liabilities/total equity	5.34	13.07	26.70	10.30
Long-term debt/total assets	0.16	0.15	0.12	0.10
EBITDA/interest expense	2.41	2.60	5.33	6.42
Total liabilities/EBITDA	5.60	5.98	4.42	3.66
Interest bearing debt/EBITDA	3.29	4.02	3.16	2.62
Financial Liquidity Ratios				
Current ratio[(12)]	0.19	0.19	0.19	0.19
Quick ratio[(13)]	0.15	0.14	0.15	0.16
Cash ratio[(14)]	0.05	0.04	0.05	0.07

Notes:

(1) Profit/(loss) from operations adjusted for depreciation, impairment losses and goodwill amortisation. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of net profit/(loss), as an indicator of operating performance, as a measure of cash flow operations under IFRS or as an indicator of liquidity. EBITDA is not a uniform or standardised measure and the calculation of EBITDA, accordingly, may vary significantly from company to company and, by itself, this presentation and calculation of EBITDA may not be comparable to that of other companies.

(2) Gross profit divided by restaurant sales and expressed as a percentage.

(3) EBITDA divided by restaurant sales and expressed as a percentage.

(4) Profit (loss) from operations divided by restaurant sales and expressed as a percentage.

(5) Net loss divided by restaurant sales and expressed as a percentage.

(6) Net loss divided by average total assets (i.e. prior year total assets plus current year total assets divided by two) and expressed as a percentage. Total assets at 31st December, 2000 was PLN 201.4 million.

(7) Net loss divided by average equity (i.e. prior year equity plus current year equity divided by two) expressed as a percentage. Equity at 31st December, 2000 was PLN 58.8 million.

(8) Average trade accounts receivable (i.e. prior year trade accounts receivable plus current year trade accounts receivable divided by two) divided by restaurant sales and multiplied by 360 days. Trade accounts receivable at 31st December, 2000 was PLN 25.3 million.

(9) Average trade accounts payable (i.e. prior year trade accounts payable plus current year trade accounts payable divided by two) divided by restaurant sales and multiplied by 360 days. Trade accounts payable at 31st December, 2000 was PLN 73.2 million.

(10) Restaurant sales divided by average inventory turnover (i.e. prior year inventory plus current year inventory divided by two). Inventory at 31st December, 2000 was PLN 3.8 million.

(11) AmRest did not have any non-interest bearing debt as at the dates identified above. Total equity when calculated for debt service ratios includes issued capital, share premium, retained deficit, current year net loss and cumulative translation adjustments.

(12) Current assets divided by current liabilities.

(13) Current assets minus inventory divided by current liabilities.

(14) Cash divided by current liabilities.

RISK FACTORS

Summarised below are a number of risks associated with an investment in AmRest and investments in securities such as the Offer Shares. The attention of potential investors is drawn to these risks which should be carefully considered in connection with any decision to purchase Offer Shares. The risks and uncertainties described below are not the only ones facing AmRest and its businesses. Additional risks and uncertainties not currently known to AmRest or that AmRest currently deems to be immaterial may also materially and adversely affect AmRest's business, financial condition or results of operations. If any of the following risks actually occurs, AmRest's business, financial condition or results of operations could be materially adversely affected. In that case, the price of the Offer Shares could decline, and investors may lose all or part of their original investment.

Risks related to the Quick Service Restaurant Industry generally

The nature of the quick service restaurant industry

AmRest's performance is subject to a number of factors that affect the restaurant industry generally and the quick service segment of the industry in particular, including:

- competition with respect to price, service, location and food quality;
- changes in demographic trends, traffic patterns and the type, number and location of competing restaurants;
- health concerns and litigation in relation to health issues;
- changes in government legislation and regulation affecting restaurants and restaurant employees; and
- changing general economic conditions and changes in consumer confidence, disposable income and discretionary spending patterns.

Adverse changes in any one or more of these factors could reduce customer transactions at AmRest's restaurants, impose limits on pricing or cause AmRest to incur additional expenditure in modifying its concepts or restaurants, any or all of which could adversely affect AmRest's business and the results of its operations.

Competition

AmRest operates in three distinct market segments (quick service, casual dining and delivery) and faces competition in each of them. If AmRest is unable to compete successfully in any of these segments, this could adversely affect AmRest's business and the results of its operations. Even if AmRest is able to compete successfully, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If AmRest changes a restaurant's concept, it may lose customers who do not like the new concept and menu, and it may not be able to attract a sufficiently large new customer base to offset such losses. In addition, AmRest may be adversely affected should any of its competitors change their concepts or pricing to compete more directly with AmRest or the products offered by AmRest.

Government regulation

AmRest is subject to various laws and regulations affecting its business. Each of its restaurants is subject to licensing and regulation by a number of governmental authorities, which may include alcoholic beverage controls, smoking laws, health and safety measures, disability access requirements and fire safety requirements. Difficulties in obtaining, or any failure to obtain, the required licenses or approvals, or the loss thereof, could adversely affect AmRest's business and the results of its operations.

Various bodies have the power to conduct inspections of AmRest's restaurants and to close down any restaurants which fail to comply with the regulations. AmRest is also liable under relevant legislation for any damage caused through its serving food of inappropriate quality. To date, AmRest has not experienced any claims based on these laws, although no assurance can be given that this will remain the case in the future.

Poland and the Czech Republic acceded to the European Union on 1st May, 2004. Such accession may subject AmRest to additional regulatory requirements and result in increased costs which could adversely affect AmRest's business and the results of its operations.

AmRest is subject to employment and labour laws governing such matters as minimum wage levels and working conditions. Significant numbers of AmRest's food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, any increase in the minimum wage would increase AmRest's labour costs and could adversely affect AmRest's business and the results of its operations.

Potential litigation and other complaints

AmRest or its competitors may be the subject of complaints or litigation from customers alleging food related illness, injuries suffered on AmRest's or its competitors' premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may materially affect sales revenues generated by AmRest restaurants, regardless of whether such allegations are true or whether AmRest or one of its competitors is ultimately held liable. In addition, due to the nature of its business, AmRest may be subject to litigation. Quick service restaurant chains in the United States, for example, have been the subject of class action suits concerning obesity, and there can be no assurance that AmRest will not be subject to similar claims in Poland, the Czech Republic or any new market which it may enter in the future. All litigation is expensive, time consuming and may divert management's attention away from the operation of the business. In addition, AmRest cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims.

In addition, other litigation including but not limited to disputes with its landlords or employee claims based on, among other things, discrimination, harassment or wrongful termination may divert financial and management resources that would otherwise be used to benefit the future performance of AmRest's operations.

Health concerns relating to the consumption of chicken or other food products

Consumer preferences could be affected by health concerns about the consumption of chicken, the key ingredient in KFC menu items, or negative publicity concerning food quality, illness and injury generally, publication of government or industry findings concerning food products served by AmRest or other KFC and Pizza Hut franchisees, or other health concerns or operating issues stemming from one restaurant or a limited number of restaurants, whether operated by AmRest or its competitors. This negative publicity may adversely affect demand for AmRest's products and could result in a decrease in customers at its restaurants. A decrease in customers as a result of health concerns or negative publicity could adversely affect AmRest's business and the results of its operations.

Economic and political factors relating to Poland and the Czech Republic may affect AmRest

AmRest's revenues and costs are dependent on a variety of factors influenced by the economies of the countries in which it operates as a whole as well as by regional economies within those countries. These factors include, among others, increases or decreases in gross domestic product, inflation, unemployment, tax rates and the size and demographic characteristics of the population. Any future adverse developments in any one or more of these factors could affect AmRest's business and the results of its operations.

Risk Factors relating to AmRest

AmRest's growth strategy depends on opening new restaurants but may be influenced by factors beyond its control

AmRest intends to pursue an accelerated but disciplined growth strategy which, to be successful, will depend in large part on its ability to open new KFC and Pizza Hut restaurants and to operate these restaurants on a profitable basis and its ability successfully to introduce new concepts in its existing markets. AmRest anticipates that each new restaurant will generally take several months from its opening to reach planned operating levels due to inefficiencies typically associated with new restaurants, including lack of market awareness, the need to hire and train sufficient staff and other factors. AmRest cannot guarantee that it will be able to achieve its expansion goals or that new restaurants will be operated profitably. Further, AmRest cannot guarantee that any restaurant it opens will obtain operating results similar to those of its existing restaurants. The success of the planned expansion will depend upon numerous factors, many of which are beyond AmRest's control, including the following:

- its ability to identify and secure available and suitable restaurant sites;
- its ability to secure required governmental approvals and permits in a timely manner;
- competition for restaurant sites and in its markets generally;
- its ability to negotiate acceptable lease terms;
- its ability to manage the construction and development costs of new restaurants;
- its ability to hire, train and retain qualified operating personnel, especially managers;
- delays in the timely development of new restaurants;

- the fact that new restaurant development is subject to the approval of its franchisor; and
- general economic conditions.

Ability to locate and secure acceptable restaurant sites

The success of AmRest's KFC and Pizza Hut restaurants is significantly influenced by location. There can be no assurance that current locations will continue to be attractive or that AmRest will be able to identify and secure additional locations as demographic patterns change. It is possible that current locations may become less attractive or be affected by adverse economic conditions or other factors, potentially resulting in reduced sales in those locations. There can also be no assurance that future sites will produce results the same as or better than existing sites.

AmRest's areas of highest concentration are Warsaw and Prague. In accordance with its expansion strategy, AmRest intends to open new restaurants in these and other cities. As AmRest increases the number of its restaurants in any area it is possible that new restaurants may attract customers who would have been customers of other AmRest restaurants within the area.

AmRest's strategy includes potential expansion into new geographical markets, see "*The Company — Strategy*". Any such expansion will require the approval of its franchisor and there can be no assurance that such approval will be obtained. New restaurants opened as part of such expansion may be located in markets where AmRest has little or no past experience. Those areas or markets may have different competitive conditions, consumer tastes and discretionary spending patterns from AmRest's existing markets, which may cause the new restaurants to be less successful than restaurants in existing markets.

Ability to introduce new concepts

AmRest intends to try to introduce a limited number of new concepts in its existing geographical markets and, in this respect, has signed a non-binding letter of intent with Applebee's International, Inc. (**Applebee's**) to be the exclusive developer for Poland and the Czech Republic of Applebee's Neighborhood Grill and Bar restaurants. Any agreement with Applebee's is conditional on the Offering taking place and is subject to the approval of AmRest's franchisor, see "*Material Agreements — Franchise Agreements*". There can be no assurance that this franchisor approval will be obtained or that AmRest will enter into any agreement with Applebee's or that, if an agreement is entered into, AmRest will be successful in introducing this concept in Poland and/or the Czech Republic in the near term or at all. Successfully establishing a new concept in Poland and/or the Czech Republic may take many years and utilise resources that could have been more profitably expended on other parts of the business in the near term.

Expansion may strain AmRest's infrastructure and other resources

AmRest faces the risk that its existing systems and procedures, restaurant management systems, financial controls, information systems, management resources and human resources will be inadequate to support its planned expansion of restaurants. AmRest may not be able to respond on a timely basis to all of the changing demands that its planned expansion will impose on its infrastructure and other resources. If it fails to continue to improve its infrastructure or to manage other factors necessary for it to achieve its expansion objectives, AmRest's results of operations and business could be adversely affected.

Historic Losses

AmRest incurred net losses of PLN 11.3 million, PLN 20.8 million and PLN 24.7 million for the years ended 31st December, 2003, 2002, and 2001, respectively. For the year ended 31st December, 2004, AmRest's net profit was PLN 12.0 million. There can be no assurance that AmRest will continue to make a profit in future years.

As a result of its historic losses, AmRest had net equity of only PLN 19.0 million at 31st December, 2004. AmRest had a working capital deficit of PLN 139.3 million at 31st December, 2004.

AmRest is dependent on its franchisor

AmRest operates its KFC and Pizza Hut restaurants as a franchisee and therefore many factors and decisions in its business are subject to franchisor restrictions, specifications or approval. As a result of the nature of

franchising and its franchise agreements with its franchisor (together, the **Franchise Agreements**), the long-term success of AmRest will depend, to a significant extent, on:

- the continued vitality of the KFC and Pizza Hut concepts and the overall success of the franchise system;
- the ability of AmRest and its franchisor to identify and react to new trends in the restaurant industry, including the development of popular menu items;
- the ability of AmRest and its franchisor to develop and pursue appropriate marketing strategies in order to maintain and enhance the name recognition, reputation and market perception of KFC and Pizza Hut restaurants and to introduce and develop new products;
- the goodwill associated with the KFC and Pizza Hut trademarks;
- the quality, consistency and management of the franchisor's overall systems; and
- a continued cooperative franchise relationship with its franchisor.

AmRest's business is governed by the Franchise Agreements. The Franchise Agreements require AmRest to comply with a comprehensive set of terms and conditions, see "*Principal Agreements — The Franchise Agreement*". Franchise agreements by their nature contain terms and conditions that are prescriptive. Moreover, the success of a franchise significantly depends on the relationship between the franchisor and the franchisee. While every effort is expected to be made to ensure a positive relationship between AmRest and its franchisor, there is no assurance that events or circumstances in the future may not adversely affect that relationship or that its franchisor will not enforce its contractual rights under the Franchise Agreements in a manner that is adverse to AmRest.

Each Franchise Agreement (the earliest of which commenced in 2000) has a term of ten years, renewable at AmRest's option for a further ten years, provided that AmRest remains in compliance with the terms of the Franchise Agreement and satisfies certain other conditions, including payment of the applicable renewal fee. Notwithstanding compliance, there is no guarantee that any Franchise Agreement will be renewed for any further term following the initial two terms.

Compliance with Franchise Agreements and Development Agreement

AmRest's business is also governed by a development agreement with KFCIH and PHI (the **Development Agreement**). The Development Agreement requires AmRest to develop a specified number of new restaurants each year.

There can be no assurance that AmRest will not be in default under any of the Franchise Agreements or the Development Agreement, or that such a default will not adversely affect AmRest. There can be no assurance that AmRest will be able to open and operate restaurants in accordance with its contractual requirements. In the event that AmRest is unable to open restaurants in accordance with the provisions of the Development Agreement, AmRest is likely to seek a modification or extension of such agreement. There can be no assurance that any such modification or extension will be agreed. In addition, AmRest's ability to open individual restaurants pursuant to the Development Agreement is dependent on its franchisor's approval of the site for each new restaurant. The franchisor may terminate the Franchise Agreements upon the occurrence of certain events. Any delay in receiving, or denial of, approval of a proposed restaurant site, any failure to secure agreement for amendment of the Development Agreement, or any termination of a Franchise Agreement, could adversely affect AmRest's business and the results of its operations.

Lack of exclusivity

AmRest's Franchise Agreements do not grant AmRest any exclusive territory, protection or other right in the contiguous space, area or market of any AmRest restaurants. Pursuant to the terms of the Franchise Agreements, the franchisor reserves the right to use, and to grant to other parties the right to use, all rights associated with the concepts, the system property and the associated trademarks, system and system property associated with the operation of the concepts in any manner and at any other locations. Under the Development Agreement, however, provided that AmRest is in compliance with its obligations under that agreement, AmRest has a right of first refusal in relation to any new KFC or Pizza Hut restaurant in Poland and the Czech Republic proposed to be developed by the franchisor or in respect of which the franchisor proposes to grant franchise rights.

Controlling shareholder

Following completion of the Offering, ARC, through IRI, will continue to own over 30 per cent of the issued share capital of AmRest and accordingly may be in a position to control the outcome of all votes at a general meeting of shareholders requiring only a simple majority to be passed and will be able to prevent any vote requiring a higher majority from being passed.

As a result, ARC will have significant influence over any decision by AmRest to enter into any corporate transaction and will have the ability to prevent any transaction that requires shareholder approval regardless of whether or not other shareholders believe that the transaction is in their own best interests. This concentration of voting power might have the effect of delaying, deterring, or preventing a change of control or other business combination that might otherwise be beneficial to shareholders.

Changes in food availability and costs

AmRest's profitability depends in part on its ability to anticipate and react to changes in the cost of its supplies. Although AmRest negotiates the majority of its supply contracts, it relies on a single distributor in each of Poland and the Czech Republic to meet its distribution needs. Any failure to perform by either distributor could cause significant short-term disruption in AmRest's supply chain which could adversely affect AmRest's business and the results of its operations.

Dependence on frequent deliveries of fresh produce and groceries subjects food service businesses to the risk that shortages or interruptions in supply, caused by factors such as adverse weather conditions, changes in governmental regulation and recalls of food products, could adversely affect the availability, quality and cost of ingredients. In 2004, chicken represented approximately 26.7 per cent of AmRest's total cost of supplies. No other category exceeded 10 per cent, although paper and packaging (7.5 per cent), cold beverages (7.5 per cent), vegetables (6.4 per cent), cheese (5.9 per cent), buns and certain other KFC Poland items (5.2 per cent) and French fries (5.0 per cent) were all significant products. Increases in the cost of these or other important products could significantly increase AmRest's restaurant expenses although AmRest seeks to mitigate this exposure, where possible, by agreeing contracts with terms generally of between four months and one year. AmRest cannot, however, predict whether it will be able in all circumstances to anticipate and react to changing costs by adjusting its purchasing practices and menu prices, and a failure in any case to do so could adversely affect its business and the results of its operations. In addition, because it operates in price sensitive markets, AmRest may not be able to fully pass on price increases to its customers.

Product development

Product development is an important factor in generating increases in sales. AmRest intends to continue to develop new products and to introduce new products developed by Yum! group companies. However, these products will not necessarily be successful in existing and new markets. The inability of AmRest to successfully introduce new products into existing and new markets could have a material adverse effect on its results of operations and business.

Leases and lease renewal

Almost all of AmRest's restaurants are on property which is leased. The majority of leases are long-term, with the average term being approximately 17 years from the date of grant (assuming the exercise of all renewal options with defined terms and excluding leases which renew periodically until terminated or which have no defined end date). The leases often provide for a right of renewal, provided that AmRest remains in compliance with the terms of the lease. Notwithstanding compliance, there is no guarantee that AmRest will be able to renew these leases on commercially acceptable terms. If AmRest is unable to do so, the potential loss of prime restaurant locations could have an adverse effect on AmRest's results of operations and business. In addition, in certain circumstances AmRest may wish to close a restaurant but will be unable to terminate the associated lease cost-effectively which could also have an adverse effect on AmRest's business and the results of its operations. Closure of any restaurant is subject to franchisor approval and there can be no assurance that any such approval will be obtained.

AmRest's dependence on key personnel

The success of AmRest depends largely upon the personal efforts of a small group of employees and senior management. Although AmRest believes it will be able to replace its key employees within a reasonable time

should the need arise, the loss of key personnel could have a short-term adverse effect on AmRest's business and the results of its operations.

Intellectual Property

The ability of AmRest to maintain or increase its operating results will depend on its ability to maintain "brand identity" through the use of the KFC and Pizza Hut brands licensed from its franchisor and any significant other brands which it obtains or develops itself in the future. If the franchisor fails to enforce or maintain any of its intellectual property rights, or AmRest is otherwise unable to ensure protection of these brands, AmRest may be unable to capitalise on its efforts to establish and maintain brand identity.

All registered trade marks and other intellectual property rights can be challenged. If a franchisor's rights to the KFC or Pizza Hut brands, or if the rights to any other significant brand franchised to or developed by AmRest, are ever successfully challenged, this may have an adverse impact on AmRest's business and the results of its operations.

Third parties may use such trade marks and other intellectual property rights in Poland and the Czech Republic, and other jurisdictions, in a manner that diminishes the value of such trade marks and other intellectual property rights. If this occurs, the value of the intellectual property rights may suffer and the results of operations and business of AmRest could be adversely affected. Similarly, negative publicity or events associated with the KFC and Pizza Hut brands and other relevant intellectual property rights in another jurisdiction may negatively affect the image and reputation of AmRest restaurants in Poland and the Czech Republic, resulting in an adverse effect on AmRest's business and the results of its operations.

Absence of operating history as a public company

AmRest became a public company in Poland on 23rd February, 2005. Accordingly, although management has experience in the industry, it has limited experience operating AmRest as a public company. To operate effectively, AmRest will be required to continue to implement changes in certain aspects of its business, improve and expand its information systems and develop, manage and train management level and other employees to comply with on-going public company requirements. Failure to take such actions, or delay in the implementation thereof, could adversely affect AmRest's business and the results of its operations. See also "— *Potential liability of certain directors*".

AmRest's ability to raise capital in the future may be limited

Changes in AmRest's operating plans, acceleration of its expansion plans, lower than anticipated sales, increased expenses or other events, including those described in this section, may cause it to need to seek additional debt or equity financing on an accelerated basis. Financing may not be available on commercially acceptable terms, or at all, and a failure to raise capital when needed could negatively impact AmRest's growth and other plans as well as its financial condition and results of operations. Additional equity financing may be dilutive to the holders of AmRest's shares and debt financing, if available, may involve significant cash payment obligations and covenants and/or financial ratios that restrict AmRest's ability to operate its business.

Restrictions imposed by lenders

On 4th April, 2005, AmRest, AmRest Poland and American Restaurants s.r.o. (the **Obligors**) entered into a PLN 110 million facility agreement under which, *inter alia*, up to PLN 100 million may be drawn to refinance existing indebtedness which, at 31st December, 2004, amounted to approximately PLN 140 million. Drawdowns under the facility are subject to a number of conditions precedent including completion of the Offering. AmRest intends, following completion of the Offering, to repay or refinance substantially all of its existing debt using a part of the proceeds of the Offering and drawings under this facility, see "*The Company — Material Agreements — Loan Agreement*".

Under the Facility Agreement, each of the Obligors has covenanted to observe certain restrictions on their ability to borrow money, incur capital expenditure, grant security and dispose of assets and has also covenanted to comply with certain financial ratio tests. It is possible that these covenants could materially impair AmRest's ability to run its business in the future and any failure to comply with the covenants could cause an acceleration of any loans granted under the facility which in turn could have a material adverse affect on the financial condition and results of operations of AmRest.

Uninsured and underinsured losses

AmRest will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on its assets at a commercially reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of its assets.

Taxation

There is a risk that future changes in the tax regulations in Poland, the Czech Republic and The Netherlands or in double taxation treaties or the interpretation of regulations by tax authorities may seriously affect the taxation of individual companies, cash flows between them and the payment of dividends by them.

In particular, the Polish tax system is characterised by frequent changes in regulation, many of which may be subject to frequent changes in interpretation. Additionally, future interpretations of the new tax laws introduced on 1st May, 2004 following Poland's accession to the European Union can not be foreseen at present. Due to these uncertainties, the risk that AmRest's operations in Poland may be deemed to violate tax regulations is greater than in the case of an entity operating in more stable tax systems. Moreover, Polish tax law does not adequately set out formal procedures regulating the imposition of tax obligations in a given period of time. Tax returns and payments made can be inspected by tax authorities once or many times over a period of five years. Should tax offices adopt a different interpretation of the existing tax regulations, such a situation could have a material adverse impact on AmRest's business and the results of its operations.

According to the provisions of the Polish corporate income tax law, in the case of transactions between related parties the arm's length principle should be met. If the conditions of a transaction between related parties differs from market conditions and the parties are unable to prove that such differences are justified, the Polish tax authorities may challenge the prices set in such transaction and assess additional taxable income. Accordingly, there is a risk that the Polish tax authorities may determine additional taxable income for American Restaurants Sp. z o.o. (**AmRest Poland**), which is the operating company which carries on AmRest's Polish business, resulting from related party transactions entered into by it. This may result in tax being assessed at the rate of 50 per cent on the difference between the taxable income assessed by the tax authorities and the taxable income declared by AmRest Poland. Additionally, AmRest Poland may be obliged to pay default interest accrued on any tax arrears. As discussed under "*Financial Review*", AmRest Poland currently has tax losses which will be available to offset any such additional tax assessed.

The Czech Republic acceded to full membership of the European Union on 1st May, 2004. In this respect and from this date significant changes to Czech tax legislation came into force. Czech tax legislation is generally characterised by frequent amendments and changes which may have an impact on the tax position and cash flow situation of Czech tax resident companies. Although Czech tax law is now to a large extent harmonised with EU tax law principles, other and further amendments are either currently being, or will be shortly, debated in the Czech Parliament. Future interpretation of the new tax laws by the relevant tax authorities cannot therefore be foreseen at present.

Czech corporate income tax law also has provisions requiring arm's-length dealings between related parties. It is possible that the Czech tax authorities may assess additional tax to be payable by American Restaurants s.r.o. in relation to certain loans entered into by it and its related parties although the amount of any such additional tax assessment is unlikely to be material.

Possible liability of certain members of the Supervisory Board

The unadopted annual accounts of AmRest for the financial years 2002 and 2001 (including a small period in 2000 from the date of AmRest's incorporation) were filed with the commercial register maintained by the Chamber of Commerce and Industry in Amsterdam on 30th January, 2004 and 30th January, 2003, respectively. These unadopted accounts were, however, not compliant with Dutch law as they were not consolidated or audited and failed to provide a true and fair view of AmRest's assets and liabilities. AmRest has since remedied the irregularities described above by submitting consolidated and audited financial statements. This failure to comply with Dutch law could render AmRest and the directors of AmRest at the relevant time, who are now Supervisory Board members, liable to civil and criminal penalties.

Market risks

The principal market risks to which AmRest is subject are currency and interest rate risk as well as the risk of changes in market prices for its products. These risks are discussed under "*Financial Review — Market Risks*" below.

Risk Factors relating to the Offering

Restrictions on acquisitions of shares and voting rights

Under both Dutch and Polish law, there are certain restrictions on, and reporting requirements arising from, the purchase and/or disposal of AmRest's shares in excess of certain prescribed percentage levels, including the obligation to notify and, in certain cases to obtain the approval of, relevant regulatory bodies, including the Dutch Authority for Financial Markets and the Polish Securities and Exchange Commission. Non-compliance with these provisions can lead to the loss of voting rights and, in certain cases, the imposition of financial penalties.

AmRest has agreed with its franchisor that any shareholder who acquires 20 per cent or more of AmRest's shares will be required to execute a standard international guarantee in favour of the franchisor. AmRest is in the process of amending its Articles of Association to include this requirement.

These provisions may have the effect of delaying or preventing a change of control of AmRest. See "*Description of the Shares — Notification Requirements*" and "*Polish Securities Market Rules and Regulations — Notification, Approval and Tender Obligations*."

The market price of the Shares may be volatile

Prior to the Offering, there has been no public market for the Shares in Poland and there can be no assurance that an active market will develop or be maintained after the Offering. The initial offering price of the Offer Shares in the Offering may not be indicative of the price at which the Shares will trade in the public market after the Offering. AmRest believes that the market price of Shares may be subject to wide fluctuations in response to numerous factors, including the operating results of AmRest, changes in investor perceptions of AmRest, developments in the Polish securities market, factors affecting the quick service and casual dining restaurant markets in Poland, the Czech Republic and any other market in which AmRest may operate, the depth and liquidity of the market for the Shares, changes in foreign exchange rates and inflation and changes in actual or forecast global, regional or Polish and Czech political and/or economic conditions.

The Polish equity market is less liquid than the equity market in other major capital markets, and prices in the Polish securities market have been more volatile than in many other markets. Furthermore, the market for securities issued by companies with Polish operations is influenced by world-wide economic and market conditions and movements on global securities markets. Although the Warsaw Stock Exchange regulations contain certain mechanisms to reduce price volatility of listed shares, there can be no assurance that future volatility in the Polish economy and the international financial markets will not have a material adverse effect on the market for or the market price of the Shares. See "*Polish Securities Market Rules and Regulations*."

Shares eligible for future sale may have an adverse effect on future market prices

Although AmRest can make no prediction as to the effect, if any, that any sales of its Shares would have on the market price prevailing from time to time, issuance or sales of a substantial number of Shares in the public market following the Offering, or the perception that such issuance or sale may occur, could have a material adverse effect on the market price of the Shares. Upon completion of the Offering, AmRest will have in issue up to 15 million Shares, which are expected to be listed and freely transferable on the Warsaw Stock Exchange. Some of the Shares will be subject to lock-up arrangements, although approximately 60 per cent of the total Shares in issue following the Offering are expected not to be subject to lock-up arrangements. The lock-up arrangements may be waived in the sole discretion of CA IB Securities Limited and any such waiver could result in significant sales of Shares, which may have an adverse effect on the market price of the Shares.

IRI will, pursuant to a pledge agreement expected to be dated on or around the Closing Date, pledge 2,500,000 Shares as security for a promissory note issued by ARC, see "*Principal and Selling Shareholder*". If ARC were to default under the promissory note or were to be perceived by the market as likely to default, the resulting market perception that a significant shareholding in AmRest could be sold might have an adverse effect on the market price of the Shares.

The Warsaw Stock Exchange may suspend the trading of Offer Shares

The Warsaw Stock Exchange may suspend trading of Offer Shares if AmRest is in breach of the regulations of the Exchange concerning the disclosure of information and in other cases stipulated in the rules and regulations of the Warsaw Stock Exchange. AmRest can give no assurance that this will not occur.

Revocation of a decision regarding the admission of the Shares into public trading in Poland could occur

In the event that an issuer of securities which are admitted into public trading in Poland fails to fulfil the obligations prescribed by the Law on Public Trading in Securities, and in particular fails to comply with the information disclosure requirements provided for therein, the Polish Securities and Exchange Commission may impose a fine upon such issuer and/or revoke the decision on the admission of its securities into public trading. AmRest can give no assurance that this will not occur.

Currency risk

AmRest's Shares are denominated in Polish złoty and will pay dividends (if any) in Polish złoty. Exchange rate fluctuations between the Polish złoty and an investor's own currency (if other than Polish złoty) will affect the proceeds of any sale of Shares and the amount of any dividends received by such investor.

The Selling Shareholder may fail to obtain approval from the President of the Polish Anti-Trust and Consumer Protection Authority to take control of AmRest

AmRest expects that, upon completion of the Offering, the Selling Shareholder will own over 33 per cent of the issued share capital of AmRest, with the remaining shares widely held (assuming that all the New Shares are issued and the Existing Shares are sold), and will therefore control AmRest. Prior to the Offering, although the Selling Shareholder held all of the Shares in AmRest it did not have control as it was still bound by the provisions of the Shareholders' Agreement, the Flotation Agreement and the Share Purchase Agreement, see "*The Company — Material Agreements*". The Selling Shareholder must accordingly apply to the President of the Polish Anti-Trust and Consumer Protection Authority for approval to take control of AmRest. AmRest believes that the Selling Shareholder will obtain such approval. However, if such approval is not obtained, the Selling Shareholder will not be able to proceed with the Offering.

USE OF PROCEEDS

The net proceeds of the New Shares, which are expected to amount to approximately PLN 78.6 million, are intended to be used by the Company in two ways. First, the Company will apply not less than 50 per cent of the net proceeds to implement its strategy of expanding its business through the construction and/or acquisition of new KFC and Pizza Hut restaurants in Poland and the Czech Republic (including the acquisition of Big Food, if completed, see "*The Company — History*") and, possibly and subject to franchisor approval, in other countries (including the acquisition of CEFG, if completed, see "*The Company — History*") and through the introduction of new brands and concepts in its existing territories. AmRest's existing restaurant chain is expected to be expanded through the opening of between 15 and 20 new restaurants per year over the next three years. Second, pending such investment, the Company will use the net proceeds to reduce its interest expense burden by repaying debt. Management of the Company believes that up to 40 per cent of the net proceeds received by the Company in the Offering may ultimately be used to repay existing borrowings.

The Company and certain of its subsidiaries entered into a PLN 110 million facility agreement on 4th April, 2005 under which, conditional, *inter alia*, upon completion of the Offering, up to PLN 100 million may be drawn to refinance existing indebtedness. Management of the Company intends to repay or refinance substantially all of AmRest's borrowings using loans drawn under this facility and a part of the proceeds of the Offering following completion of the Offering, see "*The Company — Material Agreements — Loan Agreement*".

The Company will not receive any proceeds from the offering of Existing Shares by the Selling Shareholder.

CAPITALISATION

The following tables set out the audited shareholders' equity and long-term borrowings of the Company at 31st December, 2004 as adjusted to reflect the Offering.

	As at 31st December, 2004	
	Unadjusted	**As adjusted**
	(PLN millions)	
Borrowings[1]	139.8	139.8
Issued capital[2]	0.4	0.5
Share premium	138.8	217.4[3]
Retained deficit	(132.4)	(132.4)
Current period profit	12.0	12.0
Cumulative translation adjustment	0.1	0.1
Total capitalisation	**158.7**	**237.4**

Notes:

(1) This includes PLN 119.1 million due within one year.

(2) AmRest's authorised share capital amounts to 15 million ordinary shares. Its issued share capital amounts to 10 million ordinary shares with a nominal value of €0.01 each. After the Offering, the issued share capital will be 13.5 million ordinary shares.

(3) Approximately PLN 2.2 million of costs relating to the Offering are required to be expensed as incurred in accordance with applicable accounting principles rather than deducted from the proceeds of the Offering. Accordingly, these costs have not been deducted from the proceeds. A portion of these costs were paid and expensed in 2004 and the remaining costs will be paid and expensed during 2005.

(4) The information in the "Unadjusted" column has been derived from AmRest's audited balance sheet prepared as at 31st December, 2004. Information in the "As Adjusted" column has not been audited.

(5) As stated under "*Use of Proceeds*", the proceeds of the Offering are expected initially to be used to repay debt.

(6) There has been no material adverse change in the capitalisation of the Company since 31st December, 2004.

FINANCIAL REVIEW

The following is management of AmRest's review of AmRest for the fiscal years ended 31st December, 2001, 2002, 2003 and 2004. This review should be read in conjunction with the Consolidated Financial Statements and related notes prepared in accordance with IFRS and included at the end of this Offering Circular. The consolidated financial statements for all periods under review have been audited on an unqualified basis by KPMG Audyt Sp. z o.o.

References in this financial review to ***2001, 2002, 2003*** *and* ***2004*** *are to the 12-month periods ending on 31st December in each such year.*

Overview

As at 28th February, 2005, AmRest owned and operated 156 KFC and Pizza Hut restaurants in Poland and the Czech Republic. It also operated 20 Ice*Land outlets within its existing KFC restaurants in Poland and two outlets on a stand-alone basis and franchised a further two outlets. AmRest's KFC and Pizza Hut restaurants are operated under franchise agreements with a subsidiary of Yum! under which AmRest pays a flat continuing fee equal to 6 per cent of annual Revenues (a term defined in the Franchise Agreements and used in this section to mean total restaurant sales less certain taxes).

AmRest is the only franchisee of KFC and Pizza Hut restaurants in both Poland and the Czech Republic with the exception of four restaurants owned by, and franchised to, Spolpep Sp. z o.o. (**Spolpep**) that are operated by AmRest in return for a management fee equal to 7.5 per cent of the sales of the restaurants. Spolpep is owned 50 per cent by ARC and 50 per cent by Yum! The KFC and Pizza Hut concepts have proprietary menu items and emphasise the preparation of food with high quality ingredients with unique recipes and seasonings. AmRest's restaurants feature a combination of dine-in, take-away, drive through and/or delivery services.

AmRest was created in October 2000 as a holding company for the combined operations in Poland and the Czech Republic of ARC and KFCPH. The process of operationally merging the businesses of the two companies was completed in December 2000 although certain legal formalities were not completed until 2003. In late 2000, AmRest agreed to acquire International Fast Food Polska Sp. z o.o. (**IFFP**) which owned 23 former Burger King restaurants. AmRest rebranded 17 of these acquired restaurants and closed the remainder. This acquisition was consolidated with effect from 1st January, 2001. Although ARC and Yum! have in the past discussed contributing the Spolpep restaurants to AmRest, the parties have been unable to reach agreement on the terms of any such contribution.

Towards the end of 2001, AmRest, ARC and KFCPH recognised that AmRest needed additional capital. The two shareholders were, however, unable to agree on an appropriate way to provide this capital. As a result, AmRest's ability to expand and develop its business was adversely impacted. From the end of 2001, the parties worked to resolve their differences and this process culminated in the signing of a new development agreement between AmRest and KFCIH and PHI and the two shareholders agreeing certain amendments to their shareholders' agreement in September 2003, see "*The Company — Material Agreements*". Management of AmRest believes that the resolution of the dispute, the proceeds of the Offering and its ability to refinance existing debt on better terms using a recently signed facility agreement (see "*Factors Affecting Future Results*" below) will provide AmRest with a significant opportunity for expanding and improving its operations.

Key Performance Drivers and other Factors Affecting Historic Operating Results

Key performance drivers

The key performance drivers of AmRest's business are (i) restaurant sales, (ii) cost of food and packaging material, (iii) cost of labour and (iv) occupancy and other related expenses.

Restaurant sales are impacted by a number of factors including, in particular, the opening of new restaurants; pricing and the product mix; the introduction of new products (see "*The Company — New Products*"), successful advertising campaigns (see "*The Company — Marketing and Advertising*") and, to the limited extent described below, seasonality.

The following table presents the combined KFC and Pizza Hut restaurant count for AmRest at 31st December in each of 2001, 2002, 2003 and 2004 (counting multi-branded restaurants as both one KFC restaurant and one Pizza Hut restaurant for these purposes). During the period between 1st January, 2001 and 31st December, 2004, AmRest closed seven restaurants and opened or acquired 41 new locations in Poland. No restaurants were closed whilst 20 new locations were opened or acquired in the Czech Republic during the same period.

	At 31st December			
	2001	**2002**	**2003**	**2004**
No. of restaurants				
Pizza Hut in Poland	52	56	57	55
Pizza Hut in Czech Republic	1	1	1	1(1)
KFC in Poland	54	62	67	71
KFC in Czech Republic	14	19	23	30
Total	**121**	**138**	**148**	**157**
Net new restaurants opened in period	**18**	**17**	**10**	**9**

Note:

(1) In 2005, this restaurant (which was part of a multi-branded restaurant) was converted into a KFC restaurant only.

Restaurants are opened at different times in each year. Historically, a new restaurant's sales figures have typically been below the average sales figures for its brand in the relevant market for a period of approximately one year whilst it achieves full customer penetration. Accordingly restaurant sales figures are impacted by the times within each period at which new restaurants were opened. Although it is difficult to quantify seasonality effects due to the fact that marketing campaigns are carried on at different times in each year and also affect restaurant sales, management of AmRest does not believe that AmRest's business experiences significant seasonality in its restaurant sales. Historically, AmRest has experienced monthly restaurant sales volumes on a same restaurant basis in the peak months of June and December each year which can be between 10 and 20 per cent higher than in the lowest period of January to April.

Menu price increases are reviewed and implemented periodically in light of general market conditions. The ability to recover increased food and labour costs through higher pricing is, at times, limited by the price sensitive environment in which AmRest operates.

The cost of food and packaging material is a significant performance driver with chicken, paper and packaging, cold beverages, vegetables, cheese, buns and French fries representing the largest components of this category. Where possible, AmRest seeks to agree supply contracts in relation to these items with fixed price terms generally of between four months and one year, thus limiting its exposure to short-term price fluctuations, see "*The Company — Suppliers and Distribution Infrastructure*".

Restaurant staffing consists mainly of hourly paid employees. Staffing levels vary depending on transaction volume and are primarily driven by the time of the day. Hourly pay rates are periodically adjusted.

Occupancy and other related expenses include restaurant rental payments and all associated utility costs. AmRest's leases may provide either for fixed rents or for rents calculated by reference to restaurant sales and the rents may also be indexed to dollar or euro exchange rates.

Other factors affecting historic operating results

The results of AmRest's Czech business when converted to Polish złoty are affected by movements in the exchange rate between the two currencies. The average and period-end exchange rates used by AmRest in calculating profit and loss and balance sheet figures in its consolidated financial statements are set out in the table below:

	As at/year ended 31st December,			
	2001	**2002**	**2003**	**2004**
	(CZK per PLN 1.00)			
Average exchange rate	0.1078	0.1248	0.1385	0.1417
Period end exchange rate	0.1109	0.1275	0.1448	0.1341

The general appreciation of the Czech crown against the Polish złoty (on an average exchange rate basis) over the four-year period to 1st January, 2005 has, in general, increased the contribution of the Czech business to the consolidated profit and loss results. If the Czech Crown depreciates in value against the Polish złoty in future

periods, the contribution of the Czech business to the consolidated profit and loss results will be adversely impacted in those periods.

In addition, movements in currency exchange rates between the Czech crown and the Polish złoty over the period have given rise to significant foreign exchange losses (in 2001, 2002 and 2003) and foreign exchange gains (in 2004) in AmRest's net financing costs as its principally short-term loans were periodically repaid and re-borrowed.

Factors Affecting Future Results

With the exception of the year ended 31st December, 2004, AmRest has incurred losses in each financial period since it was incorporated. Although it has made operating profits since 2002, its significant net financing costs (primarily resulting from interest expense and foreign exchange losses) have resulted in net losses in each of 2001, 2002 and 2003. AmRest made a net profit in 2004 of PLN 12.0 million, reflecting, in part, significantly reduced net financing costs. AmRest's results for the year ended 31st December, 2005 are, therefore, likely to be positively affected by the partial repayment of debt with the proceeds of the Offering and the refinancing of the remaining debt on more commercially advantageous terms using loans drawn under the facility agreement entered into on 4th April, 2005, see "*The Company — Material Agreements — Loan Agreement*".

As a result of its acquisitions and historic losses in its Polish business, AmRest has PLN 59.2 million of net operating losses which may be carried forward and set off against its future tax liability during the period to 2010, see note 7 to the 2004 Financial Statements included at the end of this Offering Circular. Nearly PLN 50 million of these tax loss carryforwards will have expired by the end of 2007 and thus will not be utilised in full unless AmRest's Polish business has generated sufficient profit by that time. In this connection, in 2004, AmRest recognised a deferred tax asset which reduced its Polish income tax charge in that year, see note 7 to the 2004 Financial Statements included at the end of this Offering Circular. In addition, AmRest currently has PLN 3.8 million of net operating losses which may be carried forward and set off against its future tax liability in the Czech Republic. During 2004, AmRest conducted an intra-group re-organisation involving the transfer of certain liabilities between different group companies with a view to optimising its loan capital structure, see "*Results of Operations*".

AmRest's results for the year ended 31st December, 2004 were affected by a number of factors. These include an increase by the Czech government, in May 2004, in the rate of value added tax on restaurant services (being food and beverages consumed in restaurants, excluding drive-through, take away and delivery sales) from 5 per cent to 19 per cent. Management believes that AmRest has substantially minimised the impact of this increase through cost reduction initiatives and menu price increases. On a same store basis, the imposition of the value added tax appears to have had its greatest effect in July and August with same restaurant sales in its Czech restaurants by the end of 2004 being almost equivalent to those in the same period of the previous year. Same restaurant sales are the sales of only those restaurants which have been open for the duration of the two periods being compared.

AmRest's 2004 results were also positively affected by a reduced impairment charge, a reduced tax charge reflecting the recognition for the first time of a deferred tax asset relating to available Polish tax losses and by a significantly reduced net financing cost which principally arose from foreign exchange gains realised through the conversion of existing borrowings in other currencies into Polish złoty (as part of the optimisation of it loan capital structure referred to above), in each case when compared with the preceding year.

AmRest expects that its results for the year ended 31st December, 2005 may be affected by a number of factors. These include the positive effects of the proposed debt repayment and refinancing using a part of the proceeds of the Offering and the funds drawn under the new facility agreement and its ability to set off available tax losses in Poland and the Czech Republic against anticipated profits in those businesses. The acquisition of Big Food, if completed, will also significantly affect its restaurant sales as will any other acquisitions made, see "*The Company — History*", although it is too early to predict the effect of any such acquisitions on profitability. AmRest also anticipates that the results of its Czech business for July and August 2005 should benefit in comparison with the equivalent period in the preceding year which was particularly adversely affected by the Czech VAT increase effected in May 2004.

In March 2005, AmRest renewed its principal cold beverages supply contract on significantly improved terms, being a combination of a marketing contribution worth approximately PLN 15 million over the term of the contract and price reductions and other cash benefits of approximately PLN 19 million over the period compared with the previous contract. The contract commences on 1st January, 2006 for a period of five years although

AmRest also negotiated additional benefits in 2005 worth approximately PLN 2.25 million in cost savings in that year.

Results of Operations

The following table presents summary information regarding AmRest's operating results for each of 2001, 2002, 2003 and 2004 together with certain ratios calculated in respect of the same periods.

	Year ended 31st December,			
	2001	2002	2003	2004
	(PLN millions, except ratios which are in per cent)			
Restaurant sales	353.7	383.7	430.8	463.2
Total restaurant expenses	(318.1)	(342.8)	(379.8)	(404.7)
Gross profit on sales	35.6	40.9	51.0	58.5
Total other expenses, net	(38.2)	(36.0)	(42.4)	(38.7)
Profit/(loss) from operations	(2.6)	4.9	8.6	19.8
Net financing costs	(19.8)	(22.5)	(16.1)	(6.0)
Net profit/(loss) before tax	(22.3)	(17.6)	(7.5)	13.9
Net profit/(loss)	(24.7)	(20.8)	(11.3)	12.0
EBITDA and Ratios				
EBITDA[(1)]	31.7	34.6	48.0	53.3
Gross profit margin[(2)]	10.1%	10.7%	11.8%	12.6%
EBITDA margin[(3)]	9.0%	9.0%	11.1%	11.5%
Operating margin[(4)]	(0.7)%	1.3%	2.0%	4.3%

Notes:

(1) Profit/(loss) from operations adjusted for depreciation, impairment losses and goodwill amortisation. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of net profit/(loss), as an indicator of operating performance, as a measure of cash flow operations under IFRS or as an indicator of liquidity. EBITDA is not a uniform or standardised measure and the calculation of EBITDA, accordingly, may vary significantly from company to company and, by itself, this presentation and calculation of EBITDA may not be comparable to that of other companies.

(2) Gross profit divided by restaurant sales and expressed as a percentage.

(3) EBITDA divided by restaurant sales and expressed as a percentage.

(4) Profit (loss) from operations divided by restaurant sales and expressed as a percentage.

Restaurant sales almost entirely comprise food and beverage sales. Restaurant expenses principally comprise food (including packaging material) costs, payroll and employee benefits and rent and related occupancy costs. Direct marketing expenses, direct restaurant depreciation costs and continuing fees payable under the Franchise Agreements also form part of restaurant expenses.

Restaurant sales increased by PLN 32.4 million or 7.5 per cent in 2004 to PLN 463.2 million and, in 2003, by PLN 47.1 million or 12.2 per cent to PLN 430.8 million and, in 2002, by PLN 30 million or 8.5 per cent to PLN 383.7 million from PLN 353.7 million in 2001. These revenue increases principally reflect an increase in the number of restaurants operated by AmRest over the four years and, except in 2004, increases in same restaurant sales. The decline in same restaurant sales in 2004 principally reflects the effects of the Czech VAT increase in May 2004.

During 2004, 13 restaurants were opened, three leases were not renewed resulting in the closure of restaurants at those sites and one under-performing restaurant was closed. During 2003, 10 restaurants were opened and no restaurants were closed. During 2002, 19 restaurants were opened and two restaurants were closed. During 2001, 19 restaurants were opened and one under-performing restaurant was closed. The table below shows same restaurants sales for AmRest as a whole and individually in each of its Polish and Czech businesses, together with percentage changes from the previous year, for each of 2001, 2002, 2003 and 2004:

	Year ended 31st December,							
	2001		2002		2003		2004	
	(PLN millions)	(% change)	(PLN millions)	(% change)	(PLN millions)	(% change)	(PLN millions)	(% change)
AmRest	333.4	119.5	370.8	110.9	408.6	110.2	407.5	99.7
Polish Business	273.4	113.1	279.0	102.0	295.4	105.9	295.8	100.1
Czech Business	61.0	159.7	91.8	150.5	113.1	123.2	111.8	98.8

As a percentage of restaurant sales, AmRest's Czech business segment accounted for 30.0 per cent in 2004, 28.5 per cent in 2003, 24.7 per cent in 2002 and 18.5 per cent in 2001. The increases in 2001, 2002 and 2003 reflect the fact that same restaurant sales in the Czech Republic grew significantly more than in Poland in each of those years. These increases, and the 2004 decrease, also include the effect of the appreciation of the Czech crown against the Polish złoty during these periods.

The following table presents a breakdown of AmRest's restaurant expenses for each of 2001, 2002, 2003 and 2004 in złoty terms and as a percentage of restaurant sales.

	Year ended 31st December,								Percentage change		
	2001		2002		2003		2004		2002/ 2001	2003/ 2002	2004/ 2003
	(PLN millions)	(%)	(PLN millions)	(%)	(PLN millions)	(%)	(PLN millions)	(%)		(%)	
Cost of food	124.4	35.2	136.7	35.6	153.4	35.6	159.1	34.3	9.9	12.2	3.7
Payroll and employee benefits	66.5	18.8	68.3	17.8	75.2	17.5	82.9	17.9	2.7	10.1	10.2
Occupancy and other operating expenses	61.2	17.3	66.2	17.3	73.6	17.1	81.9	17.7	8.2	11.2	11.3
Direct depreciation and amortisation expenses	26.1	7.4	28.8	7.5	30.6	7.1	30.2	6.5	10.3	6.3	(1.3)
Continuing franchise fees	21.1	6.0	22.9	6.0	25.7	6.0	27.6	6.0	8.5	12.2	7.4
Direct marketing expenses	18.9	5.3	19.8	5.2	21.2	4.9	22.9	4.9	4.8	7.1	8.0
Total restaurant expenses	**318.1**	**89.9**	**342.8**	**89.3**	**379.8**	**88.2**	**404.7**	**87.4**	**7.8**	**10.8**	**6.6**

Restaurant expenses increased by PLN 24.9 million or 6.6 per cent in 2004 to PLN 404.7 million and, in 2003, by PLN 37.0 million or 10.8 per cent to PLN 379.8 million and, in 2002, by PLN 24.7 million or 7.8 per cent to PLN 342.8 million from PLN 318.1 million in 2001.

The principal component of restaurant expenses is the cost of food which increased broadly in line with restaurant sales over the period. As a percentage of restaurant sales in each year, cost of food was 34.3 per cent in 2004, 35.6 per cent in 2003, 35.6 per cent in 2002 and 35.2 per cent in 2001. Payroll and employee benefits increased by only 2.7 per cent from 2001 to 2002, by 10.1 per cent between 2002 and 2003 and by 10.2 per cent in 2004 principally reflecting increases in restaurant staff. As a percentage of restaurant sales in each year, payroll and employee benefits were 17.9 per cent in 2004, 17.5 per cent in 2003, 17.8 per cent in 2002 and 18.8 per cent in 2001. Occupancy and other operating expenses, principally comprising lease rentals and utility costs, increased by 8.2 per cent from 2001 to 2002, by 11.2 per cent between 2002 and 2003 and by 11.3 per cent between 2003 and 2004, principally due to the addition of new restaurants. As a percentage of restaurant sales in each year, occupancy and other operating expenses were 17.7 per cent in 2004, 17.1 per cent in 2003, 17.3 per cent in 2002 and 17.3 per cent in 2001.

AmRest pays continuing fees under its Franchise Agreements at a flat rate of 6 per cent of annual Revenues. AmRest's policy in relation to direct marketing expenses is to maintain them at the level required by its Franchise Agreements of around 5 per cent of annual Revenues. Direct marketing expenses on the income statement are presented net of marketing income derived from marketing funds and shared marketing agreements. In 2004, 2003, 2002 and 2001, direct marketing expenses were 4.9 per cent, 4.9 per cent, 5.2 per cent and 5.3 per cent, respectively, of restaurant sales.

Direct depreciation expenses as a percentage of restaurant sales were 6.5 per cent in 2004, 7.1 per cent in 2003, 7.5 per cent in 2002 and 7.4 per cent in 2001.

The following table presents a breakdown of AmRest's other expenses for each of 2004, 2003, 2002 and 2001 in złoty terms and as a percentage of restaurant sales.

	Year ended 31st December,								Percentage change		
	2001		2002		2003		2004		2002/ 2001	2003/ 2002	2004/ 2003
	(PLN millions)	(%)	(PLN millions)	(%)	(PLN millions)	(%)	(PLN millions)	(%)		(%)	
General and administrative expenses	(36.3)	10.3	(41.4)	10.8	(38.6)	9.0	(41.1)	8.9	14.0	(6.8)	(6.5)
Depreciation and amortisation expense	(2.2)	0.6	(2.2)	0.6	(1.9)	0.4	(1.7)	0.3	—	(13.6)	(10.5)
Other operating income	8.2	(2.3)	8.5	(2.2)	5.1	(1.2)	5.4	(1.2)	3.7	(40.0)	5.9
Profit/(loss) on the sale of fixed assets	(2.0)	0.6	(2.1)	0.6	(0.1)	—	0.3	—	5.0	(95.2)	(400.0)
Impairment losses	(5.0)	1.4	—	—	(7.1)	(1.6)	(2.4)	0.5	(100.0)	—	(66.2)
Goodwill and negative goodwill amortisation	(1.0)	0.3	1.2	(0.3)	0.2	—	0.8	(0.1)	(220.0)	(83.3)	300.0
Total other expenses	**(38.2)**	**10.8**	**(36.0)**	**9.4**	**(42.4)**	**9.8**	**(38.7)**	**8.4**	**(5.8)**	**17.8**	**(8.7)**

Other expenses decreased by PLN 3.7 million or 8.7 per cent in 2004 to PLN 38.7 million and, in 2003, increased by PLN 6.4 million or 17.8 per cent to PLN 42.4 million and, in 2002, decreased by PLN 2.2 million or 5.8 per cent to PLN 36.0 million from PLN 38.2 million in 2001.

The principal component of other expenses is general and administration expenses which, as a percentage of total revenues, were 8.9 per cent in 2004, 9.0 per cent in 2003, 10.8 per cent in 2002 and 10.3 per cent in 2001.

Other operating income principally comprises the management fee paid by Spolpep in respect of the four restaurants owned by it but managed by AmRest. This fee totals 7.5 per cent of the restaurant sales of the Spolpep restaurants. In addition, AmRest also earns rental income on premises sub-let by it. Other operating income increased by PLN 0.3 million or 5.9 per cent in 2004 to PLN 5.4 million and, in 2003, declined by PLN 3.4 million or 40.0 per cent to PLN 5.1 million and, in 2002, increased by PLN 0.3 million or 3.7 per cent to PLN 8.5 million from PLN 8.2 million in 2001. The increase in 2004 reflected increased sub-lease income and a number of non-recurring items which outweighed a decline in management fee resulting from a transfer of certain AmRest personnel to Spolpep whose services, prior to the transfer, had been charged separately under this heading, while the decline in 2003 reflected a number of non-recurring items in previous years, including miscellaneous income items and written-off payables.

AmRest's policy in relation to impairment is described in note 1(o) to the 2004 Financial Statements included at the end of this Offering Circular. Although impairment charges in relation to under-performing restaurants were recorded in 2001, 2003 and 2004 resulting in impairment losses in those years, no similar charges were recorded in 2002. The charges in 2001 were additionally impacted by the closure of three restaurants in that year. In 2003, Management made a conservative estimate of restaurant impairment based, among other things, on the fact that its assessment in 2002 had been, it believed, too optimistic. The impairment charges recorded in 2004 were due in part to the closure of four restaurants in that year and otherwise reflected the impairment policy.

The above resulted in an operating profit of PLN 19.8 million for 2004 compared to an operating profit of PLN 8.6 million for 2003 and PLN 4.9 million for 2002 and an operating loss of PLN 2.6 million in 2001, an increase of 130.4 per cent in 2004 compared to 2003 and an increase of 76.3 per cent in 2003 compared with 2002. AmRest's operating margins were 4.3 per cent in 2004, 2.0 per cent in 2003, 1.3 per cent in 2002 and minus 0.7 per cent in 2001. AmRest's operating margins for its Czech business segment over the same period were 7.4 per cent, 7.3 per cent, 8.0 per cent and 10.0 per cent, respectively, whilst the operating margin for its Polish business segment was 2.9 per cent in 2004. In 2003, 2002 and 2001, the Polish business segment recorded an operating loss and the operating margin was therefore negative, being minus 0.2 per cent in 2003, minus 1.1 per cent in 2002 and minus 3.2 per cent in 2001, respectively.

AmRest's EBITDA margin (net profit before interest, tax, depreciation, goodwill amortisation and impairment losses divided by total revenues and expressed as a percentage) was 11.5 per cent in 2004, 11.1 per cent in 2003, 9.0 per cent in 2002 and 9.0 per cent in 2001. The EBITDA margin in respect of the Polish business segment was 10.7 per cent in 2004, 10.5 per cent in 2003, 7.0 per cent in 2002 and 6.8 per cent in 2001 and the EBITDA margin in respect of the Czech business segment was 13.7 per cent in 2004, 13.0 per cent in 2003, 15.2 per cent in 2002 and 18.9 per cent in 2001.

The following table presents a breakdown of AmRest's net financing costs for each of 2004, 2003, 2002 and 2001.

	Year ended 31st December,				Percentage change		
	2001	2002	2003	2004	2002/ 2001	2003/ 2002	2004/ 2003
		(PLN millions)				(%)	
Interest expense	(13.1)	(13.3)	(9.0)	(8.3)	1.5	(32.3)	(7.8)
Interest income	0.5	0.7	0.6	0.3	40.0	(14.3)	(50.0)
Foreign exchange gain/(loss), net	(7.0)	(10.4)	(6.0)	3.7	48.6	(42.3)	—
Loan guarantee commissions	—	—	(1.1)	(1.1)	—	—	0.0
Other	(0.2)	0.5	(0.6)	(0.6)	—	—	0.0
Total net financing costs	**(19.8)**	**(22.5)**	**(16.1)**	**(6.0)**	**13.6**	**(28.4)**	**(62.7)**

AmRest's net financing costs for 2004 were PLN 6.0 million compared to PLN 16.1 million for 2003, PLN 22.5 million for 2002 and PLN 19.8 million in 2001. Net financing costs principally comprise interest expense, interest income and foreign exchange gains or losses, in each case relating to AmRest's borrowings. The foreign exchange losses recorded prior to 2004 principally arise from the fact that a significant proportion of AmRest's borrowings in this period were short-term loans denominated in Czech crowns and, on an average basis, the Polish złoty depreciated against the Czech crown over the period. These loans were repaid and re-borrowed periodically giving rise to realised losses or gains at the time of repayment. The foreign exchange gain in 2004 principally reflected the appreciation of the Polish złoty against the Czech crown and the fact that Czech crown loans were repaid in the period and either re-borrowed or converted into Polish złoty loans.

In 2001, AmRest entered into a currency and interest rate swap in an effort to hedge exposure under certain U.S. dollar denominated loans entered into by it. During its term, the swap converted a fixed rate U.S. dollar interest rate liability into a significantly higher floating rate PLN liability. A provision of PLN 6.1 million was established at the end of 2001 in relation to this swap which was terminated in 2002 at a cost of PLN 5.0 million, see note 20 to the Initial Financial Statements included at the end of this Offering Circular.

The loan guarantee commissions represent the fee paid by AmRest to a Yum! group company in consideration for the guarantees given in respect of certain borrowings by AmRest, see "*Balance Sheets — Liquidity and capital resources*" below.

AmRest's net profit before tax for 2004 was PLN 13.9 million compared to a net loss of PLN 7.5 million in 2003, a net loss of PLN 17.6 million in 2002 and a net loss of PLN 22.3 million in 2001. In 2004, AmRest's taxable profit was reduced by available losses in both its Polish and Czech business segments. Notwithstanding the fact that AmRest recorded losses in 2003, 2002 and 2001, AmRest paid tax of PLN 3.9 million in 2003, PLN 3.2 million in 2002 and PLN 2.4 million in 2001, reflecting the profits before tax made in its Czech business segment of PLN 6.7 million in 2003, PLN 4.7 million in 2002 and PLN 5.2 million in 2001. The statutory tax rate in the Czech Republic was 31 per cent for each of 2001, 2002 and 2003 and was 28 per cent for 2004. The higher effective rates recorded by the Czech business reflect its non-deductable expenses for tax purposes. AmRest reduced this effective tax rate in 2004 as a result of the loan capital optimisation measures undertaken by it during the year, see "*Overview*". In addition, the Czech corporate tax rate for 2005 is 26 per cent and is expected to be 24 per cent for 2006.

AmRest's net profit in 2004 was PLN 12.0 million, while its net loss in 2003 was PLN 11.3 million, in 2002 was PLN 20.8 million and in 2001 was PLN 24.7 million. The decrease in net loss from 2002 to 2003 and the net profit in 2004 are due to the factors described above.

Balance Sheets

Set out below is a brief discussion in relation to certain balance sheet line items which management of AmRest believes either merit an explanation of the composition of the line item or which have displayed movements over the period under review which merit explanation.

Property, Plant and Equipment

AmRest had property, plant and equipment balances of PLN 168.8 million at 31st December, 2004, PLN 174.6 million at 31st December, 2003, PLN 183.4 million at 31st December, 2002 and PLN 180.6 million at 31st December, 2001. The decline at 31st December, 2004 reflected the fact that fewer restaurants were built in 2004 than in earlier years with the result that the depreciation charge on property, plant and equipment almost

matched the new property, plant and equipment acquired during the years. As disclosed in note 8 to the 2004 Financial Statements included at the end of this Offering Circular, this combined with a decrease in exchange rate differences was the principal cause of the decline. The decline at 31st December, 2003 reflected similar effects.

Goodwill and negative goodwill

AmRest had negative goodwill balances of PLN 4.5 million at 31st December, 2004, PLN 3.5 million at 31st December, 2003, PLN 3.7 million at 31st December, 2002 and PLN 6.2 million at 31st December, 2001. The negative goodwill arose on the acquisition of IFFP and, in 2004, Kids Play, see note 1(h) and note 10 to the 2004 Financial Statements included at the end of this Offering Circular.

Receivables and Allowance for Bad Debts

AmRest had trade and other receivables of PLN 10.6 million at 31st December, 2004, PLN 12.7 million at 31st December, 2003, PLN 10.4 million at 31st December, 2002 and PLN 8.4 million at 31st December, 2001. Of these amounts, PLN 1.9 million, PLN 1.9 million, PLN 2.0 million and PLN 2.2 million, respectively, represented an allowance for bad debts. The trade and other receivables principally reflect refundable value added tax paid, rental income due and fees charged to third parties including the management fee payable by Spolpep. The allowance for bad debts principally relates to rental income due and uncollectible fees.

Provisions

At 31st December, 2004, AmRest recorded a provision of PLN 1.5 million which was established in respect of five non-cancellable long-term leases where, in most cases, AmRest does not currently use the land or buildings leased. These properties are sub-let where possible. The provision for legal claims of PLN 2.5 million established in 2003 related to a number of different claims. PLN 1.8 million of this provision was released in 2004 following resolution of the claims and the payment by AmRest of PLN 0.7 million. At 31st December, 2001, AmRest recorded a provision of PLN 8.0 million of which PLN 6.1 million related to the currency and interest rate swap transaction referred to under "*Results of Operations*" above.

Liquidity and Capital Resources

AmRest has historically financed its business activities primarily from borrowings and, to a lesser extent, from cash generated by operating activities. Details of the short- and long-term loans entered into by AmRest are set out in note 17 to the 2004 Financial Statements included at the end of this Offering Circular.

The table below shows the PLN amount or equivalent of monies borrowed by AmRest at the dates specified (excluding related party loans which totalled PLN 6.6 million at 31st December, 2001, PLN 4.4 million at 31st December, 2002, PLN 5.7 million at 31st December, 2003 and PLN 2.2 million at 31st December, 2004). The PLN equivalents are calculated at exchange rates prevailing at the relevant balance sheet date. Changes in amounts outstanding reflect repayments, new borrowings and movements in currency exchange rates.

	PLN millions amount outstanding at 31st December,			
Original currency	**2001**	**2002**	**2003**	**2004**
Czech crowns[1]	47.9	98.7	115.1	82.1
US dollars[2]	45.3	29.6	24.4	—
Polish złoty[1][2]	4.4	0.3	0.3	55.5
Euro[2]	—	6.3	6.2	—

Notes:

(1) PLN 32 million of Czech crown borrowings was converted into PLN borrowings in 2004.

(2) All of the US$ and euro borrowings were converted into PLN borrowings in 2004.

The above borrowings are from a range of banks and have been made principally at floating rates of interest at margins of between 0.75 per cent and 3.2 per cent above a standard reference rate for the relevant currency. The maturities of the borrowings extend to 2009 although the vast majority of them are short-term. AmRest anticipates that a part of the proceeds of the Offering will be used to repay some of these short-term borrowings and the remainder will be refinanced using a recently signed facility agreement, see "*Use of Proceeds*".

In 2004, AmRest repaid certain small shareholder loans. In 2003, a Yum! group company agreed to guarantee the Czech crown loans made by Citibank to AmRest. In return, AmRest agreed to pay an annual

guarantee fee to the guarantor. Certain other loans are also guaranteed by AmRest's shareholders or other companies within their respective groups and/or are secured on real property owned by AmRest, see note 22 to the 2004 Financial Statements included at the end of this document.

Capital Expenditure

On-going Capital Expenditure Requirements. Ongoing capital expenditures are required to maintain existing restaurants. Included in ongoing capital expenditures are amounts for equipment replacement and renovation and additions driven by new products, signage and general replacement. These expenses are capitalised as incurred. AmRest's average annual ongoing capital expenditure over each of the four years ended 31st December, 2001, 2002, 2003 and 2004 was approximately PLN 3 million. Management believes that annual ongoing capital expenditures of approximately 1.5 per cent of restaurant sales are likely to be required in each of 2005 and 2006 to implement its strategy of upgrading selected Pizza Hut and KFC restaurants and to maintain the operations of AmRest, see "*The Company — Strategy*". AmRest's Franchise Agreements require that it undertakes two front of house and one back of house refurbishment over each 10-year franchise period, see "*Material Agreements — Franchise Agreements*".

Capital Expenditures Required for New Restaurants. AmRest's Development Agreement requires it to open 10 new restaurants in 2005 although if the acquisition of Big Food is completed this number could be higher. Management expects to fund these capital expenditures principally from the proceeds of the Offering and from operating cash flow.

Cash Flows

Cash flows provided by operating activities were PLN 29.1 million, PLN 17.3 million, PLN 9.3 million and PLN 26.4 million in each of 2004, 2003, 2002 and 2001, respectively.

Cash flows used in investing activities were PLN 26.0 million, PLN 30.7 million, PLN 37.4 million and PLN 39.0 million in each of 2004, 2003, 2002 and 2001, respectively. The principal investments made in these years were building new restaurants and maintaining and upgrading existing restaurants.

Cash flows from financing activities were PLN 0.1 million, PLN 14.0 million, PLN 27.6 million and PLN 13.8 million in each of 2004, 2003, 2002 and 2001, respectively, reflecting increased net borrowings in each year except 2004 when borrowings were reduced and, in 2003, an additional shareholder contribution which was booked to share premium account.

Management expects that its future capital requirements will principally be for opening new restaurants (including through acquisition and the possible development of new concepts), moving existing KFC restaurants to a more fast casual image, renovating and upgrading selected Pizza Hut restaurants and establishing a pizza delivery network, see "*The Company — Strategy*".

Critical Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to make assumptions and estimates that can have a material impact on AmRest's results of operations. Sales recognition at restaurants is straightforward as customers pay for food and beverage at the time of sale and inventory turns over very quickly. Payment to its principal suppliers for products sold in the restaurants are generally required to be settled within one month. The financial reporting process of AmRest requires significant management estimates and judgments in relation to matters including the assessment and recording of property, plant and equipment, impairment of long-lived assets, accrued liabilities and the establishment of certain reserves and provisions. AmRest's accounting policies are described in note 1 to the 2004 Financial Statements included at the end of this Offering Circular. While management applies judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions.

Recent Accounting Developments

AmRest's Initial Financial Statements included at the end of this Offering Circular were the first financial statements to be prepared by it in accordance with IFRS. Accordingly, AmRest adopted IFRS 1 (which deals with the first time adoption of IFRS) in the preparation of its Initial Financial Statements even though the effective date of that reporting standard is 1st January, 2005. Subject to the effect of IFRS 2, *Share-based payment,* which becomes effective from 1st January, 2005 and requires retrospective application to comparative periods presented in AmRest's financial statements, on the accounting for the performance participation plan described under "*The*

Company — Material Agreements", management is not aware of any recent accounting developments that would have a material effect on the consolidated financial statements or the notes to them as from 1st January, 2005.

Market Risks

AmRest's principal market risk exposures are the interest rate and currency risks related to its borrowings and the pricing risk relating to its food and packaging material purchase requirements. These and certain other risks are described in note 26 to the 2004 Financial Statements included at the end of this Offering Circular.

AmRest's borrowings have been denominated in Czech crowns, US dollars, Polish złoty and euro with the interest principally being calculated at floating rates by reference to movements in standard market reference rates.

Save for the interest rate swap entered into by it in 2001, AmRest has not entered into any hedging transactions in relation to its interest rate or currency liabilities with the result that any depreciation of the Polish złoty against the borrowing currency will make the borrowing more expensive for AmRest. Between 1st January, 2001 and 31st December, 2003, the Polish złoty has generally depreciated against the Czech crown and the euro but appreciated against the dollar. During 2004, the Polish złoty generally appreciated against the Czech crown.

In approximately 45 per cent of AmRest's leases the rent is indexed to US dollar or euro exchange rates with the effect that they become more expensive if the Polish złoty depreciates against those currencies. Although AmRest seeks where possible to agree rents in the local currency, many lessors still require rents to be indexed to euro or US dollar exchange rates.

The prices of many of the products purchased by AmRest in significant volumes are affected by changes in weather, production, availability, seasonality and other factors. AmRest seeks to address these risks by entering into supply contracts with fixed price payment terms generally of between four months and one year. In addition, AmRest seeks to ensure diversity of supply and conducts competitive tenders in an effort to control its commodity risks.

The table below sets out inflation rates (as measured by the consumer price index in each country) in both Poland and the Czech Republic for each of the periods indicated.

	2001	2002	2003	2004
Poland	3.6	0.8	1.7	4.4
Czech Republic	4.1	0.6	1.0	2.8

THE COMPANY

Overview

AmRest operates KFC and Pizza Hut franchised restaurants in Poland and the Czech Republic and a proprietary "Ice*Land" ice-cream brand in Poland. AmRest is a joint venture established in October 2000 between ARC and KFCPH, a subsidiary of Yum! A Yum! subsidiary is also the franchisor for AmRest of the KFC and Pizza Hut brands.

AmRest's 156 restaurants as at 28th February, 2005 and sales of PLN 463.2 million in 2004 make it the second largest chain of quick service restaurants, after McDonald's, and the largest chain of casual dining restaurants in C&EE. AmRest is the only franchisee of KFC and Pizza Hut restaurants in both Poland and the Czech Republic with the exception of four restaurants owned by, and franchised to, Spolpep that are operated by AmRest in return for a management fee, see "*Financial Review — Overview*".

Prior to the creation of the joint venture, ARC had built its operations from one restaurant in 1993 to 40 restaurants through internal growth and, in 1998, the acquisition of the KFC franchise and six restaurants in the Czech Republic. At the time of the joint venture, ARC contributed these 40 restaurants whilst KFCPH contributed 35 single-sited restaurants in Poland plus an additional 14 multi-branded restaurants. Subsequently, towards the end of 2000, AmRest acquired and rebranded an additional 17 Polish restaurants from the operator of the Burger King franchise in Poland, see "*History*" below. By 31st December, 2004, AmRest employed approximately 4,900 staff.

Towards the end of 2001, AmRest, ARC and KFCPH recognised that AmRest needed additional capital. The two shareholders were, however, unable to agree on an appropriate way to provide this capital. As a result, AmRest's ability to expand and develop its business was adversely impacted. From the end of 2001, the parties worked to resolve their differences and this process culminated in the signing of a new development agreement between AmRest and KFCIH and PHI and the two shareholders agreeing certain amendments to their shareholders' agreement in September 2003, see "*Material Agreements*" below.

Going forward, AmRest seeks to expand its operations in three market segments (quick service, casual dining and delivery) in Poland and the Czech Republic, invest in other C&EE markets, and introduce a selected number of new restaurant concepts to the region. Under the terms of its franchise agreements, AmRest must obtain the consent of its franchisor to develop KFC and/or Pizza Hut restaurants outside Poland and the Czech Republic or to engage in another food-related business.

History

ARC's initial Polish operation, American Retail Systems Sp. z o.o. (**ARS**), was established in 1993 by Messrs Donald M. Kendall Sr., Christian R. Eisenbeiss, Henry J. McGovern and Donald M. Kendall Jr. (collectively, the **Founders**) to operate quick service and casual dining restaurant chains in the C&EE market. The Founders believed that with the increasing wealth of C&EE consumers, and lack of well-established quality quick service and casual dining restaurants, there was an opportunity to develop a leading fast casual restaurant company in Poland and the region.

Initially, ARC had the right to develop Pizza Hut restaurants in the cities of Wrocław and Szczecin in Poland. ARC subsequently received the right to develop Pizza Hut restaurants in the city of Poznań in 1995, the whole territory of western Poland in 1996 and the cities of Bydgoszcz and Toruń in 1998. ARS obtained the right to develop KFC restaurants in the cities of Wrocław, Szczecin and Poznań in 1995, the whole territory of western Poland in 1996 and the cities of Bydgoszcz and Toruń in 1998. AmRest acquired the right to develop KFC and Pizza Hut restaurants throughout Poland when the joint venture with KFCPH was formed in October 2000.

In 1997, ARC spun off its real estate operations into a separate entity, American Retail Services Sp. z o.o., which owns nine KFC and Pizza Hut locations now leased by AmRest at market rates, see "*Related Parties*".

In order to expand outside Poland, in January 1998 ARC acquired Quick Service Restaurants a.s., renamed American Restaurants a.s. in 2002, which had the right to develop KFC and Pizza Hut restaurants in the Czech Republic and, at the time of the acquisition, operated five KFC restaurants and one Pizza Hut restaurant in that country, for approximately US$6.8 million. Following the acquisition, ARC restructured the Czech KFC operations and significantly improved its profitability. At 28th February, 2005, AmRest's Czech business comprised 30 KFC restaurants, the Pizza Hut restaurant having been closed in early 2005 when the multi-branded restaurant in which it was located was converted to a KFC restaurant only.

In August 1999, ARC and KFCPH began working together to integrate their respective KFC and Pizza Hut businesses in Poland and, in the case of ARC, the Czech Republic. In October 2000, AmRest was established as a holding company for the combined operations and began operating the combined businesses with effect from December 2000. The combined businesses comprised 25 KFC and 15 Pizza Hut restaurants in Poland and the Czech Republic contributed by ARC and nine KFC, 26 Pizza Hut restaurants and an additional 14 multi-branded restaurants in Poland contributed by KFCPH.

In late 2000, AmRest agreed to acquire IFFP, a licensee company of Burger King in Poland, for a total consideration of approximately US$5 million, of which US$2 million was a cash payment and US$3 million was through the assumption of outstanding liabilities. This acquisition was consolidated with effect from 1st January, 2001. Of the 23 Burger King restaurants acquired, AmRest closed six and re-branded the remaining 17. Of these, 16 restaurants were converted into KFC restaurants and one restaurant was converted into a multi-branded restaurant. The acquisition of the Burger King operations allowed AmRest to secure prime locations in Warsaw and good locations in other major Polish cities, to strengthen the KFC brand in Warsaw and to expand its drive-through restaurants from 10 to 19 outlets. As at 28th February, 2005, AmRest had 30 drive-through KFC restaurants.

During 2002 and 2003 ARC and KFCPH worked to resolve the dispute referred to in "*Overview*" above and, in September 2003, an amended shareholders' agreement and a new development agreement between the parties were signed, see "*Material Agreements*". Since 2001, AmRest has also focussed on integrating the acquired ARC and KFCPH businesses and improving their profitability. Between 2001 and 2004, AmRest's EBITDA margin grew from 9.0 per cent to 11.5 per cent and its gross profit margin grew from 10.1 per cent to 12.6 per cent, see "*Financial Review*".

In 2004, AmRest acquired Coniuris s.r.o., a dormant Czech company, to which it contributed all of the shares in its Czech operating subsidiary, American Restaurants a.s. On 30th November, 2004, Coniuris s.r.o. and American Restaurants a.s. were merged with the surviving company being renamed American Restaurants s.r.o.

On 23rd March, 2005, the Company through its subsidiary, American Restaurants s.r.o., signed an agreement to acquire miklik's food s.r.o., a company which operates eight quick-service chicken restaurants in the Czech Republic under the brand name "Big Food" and is in the process of opening a ninth restaurant. Upon acquisition, AmRest expects to convert eight of these restaurants to KFC restaurants and to close the remaining restaurant. The acquisition is contingent upon the completion of a due diligence review and other items specified in the agreement. Both parties have the right to withdraw from the agreement should the review and due diligence process not be completed in the prescribed timeframe. The purchase price stated in the agreement is CZK 45 million (approximately PLN 6.2 million) and is expected to be financed from proceeds of the Offering and operating cash flows. The estimated cost to convert the restaurants to KFC restaurants is approximately PLN 2.4 million.

On 28th March, 2005, the Company signed a letter of intent with Central European Franchise Group (**CEFG**), the sole operator of Pizza Hut and KFC restaurants in Hungary, to acquire Kentucky System Kft, a company owned by CEFG which operates 13 Pizza Hut and four KFC restaurants in Hungary. The acquisition is contingent upon the completion of a due diligence review, completion of the offering, a sale and purchase agreement being agreed and other items specified in the letter, including franchisor approval. AmRest and CEFG each have a right to terminate further negotiations if a definitive agreement is not signed by 15th May, 2005. The purchase price stated in the letter is U.S.$6.5 million.

Strategy

AmRest aims to be the leading operator of quick service and casual dining restaurants in Central and Eastern Europe and its business strategy is based on the following components:

(i) Expand Penetration within Existing and New Geographical Territories and Introduce New Concepts

AmRest's principal objective following the Offering will be to focus on the expansion of its KFC and Pizza Hut restaurants within existing and new markets and, where practicable, to develop additional concepts which can be expanded profitably. AmRest believes that there is significant market potential to:

- continue to develop the KFC fast casual concept in Poland and the Czech Republic;
- continue to develop the Pizza Hut casual dining concept in Poland and to expand its pizza delivery service in selected cities in Poland;

- acquire and then develop operators of KFC and Pizza Hut restaurants in other geographical markets (for example, Hungary) in the C&EE region (subject to franchisor approval); and

- act as a franchisee within in its existing territories for one or more brands which have already been established in other regions and/or to introduce one or more select new concepts within its existing territories (subject to franchisor approval).

AmRest's plans in relation to the KFC concept include the expansion of the number of KFC restaurants in Poland and the Czech Republic, in particular by establishing restaurants in flagship locations and increasing the number of drive-through restaurants. In addition, AmRest plans to move a number of its existing KFC restaurants towards a more fast casual image by introducing new furniture and decor to match the food superiority they currently enjoy in their markets, see "*Competition*".

In relation to the Pizza Hut concept in Poland, AmRest is following a dual strategy. First, it is aiming to create a number of flagship casual dining restaurants by renovating and upgrading existing restaurants in appropriate locations and building new restaurants in selected locations. Second, it has established in Warsaw, and plans to establish in Ģdańsk and Kraków, a city-wide pizza delivery service based around existing units that already have delivery capability and/or are in locations less suitable for creating flagship casual dining restaurants.

In connection with this strategy, AmRest plans to convert its 12 multi-branded restaurants as follows:

- two restaurants will be converted solely into KFC restaurants;

- one restaurant will be split into two separate restaurants; and

- nine restaurants will be converted into KFC restaurants but will also offer Pizza Hut delivery and take-away.

Management believes that this will add additional focus to AmRest's delivery segment and improve margins. AmRest's Pizza Hut delivery service in each major city will be supported by a single telephone number call centre which it believes will provide it with a competitive advantage as no other pizza delivery operator in Poland operates in this way.

In terms of C&EE expansion, AmRest believes that the possible Hungarian acquisition will, if consummated, give it a critical mass in all three of its core C&EE countries and offer potential to grow the acquired business and improve its profitability through adoption of many of the techniques used by it in improving the Czech business acquired in 1998.

In July 2004 AmRest signed a non-binding letter of intent with Applebee's to be the exclusive developer for Poland and the Czech Republic of Applebee's Neighbourhood Grill and Bar restaurants. Any agreement with Applebee's and CEFG is conditional on the Offering taking place and is subject to the approval of AmRest's franchisor, see "*Material Agreements — Franchise Agreements*", "*Risk Factors — Ability to locate and secure acceptable restaurant sites*" and "*Risk Factors — Ability to introduce new concepts*".

(ii) Continue to Improve Profitability

AmRest intends to continue to improve its profitability at the restaurant level to achieve an EBITDA margin of 15.0 per cent, a level that had already been surpassed by ARS prior to the creation of the joint venture. In recent years, AmRest has taken a number of steps to improve its profitability including the introduction in its KFC restaurants of a new disciplined operating system (known as DOS+) which it developed and which is aimed at improving operational efficiencies and reducing costs in individual stores, a focus on introducing greater competition among its suppliers and improving its distribution network. Going forward, AmRest is currently rolling out DOS+ to its Pizza Hut restaurants and intends to develop new KFC restaurants in flagship locations and to further increase the number of customers by introducing a fast casual feel to its KFC restaurants, by renovating and upgrading certain of its Pizza Hut restaurants and by establishing pizza delivery networks in selected Polish cities.

(iii) Commitment to Customer Satisfaction

AmRest is committed to providing its customers with prompt, friendly and efficient service, keeping wait times low and staffing each restaurant with an experienced management team to ensure attentive customer service and consistent food quality. Among other steps, AmRest:

- uses customer surveys to provide senior management with regular feedback from customers and the Yum! CHAMPS (Cleanliness, Hospitality, Accuracy, Maintenance, Product, Speed) programme to provide an independent assessment of individual restaurants on a monthly basis, see ''*Business Operations-KFC*'' and ''*Business Operations — Pizza Hut*'';
- uses the DOS+ system to impose monthly customer satisfaction targets on underperforming KFC restaurant managers; and
- provides its employees with extensive training and comparatively attractive compensation to encourage a sense of personal commitment and loyalty.

Going forward, AmRest intends to focus in particular on improving the speed of service in its restaurants and educating its customers to understand the value for money offered in its restaurants.

The Quick Service and Casual Dining Restaurant Market in Poland and the Czech Republic

Quick service restaurants provide customers with fast, convenient food ''on the go'' and at affordable prices. These restaurants are characterised by food that is supplied quickly after ordering and by minimal service, such as ordering at a counter. Customers are frequently provided with seating, but quick service restaurants may also operate as stands or kiosks with no dining area. All of AmRest's quick service restaurants offer seating.

Casual dining restaurants provide customers with table service in a comfortable and relaxing environment. Such restaurants offer a broad range of menu choices and provide a place for groups of friends, couples and families to meet and mingle over drinks and food. Casual dining restaurants also frequently provide delivery and take-away services.

Both quick service and casual dining restaurants are gaining increasing acceptance among Polish and Czech consumers as evidenced by the growth in the numbers of such restaurants since 2000. The table below shows this growth by reference to the number of restaurants operated by certain restaurant chains in each country at 31st December in each of 2000 to 2004:

	At 31st December,				
	2000	**2001**	**2002**	**2003**	**2004**
Poland					
AmRest	92	106	118	124	126
McDonald's	179	189	200	205	207
TelePizza	60	70	75	84	89
Sphinx	20	31	45	54	69
San Marzano	5	9	9	9	8
Czech Republic					
AmRest	11	15	20	24	30
McDonald's	60	62	68	70	70
Big Food	3	4	6	8	8
San Marzano	—	1	2	3	3

Source: AmRest records and analysis, company websites. Information for Dominum is not available.

In spite of the growth in the number of quick service and casual dining restaurants outlined above, the degree of penetration is still relatively small compared with more developed markets. For example, based on information sourced from a number of websites (including that of McDonald's and statistical offices in the countries referred to), in the U.S. and the U.K., there was one McDonald's, KFC or Pizza Hut restaurant per 11,000 and 24,000 persons, respectively, at 31st July, 2004 while at the same date Poland and the Czech Republic had only one such restaurant per 118,000 and 103,000 persons, respectively.

AmRest believes that with the increasing number of cars in Poland and the Czech Republic and growing popularity of shopping centres, both the drive-through and shopping centre food court segments of the quick service and casual dining restaurant market are likely to expand faster than the general market. The number of cars has increased from approximately 10 million in 2000 to approximately 11.4 million in 2003 in Poland and

from approximately 3.4 million in 2000 to approximately 3.9 million in 2003 in the Czech Republic. At 30th June, 2004, based on press information, there were approximately 130 shopping centres in Poland, up from 99 at the end of 2000. At 30th June, 2004, there were approximately 27 shopping centres in the Czech Republic, up from 19 at the end of 2000. AmRest is focussing its development on those two segments. By the end of 2005, it expects to have 24 restaurants (up from 22 at 28th February, 2005) with drive-through and 31 restaurants (up from 29 at 28th February, 2005) located in shopping centre food-courts in Poland and 11 restaurants (up from eight at 28th February, 2005) with drive-through and, assuming the Big Food acquisition is completed, 16 restaurants (up from six at 28th February, 2005) located in shopping centre food-courts in the Czech Republic.

AmRest also believes that the Polish and Czech quick service market will expand rapidly due to such demographic and social changes as: (i) the growth of younger population segments more inclined to eat fast food; (ii) the scarcity of time as a result of a faster pace of life fostered by rapid economic development and an ambitious population; and (iii) the increasing focus on convenience in food preparation and the greater penetration of the home meal replacement market. AmRest intends to optimise its asset base to serve both the distinct delivery and dine-in markets and management believes that sales will grow in both segments due to the above demographic and social changes.

Business Operations

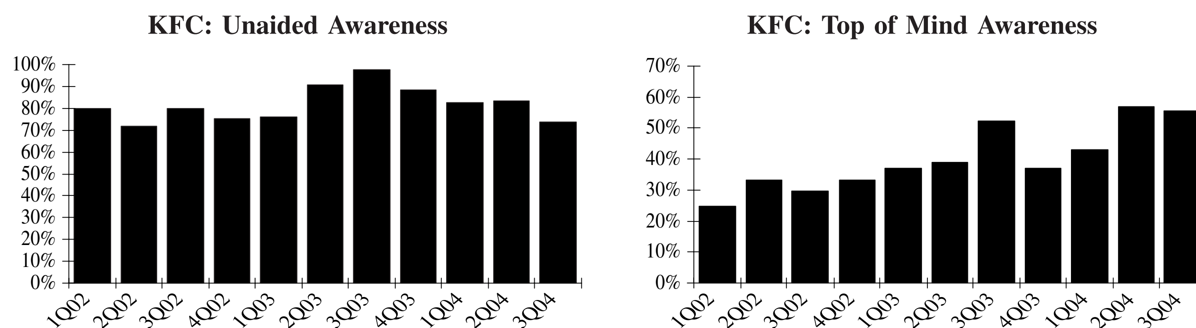
AmRest operates KFC and Pizza Hut restaurants in Poland and the Czech Republic and Ice*Land outlets in Poland. The restaurants feature dine-in, take-away, drive-through and/or delivery service. Each concept is based upon providing tasty food at competitive pricing, with quality service and a dining experience that is comfortable and friendly. The food offered at AmRest restaurants includes proprietary menu items that are prepared from fresh ingredients according to unique recipes.

KFC

KFC was founded in Corbin, Kentucky by Colonel Harland D. Sanders, an early developer of the quick service food business and a pioneer of the restaurant franchise concept. The Colonel perfected his secret blend of 11 herbs and spices for Kentucky Fried Chicken in 1939 and signed up his first franchisee in 1952. Today, KFC is the world's largest quick service chicken restaurant chain in terms of number of restaurants and operates approximately 11,000 outlets in 85 countries and territories throughout the world under the name ''Kentucky Fried Chicken'' and/or ''KFC''. The Colonel ranks as one of the world's best-known commercial trademarks.

KFC is the leading chicken restaurant chain in Poland and the Czech Republic in terms of both total sales in 2004 and number of restaurants. KFC offers Original Recipe and Hot and Spicy chicken-on-the bone, Hot and Spicy strips and Hot wings, all with home-style sides, freshly made chicken sandwiches, including Twister, Zinger and Longer, salads and deserts. AmRest had 102 KFC restaurants in major cities in Poland and the Czech Republic at 28th February, 2005. Approximately 23.5 million customer transactions were carried out in its KFC restaurants in 2004.

The charts below show trends in KFC's unaided and top-of-mind brand awareness figures in Poland and the Czech Republic as determined by Brand Image Tracker, which is independent research undertaken by Datamax, for the periods shown. Unaided brand awareness tracks the percentage of respondents naming KFC when asked to name quick service restaurants. Top-of-mind brand awareness tracks the percentage of respondents choosing KFC as the first brand coming to mind when asked to name quick service restaurants.



Since 1st January, 2001, KFC's unaided brand awareness figure in Poland reached a peak of 89.0 per in the second quarter of 2003 and was 88.0 per cent in the third quarter of 2004. During the same period, its peak top-of-mind awareness figure was 25.0 per cent in the second quarter of 2001 and it was 21.0 per cent in the third quarter of 2004. In the Czech Republic over the same period, KFC's unaided brand awareness figure reached a

peak of 97.6 per cent in the third quarter of 2003 and was 73.9 per cent in the third quarter of 2004. Its peak top-of-mind awareness figure was 56.9 per cent in the second quarter of 2004 and was 55.7 per cent in the third quarter of 2004.

AmRest tailors its KFC menu to the tastes of local consumers. For example, in addition to the traditional chicken-on-the bone menu items, AmRest has focussed on foods which are perceived as being healthier such as wraps (Twister), sandwiches, salads and appetisers, which it expects will continue to be the focus of new menu items. AmRest prepares all KFC menu items (other than its French fries which are frozen) using only fresh ingredients and intends to continue doing so. AmRest uses only 100 per cent grain fed chicken which is supplied only by suppliers certified by Yum!'s supply chain management group.

KFC is a quick service restaurant offering its customers fast meals which they can take away or consume on the premises. The table below shows the distribution of AmRest's KFC restaurants (counting each multi-branded restaurant as a KFC restaurant for this purpose) by principal city in Poland and the Czech Republic as at 28th February, 2005 (population figures are derived from the latest available national statistics):

City	Population	No. of Restaurants	Penetration[(1)]
Poland			
Warsaw	1,690,000	22	76,818
Kraków	758,000	7	108,285
Wrocław	638,000	6	106,333
Poznań	574,000	5	114,800
Gdańsk	755,000	5	151,000
Łodz	780,000	2	390,000
Others	—	24	—
Total Poland	**38,200,00**	**71**	**535,211**
Czech Republic			
Prague	1,200,000	19	63,157
Brno	392,000	3	130,667
Ostrava	332,000	1	332,000
Others	—	7	—
Total Czech Republic	**10,200,000**	**30**	**333,333**

Note:

(1) Being the number of people per restaurant.

Of KFC's 101 restaurants at 28th February, 2005, 33 are standard (as opposed to any other category) restaurants (17 in Poland and 16 in the Czech Republic), 30 are drive-through (22 in Poland and eight in the Czech Republic), 26 are in shopping centre food courts (20 in Poland and six in the Czech Republic) and 12 are multi-branded restaurants (all in Poland).

KFC's principal target market in both Poland and the Czech Republic is 16 to 39 year olds. Based on the latest available national statistics, this age group comprised 31 per cent of the population in Poland and 44 per cent of the population in the Czech Republic. Based on quick service restaurant user research undertaken by SMG/KRC, a Millward Brown Company SA (**SMG/KRC**) and Millward Brown Czech Republic spol. s.r.o. during 2003, AmRest believes that more than 52 per cent of its Czech KFC customers fall in the age range of 16 to 34 years old and a further 29 per cent fall in the range of 35 to 54 years old. Approximately 43 per cent of its Czech KFC customers finish secondary school at least and more than 61.5 per cent live in cities with a population in excess of 20,000. In relation to its Polish KFC customers, 78 per cent are aged between 15 and 39, 78 per cent finished secondary school at least and 67 per cent live in cities with a population in excess of 20,000.

AmRest is currently implementing a programme to introduce a more fast casual feel to its KFC restaurants to address the changing needs of its customers. Included in this programme are additional convenience features including lounge areas for quick meetings with friends, internet access and educational children's play areas.

Customer satisfaction is extremely important to the success of KFC. AmRest solicits and analyses customers' opinions through regular in restaurant customer surveys. CHAMPS, which is a programme implemented in all Yum! franchised restaurants by an independent operator, is also an important tool in AmRest's quality control efforts from both a food quality and customer service perspective. The CHAMPS programme

involves anonymous visits on a monthly basis to restaurants which are then scored by reference to defined criteria including the cleanliness of the restaurant, the hospitality of staff and the quality of the product.

As presented in the table below, AmRest's KFC restaurants have compared well to Yum! European averages in terms of CHAMPS scores and its KFC restaurants in the Czech Republic achieved the best results for all European Yum! restaurants in 2003.

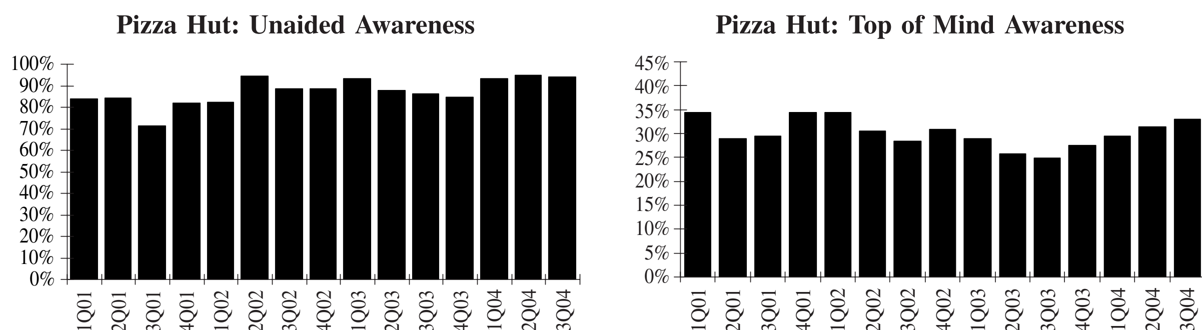
	2002	2003	2004
		(per cent)	
KFC Poland	93.8	94.8	96.7
KFC Czech Republic	97.2	98.4	94.2
Yum! European average	90.4	92.7	94.0

Pizza Hut

The first Pizza Hut restaurant was opened in 1958 in Wichita, Kansas, and, within a year, the first franchise unit was opened. Today, Pizza Hut operates approximately 12,000 restaurants in 85 countries and territories throughout the world under the name "Pizza Hut" and is the largest restaurant chain in the world by number of restaurants specialising in ready-to-eat pizza products.

Pizza Hut is Poland's leading casual dining restaurant chain in terms of both total sales in 2004 and numbers of restaurants. Pizza Hut offers a variety of menu items ranging from traditional pizzas, based on Pan Pizza (thick crust) and Italian Pizza (thin crust), with a variety of toppings, to pastas, salads, soups, appetisers and desserts. All of the Pizza Hut menu items are made using only fresh ingredients. AmRest had 55 Pizza Hut restaurants in Poland at 28th February, 2005, of which 12 were multi-branded restaurants, which carried out approximately five million customer transactions in 2004. 33 of AmRest's Pizza Hut restaurants in Poland (principally those located in Warsaw, Gdańsk and Kraków) offer a delivery service.

The charts below show trends in Pizza Hut's unaided and top-of-mind brand awareness figures in Poland as determined by Brand Image Tracker, for the periods shown.



Since 1st January, 2001, Pizza Hut's unaided brand awareness figure in Poland reached a peak of 95.0 per cent in the second quarter of 2004 and was 94.3 per cent in the third quarter of 2004. During the same period, its peak top-of-mind awareness figure was 34.5 per cent in the fourth quarter of 2001 and the first quarter of 2002 and was 33.0 per cent in the third quarter of 2004.

In recent years, AmRest has sought to broaden the Pizza Hut menu and reduce dependence on its traditional pizza offering. AmRest is continuously improving food quality and menu selection to include non-pizza choices (including a full range of pastas), better appetisers and desserts to address the tastes of local consumers.

Pizza Hut is principally a dine-in concept although AmRest also offers a take-away/delivery service in selected major cities. AmRest is implementing a programme to further improve the décor of its flagship Pizza Hut restaurants to provide a distinctive casual dining experience which is family friendly and has broad consumer appeal. Management believes that this will help to ensure that Pizza Hut remains the largest casual dining chain in Poland in terms of sales.

The table below shows the distribution of AmRest's Pizza Hut restaurants (counting each multi-branded restaurant as a Pizza Hut restaurant for this purpose) by principal city in Poland as at 28th February, 2005 (population figures are derived from the latest available national statistics):

City	Population	No. of Restaurants	Penetration
Warsaw	1,690,000	20	84,500
Poznań	574,000	4	143,500
Kraków	758,000	4	189,500
Wrocław	638,000	4	159,500
Gdańsk	755,000	4	188,750
Others	—	19	—
Total Poland	**38,200,000**	**55**	**690,909**

Of Pizza Hut's 55 restaurants, 13 are full service dine in restaurants, 15 are restaurant based delivery, six are delivery and take away, nine are in shopping centre food courts and 12 are multi-branded restaurants.

The principal target market for Pizza Hut is 16-39 year olds in Poland and, based on latest available national statistics, this segment comprised 31 per cent of the population. Based on casual dining restaurant user research undertaken by SMG/KRC during 2003, AmRest believes that 75 per cent of its Polish Pizza Hut customers are aged between 15 and 39, 71 per cent finished secondary school at least and 63 per cent live in cities with a population in excess of 20,000.

As with KFC, customer satisfaction is extremely important to the success of Pizza Hut and AmRest uses the same tools to measure customer satisfaction. As presented in the table below, AmRest's Pizza Hut restaurants have compared well to Yum! European averages in terms of CHAMPS scores.

	2002	2003	2004
		(per cent)	
Pizza Hut Poland	94.2	94.5	94.0
Yum! European average	90.4	92.7	94.0

Ice*Land

In 1999, ARS introduced a proprietary ice-cream and dessert brand — Ice*Land — in certain of its KFC restaurants and AmRest now has 22 Ice*Land outlets. Almost all of the Ice*Land outlets remain located within KFC restaurants although AmRest has also opened two stand-alone Ice*Land outlets and is promoting the Ice*Land brand individually. AmRest has also franchised the rights to the Ice*Land brand, with the first franchised outlet being opened in Warsaw in 2001. There are currently two franchised outlets in Poland. Total Ice*Land sales in 2004 were PLN 2.5 million.

New Products

The timely introduction of new products in the restaurant industry is important in maintaining and increasing sales. Many such products are introduced only for a limited period although some are intended as long-term offerings and some short-term new products are so successful that they remain on the menu on a long-term basis.

Yum! conducts new product development activities through a number of different centres worldwide. AmRest can access the results of these activities for purposes of introducing new products, with franchisor approval, in its restaurants. AmRest is also encouraged to develop its own new products or variations on existing products which it believes will appeal to its local market, again subject to franchisor approval.

New product development by AmRest in its KFC restaurants in recent years has emphasised snacks and other products which can be eaten "on-the-go". Significant new products include the entry-level priced "Longer" sandwich; the premium "Bigger" sandwich range; various "Twister" innovations and, for more health conscious consumers, a range of premium fresh salads.

New product development by AmRest in its Pizza Hut restaurants has focused on the casual dining consumer. Since 2003, new appetisers, including quesadillas, buffalo wings and fresh salads, have been added to the menu whilst new entrées include a range of freshly made pastas, chicken parmesan, three types of Calzone and a number of new pizza toppings. In addition, at selected recently upgraded flagship restaurants, a full service bar and an open kitchen element has been added.

Restaurant Management

Each AmRest restaurant is managed by a general manager who supervises assistant and shift managers. Outside the individual restaurants, an area coach is responsible for a number of restaurants (usually six to eight) in a defined area. The area coach's responsibilities include ensuring that all quality standards are met and that the restaurants the area coach is responsible for are fully staffed, co-ordinating local promotions and, together with the general manager of each restaurant, preparing and ensuring compliance with individual restaurant budgets.

Each area coach reports to one of the three brand presidents who are respectively responsible for the KFC brand in Poland, the KFC brand in the Czech Republic and the Pizza Hut brand.

The majority of AmRest's restaurants are networked on a wide area network which enables it to produce daily sales figures for each restaurant and all restaurant sales are consolidated on a weekly basis. In addition, full weekly inventories are undertaken and AmRest's DOS+ system, which has been introduced in its KFC restaurants and is being introduced in its Pizza Hut restaurants, measures on a monthly basis key restaurant performance indicators within four defined areas: customer sales, staff performance, product quality and restaurant ambience. The general manager is responsible for the customer sales indicators whilst the assistant manager and the shift managers assume responsibility for staff and for product quality and restaurant ambience, respectively. Achievement of targets based on these indicators is an important part of determining the bonus entitlements of managers. AmRest believes that the DOS+ system has helped it achieve a 3 per cent operating profit improvement its Polish KFC restaurants since mid 2003 and has also reduced the number of consistently cash flow negative KFC restaurants in Poland from six in mid 2003 to three by the end of 2004.

Restaurant Development

AmRest believes that the ability to select attractive locations and develop new restaurants, internally or through acquisition, is important in ensuring its continued growth. AmRest has a detailed and comprehensive process to:

- determine key development markets;
- select and approve new locations in those markets;
- negotiate attractive lease terms; and
- design, construct and manage restaurants.

Determining key development markets

Target markets and the pace and level of development in those markets are determined by a detailed review of many factors, including the potential of individual markets, existing and expected competition, any current penetration and historical performance of AmRest restaurants in those markets and any key challenges facing development. AmRest believes that by focusing on further penetration of its existing markets it is able to increase brand awareness and improve operating and marketing efficiencies. As a result, the Polish market has been divided into core cities, which are Warsaw, Poznań, Kraków, Wrocław and Gdańsk, and secondary cities, and the Czech market has been divided into one core city, Prague, and secondary cities.

Subject to obtaining the approval of its franchisor, AmRest also intends to expand geographically to other countries where suitable opportunities occur.

Selection and approval of new locations

AmRest believes that its site selection strategy is critical to its success and it devotes substantial effort to evaluating each potential site. Each core city in Poland is divided into trade zones based on criteria such as pedestrian and automotive traffic levels, population, traffic generators, including shopping centres or petrol stations, household income levels and unemployment. Secondary cities are analysed according to similar criteria but on a less detailed level. Sites are principally sourced by AmRest's internal development team with the support of local real estate agents.

Negotiation of attractive lease terms

AmRest leases sites for terms usually of a minimum of 10 years, with, where possible, a provision to extend the term by an agreed period. In relation to its drive-through restaurants, AmRest generally seeks to achieve a longer initial lease term. A minority of AmRest's lease agreements provide for financial penalties on early termination and a small number do not provide for early termination, see "*Financial Review — Balance Sheets —*

Provisions''. As KFC and Pizza Hut have developed significant brand identity in Poland and the Czech Republic, AmRest has been able to negotiate more favourable leases for the placement of restaurants in premium locations, such as new shopping centre developments, as operators of these centres often seek to secure KFC and/or Pizza Hut as ''flagship'' tenants.

Restaurant design and construction

Upon securing a site, AmRest appoints an approved contractor who prepares the design of the restaurant based on a master design prepared in accordance with established brand standards, supports the process of obtaining appropriate permits and oversees the construction process. The construction of a new restaurant, undertaken by an approved construction firm, generally takes from six to 10 weeks, including obtaining the necessary permits.

The table below shows AmRest's range of capital expenditures incurred in the four year period to 31st December, 2004 for constructing and opening a new restaurant.

	PLN millions
Pizza Hut Full Service Restaurant	1.6 - 2.2
Pizza Hut or KFC Delivery Outlet	0.7 - 0.9
KFC Standard Restaurant	1.6 - 2.0
KFC Standard Restaurant with Drive-Through	2.4 - 2.8
Ice*Land Outlets attached to KFC	approximately 0.1
Shopping Centre Food Court Restaurant	1.0 - 1.3
Ice*Land Stand Alone Outlet	approximately 0.1

Suppliers and Distribution Infrastructure

AmRest negotiates the majority of its supply contracts with, and purchases food supplies, ingredients and seasonings for its restaurants only from, approved suppliers who are required to meet standards designed to ensure product availability, quality and consistency. Competitive bids and contracts with fixed price terms generally of between four months and one year are used where possible to ensure the availability and quality of products at competitive prices.

AmRest seeks, where practicable, to obtain more than one supplier for each of its products and to ensure, so far as possible, competition between its suppliers. Supply agreements are generally signed for fixed terms and can usually be cancelled by AmRest without penalty upon giving a defined period of notice. AmRest has its own quality assurance team which ensure compliance with all relevant health and sanitation requirements, establish key performance indicators for suppliers and monitor compliance with them, liaise with Yum! quality assurance personnel and provide training and other technical support to restaurant staff.

AmRest purchases most of its food supplies, ingredients and packaging products from domestic vendors. Certain products are sourced through Yum!'s global arrangements including pizza flour, French fries, tomato concentrate and KFC seasoning. Almost all of AmRest's non-alcoholic cold beverages are supplied by Pepsi on the basis of a long-term contract. AmRest renegotiated this contract at the beginning of 2005 for a term of five years (commencing January 2006) on significantly improved terms, see ''*Financial Review — Factors affecting Future Results*''. AmRest reviews the supply market for key products on an ongoing basis to improve the supply process and decrease purchase prices.

In each of Poland and the Czech Republic, distribution of supplies from the vendors to AmRest's restaurants is almost entirely managed by a single company. According to the current distribution agreements, each distribution company is responsible for purchasing most supplies at prices negotiated by AmRest, for distributing the supplies to AmRest's restaurants, for ensuring continuity of supply, for maintaining an agreed inventory level and for delivering products on time and in a specified condition. AmRest believes that this centrally warehouse-based distribution network gives it a significant competitive advantage as it allows deliveries of fresh produce to its restaurants three or more times a week. In addition to ensuring the continued availability of fresh produce, AmRest's distribution system provides inventory management cost savings and also reduces its working capital requirements.

The table below sets out certain data in relation to AmRest's principal categories of supply for each of the periods indicated:

	Year ended 31st December,							
	2001		2002		2003		2004	
	(PLN millions)	(%)	(PLN millions)	(%)	(PLN millions)	(%)	(PLN millions)	(%)
Chicken	35.6	28.6	40.2	29.4	43.8	28.6	42.4	26.7
Paper and packaging	11.3	9.1	11.8	8.6	13.8	9.0	11.9	7.5
Cold beverages	8.8	7.1	10.2	7.5	12.0	7.8	12.0	7.5
Vegetables[(1)]	4.8	3.9	6.3	4.6	10.7	7.0	10.1	6.4
Cheese	9.2	7.4	9.6	7.0	9.9	6.5	9.4	5.9
Buns[(2)]	5.6	4.5	6.0	4.4	9.1	6.0	8.3	5.2
French fries	5.8	4.7	6.4	4.7	7.9	5.1	7.9	5.0
Other	42.4	34.1	45.2	33.1	47.3	30.8	57.12	35.9
Total cost of supply	**124.4**	**100.0**	**136.7**	**100.0**	**153.4**	**100.0**	**159.1**	**100.0**

Notes:

(1) The increase in 2003 principally reflects the introduction of salads into AmRest's KFC restaurants in mid 2003.

(2) Includes certain other items in KFC Poland.

AmRest has two principal suppliers of chicken products, each of whom has a renewable two-year contract under which the prices are negotiated every four months.

Marketing and Advertising

AmRest's marketing and promotion strategy aims at continuous strengthening of the Pizza Hut and KFC brand image, increasing AmRest's sales and profits by periodic promotions and building customer loyalty.

Marketing of the Pizza Hut and KFC brands in Poland has been a key contributor to the strength of the business with unaided brand awareness increasing from virtually zero in 1993 to over 70 per cent within five years for both the KFC and Pizza Hut brands.

AmRest has successfully built one of the strongest brands in the Czech Republic and two of the strongest brands in Poland. Poland's Pizza Hut and KFC brands also compare favourably with those of its principal competitor, McDonald's, in terms of food, experience and value, see "*Competition*".

The current marketing strategy in relation to both the Pizza Hut and KFC brands has moved from a brand building to a brand reinforcement strategy. AmRest's size enables it to advertise its two brands on television almost year round (although neither brand receives continuous exposure and Pizza Hut exposure in 2004 was reduced during the process of upgrading certain restaurants), and with Pizza Hut and KFC unaided brand awareness levels of 94 per cent and 88 per cent (KFC Poland) and 74 per cent (KFC Czech Republic), respectively, in the third quarter of 2004 the messages focus mostly on giving current customers and lapsed users a reason to come more frequently to AmRest's restaurants. AmRest believes that this year-round marketing calendar of televised advertising provides Pizza Hut and KFC with a strong competitive advantage versus smaller players as television advertising costs are significant.

AmRest's direct marketing expenditure in 2004 was equal to approximately PLN 22.9 million or 4.9 per cent of its restaurant sales in that year. Going forward, AmRest aims to spend approximately 5 per cent of Revenues on marketing, which is also the level required by its Franchise Agreements, see "*Material Agreements*". In 2004, approximately 50 per cent of the expenditure was on television advertising, with the balance being split approximately evenly between leaflets, radio and other advertising, and agency and staff fees and expenses. In 2002, AmRest outsourced its marketing activities to Synergy Marketing Partners Sp. z o.o. (**Synergy**), a company which is 80 per cent owned by AmRest's affiliate, Worldwide Communication Services LLC (**WCS**), see "*Subsidiaries and Affiliates*" and "*Related Party Transactions*".

Competition

AmRest believes that the only nationally organised quick service restaurant competition to its KFC restaurants in Poland and the Czech Republic is that offered by McDonald's. Although McDonald's is principally a beef burger based restaurant chain, it does offer certain chicken based menu items which compete directly with those offered by KFC. AmRest's KFC restaurants also compete on a local level with a number of different outlets

including sandwich and other quick service outlets and, in Prague, with a smaller chicken based chain which it may potentially acquire, see "*The Company — History*".

In relation to its Pizza Hut restaurants in Poland, AmRest faces a wider range of competition ranging from Sphinx (a casual dining kebab and pizza chain head-quartered in Łodz), TelePizza (a nationally organised pizza delivery chain), Dominum (another pizza delivery chain) and other dine-in concepts, including San Marzano, although the latter's restaurant network is significantly smaller than AmRest's Pizza Hut network. AmRest believes that its most significant competition is in the pizza delivery market.

The table below shows unaided brand awareness figures for KFC and Pizza Hut and their principal competitors in Poland and the Czech Republic for each available quarter since 1st October, 2003:

	Q4 2003	Q1 2004	Q2 2004	Q3 2004
	(per cent)			
Poland				
Pizza Hut	85	94	95	94
McDonald's	88	78	82	90
KFC	70	73	86	88
TelePizza	68	87	90	85
Dominum	—	39	52	38
Sphinx	—	2	4	4
Czech Republic				
KFC	88	83	83	74
McDonald's	94	88	87	73

Note: Brand Image Tracker did not track Sphinx or Dominum before 2004, did not track San Marzano over the full period and does not track Big Food in the Czech Republic.

Source: Brand Image Tracker

The table below shows usage (the percentage of respondents who had visited a particular restaurant in the last three months) and frequency (the number of times a respondent had visited a particular restaurant in the last three months) for KFC, Pizza Hut and McDonald's in Poland and the Czech Republic for each available quarter since 1st January, 2003.

	2003				2004		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Usage (per cent)							
Poland							
Pizza Hut	44	46	45	47	57	47	47
KFC	43	43	43	39	45	43	42
McDonald's	61	57	60	58	50	39	41
Czech Republic							
KFC	62	43	67	55	56	77	68
McDonald's	67	40	65	61	38	55	50
Frequency (times)							
Poland							
McDonald's	3.5	3.7	3.9	4.0	3.1	4.2	3.3
KFC	3.3	3.1	3.2	3.0	2.9	3.5	2.7
Pizza Hut	3.1	2.9	2.6	2.8	3.0	3.5	2.6
Czech Republic							
KFC	5.6	4.2	4.2	5.9	4.5	6.3	6.1
McDonald's	5.6	4.2	4.2	5.9	4.2	5.6	5.0

Source: Brand Image Tracker. Brand Image Tracker does not track Big Food in the Czech Republic.

AmRest believes that its principal competitive strengths are:

- its brand awareness, dining experience and usage levels, which rival those of McDonald's and are significantly higher than those of any other competitor;
- its supply and distribution infrastructure, see "*Supplier and Distribution Infrastructure*";

- the locations of its restaurants and its ability to source further prime locations by virtue of the strength of its brand, see "*Restaurant Development*"; and
- the fact that, unlike any of its competitors, it is present in three distinct market segments, these being the quick service, casual dining and delivery segments.

Regulation

AmRest is subject to a variety of regulations in both Poland and the Czech Republic. These include health and safety regulations aimed at ensuring appropriate standards of food quality and hygienic food preparation, regulations concerning the appropriate storage and transport of food products, licensing regulations for the sale of tobacco products and alcoholic beverages, disability access requirements and fire safety requirements. AmRest is also subject to employment and labour laws governing matters such as minimum wage levels and employment conditions.

Various bodies have the power to conduct inspections of AmRest's restaurants and to close down any restaurants which fail to comply with the regulations. AmRest is also liable under relevant legislation for any damage caused through its serving food of inappropriate quality. To date, AmRest has not experienced any claims based on these laws, although no assurance can be given that this will remain the case in the future. See "*Risk Factors — Government regulation*" and "*— Potential litigation and other complaints*".

Material Agreements

Franchise Agreements

On 6th October, 2000 AmRest signed a Master Franchise Agreement (the **Master Franchise Agreement**) with KFCIH and PHI, subsidiaries of Yum!, regarding the franchise rights for all the KFC and Pizza Hut restaurants in Poland and the Czech Republic which were contributed to the joint venture.

Under the Master Franchise Agreement, AmRest has the franchise rights to operate 38 single-sited KFC restaurants, 41 single-sited Pizza Hut restaurants and 14 single-sited multi-branded KFC and Pizza Hut restaurants in Poland and the Czech Republic. Subsequent to the Master Franchise Agreement, AmRest has entered into further franchise agreements on substantially the same terms relating to each new restaurant opened by it and, subject to franchisor approval, expects to continue signing a new franchise agreement each time a new restaurant is opened (all such franchise agreements together with the Master Franchise Agreement are referred to as the **Franchise Agreements**). The franchisor under all of AmRest's Franchise Agreements became Yum! Restaurants International Switzerland, Sàrl with effect from 1st January, 2004 following an internal reorganisation with the Yum! group.

On 15th November, 2004, AmRest signed an amendment agreement with its Franchisor which granted certain waivers in connection with the Offering and sought to conform certain provisions of the Franchise Agreements.

The following is a summary of certain of the key terms of the Franchise Agreements.

Overview

The Franchise Agreements license AmRest as a franchisee to use the trademarks, the system and the system property developed by the franchisor for the preparation, marketing and sale of food products in accordance with the KFC and/or Pizza Hut concepts at each AmRest restaurant location.

The licenses under the Franchise Agreements also include the right to use the contents of the manuals, and other similar documents, published or issued from time to time by the franchisor containing the standards, specifications and other requirements, rules, procedures and guidelines relating to the operation of the concepts, as well as the trademarks, service marks, trade names and other similar rights owned by the franchisor (or its affiliates) and designated by the franchisor from time to time for use in the operation of the concepts.

Each Franchise Agreement provides, among other things, that: (i) AmRest must comply with all standards and manuals issued by the franchisor and all applicable laws, regulations and other requirements in the conduct of its business; (ii) AmRest must upgrade, modify, renovate or replace all or part of any of its restaurants as necessary in order to comply with the standards and the manuals prescribed by the franchisor or specific upgrade notices issued by the franchisor; (iii) AmRest must prepare, market and sell only approved products and services and must purchase supplies, materials, equipment and services only from approved suppliers; (iv) AmRest must spend, in the manner directed by the franchisor in writing from time to time, an amount not less than 5 per cent of

AmRest's Revenues (as defined below) on advertising, promoting, marketing and researching the products and services of the concepts; (v) employees of AmRest must participate in such initial and ongoing training programmes as specified by the franchisor; (vi) AmRest must pay annual continuing fees to the franchisor equal to 6 per cent of its Revenues; (vii) AmRest must use the franchisor's trademarks, system and system property only in approved forms and manners; (viii) AmRest and its employees must maintain confidential the franchisor's standards, manuals and other information related to its trademarks, system and system property; and (ix) AmRest must comply with all of the other requirements and restrictions set out in the Franchise Agreement.

Each Franchise Agreement defines **Revenues** to mean all gross receipts received by AmRest as payment for the sale of approved products and for all other goods and services sold at or from each restaurant, but excluding sales tax or other tax payments received from customers and required by law to be remitted, and in fact remitted by AmRest, to any government authority. No adjustment is made for cash shortages from cash registers.

The Franchise Agreements do not grant AmRest any exclusive territory, protection or other right in the contiguous space, area or market of any AmRest restaurants. Pursuant to the terms of the Franchise Agreements, the franchisor reserves the right to use, and to grant to other parties the right to use, all rights associated with the concepts, the system property and the associated trademarks, system and system property associated with the operation of the concepts in any manner and at any other locations.

Grant of Franchise

Under the Franchise Agreements, AmRest is granted individual franchises pursuant to the standard terms of the franchisor for each of AmRest's restaurants. The Franchise Agreements do not permit AmRest to operate at any locations other than its current restaurant sites without the franchisor's prior written approval.

The grant of franchise includes the right to use, solely in connection with the operation of AmRest restaurants, the concepts, the contents of the manuals, and other similar documents, published or issued from time to time by the franchisor containing the standards, specifications and other requirements, rules, procedures and guidelines relating to the operation of the concepts and the associated trademarks, subject to the terms and conditions of the Franchise Agreements.

The franchisor owns, or has the right to use, the trademark registrations and other intellectual property rights related to the concepts in the Czech Republic and Poland. The franchisor may at any time by notice to AmRest change or withdraw any of these trademarks, or designate new trademarks, and AmRest must, pursuant to the terms of the Franchise Agreements, implement such changes, withdrawals and additions within the period specified by the franchisor in the notice.

Term

Each Franchise Agreement (the earliest of which commenced in 2000) has a term of 10 years from its date of grant, renewable at AmRest's option for a further ten years, provided that AmRest remains in compliance with the Franchise Agreement and satisfies certain other conditions, including, without limitation, the following: (i) payment of the applicable renewal fee; (ii) AmRest has requested the renewal in writing no more than 18 months and no less than 12 months prior to the expiration of the initial term; (iii) the franchisor's then current training programmes must be in use at all AmRest restaurants and all managers and the principal operator must be trained and certified under current programmes; (iv) AmRest must have approved "field" management structures in place and must have participated in the franchisor's consumer "P&L" tracking programmes from time to time; (v) AmRest is not, at the expiration of the initial term, in breach of any term or condition of the Franchise Agreement or any other agreement between the franchisor and AmRest (or their respective affiliated companies); (vi) AmRest has paid all amounts due to the franchisor on time pursuant to the Franchise Agreement; (vii) no Guarantor (as defined in the Franchise Agreement) is in violation of certain specified terms set forth in the Franchise Agreement; and (viii) AmRest must have upgraded the renewal restaurant to the franchisor's then current signage, equipment and image standards for new outlets prior to the expiration of the initial term.

The standard renewal fee is 50 per cent of the initial fee applicable to the franchise as adjusted to reflect changes in the US consumer price index during its term. The franchisor's current practice is to adjust the initial fee for changes in the US consumer price index annually on 1st April. The initial fees paid by AmRest for franchise agreements entered into after the master franchise agreement (for which no initial fee was charged) range from U.S.$35,000 to U.S.$39,560 per restaurant. The renewal fee under the Master Franchise Agreement is U.S.$17,500 adjusted to reflect changes in the US consumer price index during its term.

Continuing Fees and Advertising Contributions

AmRest is required to pay a continuing fee to the franchisor equal to 6 per cent of its Revenues. The Franchise Agreements also provide that AmRest must pay advertising contributions equal to 5 per cent of its Revenues in the manner directed by the franchisor from time to time, see "*Advertising and Research*" below. Each continuing fee payment must be accompanied by a statement of the Revenues of AmRest for the relevant period in the form required by the franchisor from time to time.

Standards and Manuals

AmRest is required to comply with all of the standards and manuals issued by the franchisor from time to time. The franchisor may at any time change any of the standards or manuals or introduce new standards or manuals. The Franchise Policies Manual (**FPM**) issued under each Franchise Agreement provides specific terms relating to market development policies, product excellence policies, marketing and advertising, operational requirements, global franchise partnering policies, human resources and training, finance and administration and insurance. These provisions may be unilaterally changed by the franchisor. In order to determine AmRest's compliance with the manuals and the terms and conditions of a Franchise Agreement, the franchisor and its agents or representatives have the right at all times during opening hours to enter and inspect AmRest restaurants without prior notice to AmRest.

Upgrades

AmRest must from time to time upgrade, modify, renovate or replace all or part of its restaurants or any of their fittings, fixtures or signage or any of the equipment, systems or inventory used in the restaurant in order to maintain compliance with the franchisor's then current standards, which may require significant capital expenditures and/or periodic financial commitments by AmRest. Furthermore, the franchisor can, by notice, require AmRest to take such upgrade and renovation actions with respect to one or more AmRest restaurants. The franchisor has undertaken that it will not require AmRest to complete, during each of the initial term and the renewal term (if any), more than two comprehensive refurbishments of all fittings, fixtures, signage, equipment, systems and inventory in the "front-of-house" area of each AmRest restaurant to then current standards (an **FOH Upgrade**) and more than one comprehensive refurbishment of all fittings, fixtures, signage, equipment, systems and inventory in the "back-of-house" area of each restaurant to then current standards (a **BOH Upgrade**), and in any event not to require AmRest to complete any FOH Upgrade or BOH Upgrade during the first two years and the last two years of each of the initial term and the renewal term.

Approved Products, Services, Suppliers and Distributors

AmRest may only prepare, market or sell products and services approved by the franchisor and may only use suppliers and distributors who have been approved in writing by the franchisor. The franchisor may, by notice to AmRest, at any time change or withdraw any approved product or add new approved products. AmRest must implement such changes, withdrawals and additions within the period specified in the notice. AmRest will bear all costs of equipment and the costs of replacing, modifying or acquiring equipment and of remodelling or altering AmRest restaurants to accommodate approved products or new products or services mandated by the franchisor from time to time. The franchisor may withdraw approval of any product, supplier or distributor at any time. The franchisor will from time to time notify AmRest of the approved products and specify which must be offered for sale at AmRest restaurants, and at what times. AmRest will not have any claim against the franchisor in connection with any non-delivery, delayed delivery or non-conforming delivery of any distributor or supplier. If AmRest wishes to develop, market or sell new products other than current approved products, it must seek the franchisor's approval.

Advertising and Research

AmRest is required to spend, in the manner directed by the franchisor in writing from time to time, not less than 5 per cent of its Revenues on advertising, promoting, marketing and researching the products and services of AmRest restaurants. The franchisor will have sole and total control and direction over all advertising and marketing programmes. AmRest is required to advertise in the manner directed by the franchisor and may not conduct any advertising or promotional activity in relation to AmRest restaurants without the franchisor's prior written approval. AmRest will participate in such national and regional advertising, promotions, research and tests as the franchisor from time to time requires. The franchisor may direct AmRest to pay all or any part of the advertising contribution to a national or regional co-operative advertising or marketing fund or to spend all or part of such contribution on local or regional advertising, promotion and research. The franchisor may also direct

AmRest to pay all or part of the advertising contribution to the franchisor, to be applied to the costs of national or regional advertising and/or research conducted by the franchisor in its discretion.

Non-Competition

During the term of the Franchise Agreements, neither AmRest nor any affiliated entity may, without the franchisor's approval, directly or indirectly, have any interest in, be engaged in or perform any services for any business world-wide involving the wholesale or retail preparation, marketing or sale of any food products, provided that the franchisor will not unreasonably withhold its approval unless one of the following categories of products individually constitutes more than 20 per cent of the food products sold in the business: (i) pizza products; (ii) pizza and pasta products collectively; (iii) ready-to-eat chicken products; (iv) Mexican food products; or (v) beef burger products. For 12 months following the final expiry, termination or transfer of the Franchise Agreements, AmRest and its affiliated entities may not, directly or indirectly, have any interest in or be engaged in or perform any services for any business within the Czech Republic or Poland involving the preparation, marketing or sale of products similar to the products sold in AmRest restaurants.

Restrictions on Charges and Transfers

AmRest may not charge, pledge or otherwise create any encumbrance, security interest or lien in respect of any interest in or right under any Franchise Agreement. AmRest may not charge, pledge or otherwise create any encumbrance, security interest or lien in respect of any other interest in or other asset of AmRest restaurants without the prior written approval of the franchisor.

AmRest may not sell, transfer or gift any Franchise Agreement or any interest therein without the prior written approval of the proposed transferee by the franchisor. In addition, AmRest must comply with all of the franchisor's transfer procedures specified in the FPM, including executing a deed of release satisfactory to the franchisor and procuring the execution by the transferee, and by such guarantors as the franchisor requires, of such guarantee and other documentation as the franchisor requires. In the event of an approved transfer, transfer fees ranging from U.S.$5,000 to U.S.$5,500 (US consumer price index adjusted annually) for each transferred AmRest restaurant (subject to an aggregate maximum amount of the equivalent of U.S.$1,000,000 (similarly adjusted)), together with all external costs and expenses incurred by the franchisor to effect the transfer, must be paid to the franchisor. This transfer restriction does not, however, prevent the transfer of any Franchise Agreement or interest in it to a wholly-owned subsidiary of AmRest.

Rights of First Refusal

If AmRest proposes any sale or transfer of a restaurant, any interest in any Franchise Agreement or any interest or share in AmRest, the franchisor has a right of first refusal, exercisable by the franchisor or by a nominated third party, to acquire such interest at the same purchase price and otherwise on substantially the same terms and conditions.

Restrictions on Share Transfers, Reorganisations, Change of Control

AmRest may not, directly or indirectly, without first obtaining the franchisor's written approval: (i) permit any sale, transfer, gift, charge or pledge by any party of any interest or share in AmRest; (ii) issue new shares in AmRest to any person who is not a shareholder at the date the franchise is granted; or (iii) permit any reconstruction, reorganisation, amalgamation or other material change in the structure or financial condition of AmRest.

Prior to a change in the direct or indirect control of AmRest, AmRest must comply with all of the franchisor's transfer procedures specified in the manuals. The FPM currently provides that AmRest must provide the franchisor with written details of the proposed new controlling party and must demonstrate that the new controlling party meets all of the franchisor's then current criteria for new franchisees. The franchisor may withhold approval in its absolute discretion. Prior to the date of change of control, AmRest must pay the applicable transfer fee and procure the execution by the former and new controlling shareholders of such guarantee and deed of release documentation as the franchisor requires.

Insurance

AmRest is required at its cost to maintain insurance as prescribed by the franchisor.

Training

AmRest's employees must undertake at AmRest's cost such initial and ongoing training as the franchisor in its sole discretion considers appropriate.

Termination

The franchisor may terminate a Franchise Agreement in respect of any or all of the AmRest restaurants governed thereby when any of the following events occur:

(a) AmRest is unable to pay its debts as and when they become due or becomes insolvent or a liquidator, receiver, manager, administrator or trustee in bankruptcy of AmRest is appointed, whether provisionally or finally, or an application or order for the winding up of AmRest is made or AmRest enters into any composition or scheme of arrangement;

(b) AmRest or any Guarantor (as defined under "*Guaranty and Indemnity*" below) breaches certain of the terms and conditions of the Franchise Agreement, such as: (i) the operation of a concept at an outlet not included in the Franchise Agreement without the franchisor's consent; (ii) sublicensing a concept to other parties; (iii) the use by AmRest of non-approved products, supplies or services; (iv) improper use of the franchisor's licensed trademarks; (v) breach by AmRest of its confidentiality obligations under the Franchise Agreement; (vi) breach by AmRest of the non-competition provisions of the Franchise Agreement; and (vii) contravention by AmRest of the provisions in the Franchise Agreement governing transfers and charges (including improper share transfers);

(c) subject to any cure period enjoyed by a Guarantor, such Guarantor breaches any term or condition of the Guarantee required by the franchisor;

(d) AmRest or any Guarantor commits any crime, offence or act which in the franchisor's reasonable judgment is likely to adversely affect the goodwill of the franchised business, system, associated trademarks or associated system property;

(e) AmRest knowingly or negligently maintains false records in respect of AmRest restaurants or submits any false report to the franchisor;

(f) AmRest abandons or ceases to operate any of the relevant restaurants for more than three consecutive days without the franchisor's prior written approval, provided that such approval will not be unreasonably withheld by the franchisor where the abandonment or cessation is caused by war, civil commotion, fire, flood, earthquake, act of God, industrial action or unrest or any other cause beyond AmRest's control which AmRest has used best endeavours to prevent and remedy;

(g) AmRest takes any action to prejudice, damage or contest the validity of the franchised trademarks or the system property, the goodwill associated with them or the ownership of them by the franchisor or its affiliated companies;

(h) any other specified agreement between the franchisor and AmRest (or between their respective affiliated companies or between one party and an affiliated company of the other party) is terminated;

(i) the franchisor notifies AmRest that AmRest or any Guarantor has breached any term or condition of the Franchise Agreement (other than those identified in paragraph (b) above) or any other agreement between the franchisor and AmRest and/or any Guarantor (or their respective affiliated companies) relating to AmRest's business and AmRest or such Guarantor does not fully cure the breach to the franchisor's satisfaction within the cure period which is specified by the franchisor in the notice as reflecting the nature of the breach; or

(j) AmRest or any Guarantor materially breaches any term or condition of the Franchise Agreements (other than those identified in paragraph (b) above) or any other agreement between the franchisor and AmRest and/or the Guarantor (or their respective affiliated companies) relating to AmRest's business in circumstances where, in the preceding 24 month period, AmRest has been sent two notices, whether or not AmRest or the Guarantor cured the prior material breaches to the franchisor's satisfaction.

If any of the foregoing events occurs, the franchisor may, in addition to and without prejudice to its other rights: (i) terminate AmRest's right to renew the Franchise Agreement; and (ii) itself take whatever actions it considers necessary to cure the breach at AmRest's cost.

Franchisor Option to Acquire Assets

On termination of a Franchise Agreement with respect to any restaurant, for any reason, including expiry of the term thereof or non-renewal, the franchisor has the option to purchase, or nominate a third party to purchase, any of the supplies held by AmRest at cost and any of the equipment or signage at the relevant restaurant at a price equal to book value less depreciation or as otherwise agreed.

Indemnification by AmRest

AmRest has agreed that it will indemnify and keep indemnified the franchisor, its affiliated companies and their agents, employees, directors, successors and assigns from and against any and all claims, liabilities, losses, costs and damages (including legal costs and expenses) arising directly or indirectly in connection with or related to AmRest's conduct of its business, the franchisor's exercise of any right pursuant to the Franchise Agreements or any act or omission by any agent of AmRest, other than where any such claim arises solely as a result of the franchisor's fault or negligence.

Guarantee and Indemnity

Each of the Founders (referred to in this section as **Guarantors**) is required under each Franchise Agreement to guarantee the full and punctual payment of all monies to be paid under all agreements between AmRest and the franchisor, and the full and punctual performance by AmRest of all of AmRest's obligations and liabilities thereunder. These guarantees (the **Guarantees**) are a principal and continuing obligation, and will not be abrogated, released, affected or discharged by any approved sale, transfer or assignment of, or of any interest in, any of the agreements between AmRest and its franchisor or certain other franchisor group companies (the **Agreements**) or any other act, event or omission which would otherwise affect or discharge these obligations and liabilities. Each of the Guarantors is liable under the Guarantees as principal debtor, and the franchisor may enforce a Guarantee without first taking any other steps or proceedings or having recourse to any other security.

Each Guarantor is required to indemnify and keep indemnified the franchisor, its affiliated companies (as defined in the Franchise Agreements) and their agents, employees, directors, successors and assigns from and against any and all claims, liabilities, losses, costs and damages (including legal costs and expenses) arising directly or indirectly in connection with or related to: (i) any breach by AmRest of any term or condition of the Agreements; (ii) the occurrence of any termination event under the Agreements; (iii) the exercise by the franchisor of any right pursuant to the Agreements; (iv) any act or omission or violation of law by an agent, representative, contractor, licensee or invitee of AmRest; or (v) any action taken by the franchisor to enforce its rights and remedies under the Guarantees.

Pursuant to each Guarantee, each of the Guarantors has individually agreed not to perform any act or fail to perform any act resulting in AmRest's non-compliance with the terms and conditions of the Agreements. Each of the Guarantors has, subject to limited exceptions, further agreed to be personally bound by the Agreements on the basis that each reference to the term "Franchisee" in the Franchise Agreement (as such term is defined therein) means each of AmRest and the relevant Guarantor jointly and severally.

Each of the Guarantors is subject to limitations on his ability to sell or transfer his interest in AmRest without the franchisor's approval. The Guarantees of each Guarantor will be released in the event that (i) 70 per cent or more of AmRest's shares are traded in a public market, (ii) the Guarantors together, directly or indirectly, own less than 30 per cent of AmRest and (iii) the relevant Guarantor himself owns directly or indirectly less than 6 per cent of AmRest.

Development Agreement

On 25th September, 2003 AmRest signed a Development Agreement (the **Development Agreement**) with KFCIH and PHILLC which replaced an earlier development agreement between the parties. Under the Development Agreement, AmRest has the right and obligation to develop Pizza Hut and KFC restaurants in Poland and the Czech Republic according to an agreed schedule. The minimum cumulative number of KFC and Pizza Hut restaurants to be opened and operating is agreed to be 155 by the end of 2005 (for this purpose a multi-branded restaurant is counted as only one restaurant). On this basis, AmRest had 144 restaurants at 28th February, 2005.

The Development Agreement:

- does not provide AmRest with any exclusivity in relation to the development of KFC and Pizza Hut restaurants in Poland and the Czech Republic. Provided that it is in compliance with its obligations under the Development Agreement, AmRest has, however, a right of first refusal in relation to any new KFC or Pizza Hut restaurant in Poland and the Czech Republic proposed to be developed by the franchisor or in respect of which the franchisor proposes to grant franchise rights;
- can be terminated upon breach by AmRest of its obligations under the Development Agreement, upon termination by the franchisor of any Franchise Agreement and upon AmRest's liquidation or related events. Termination of the Development Agreement does not affect any existing Franchise Agreement;
- requires a guarantee to be executed by each of the Founders;
- expires on 31st December, 2005 but may be renewed for a year or more by agreement between the parties. The parties are required to review the development targets on 25th September, 2005 and to negotiate development targets that would apply for the following years in the event of any renewal of the Development Agreement.

Flotation Agreement

On 18th October, 2000, KFCPH and ARC signed a flotation agreement (the **Flotation Agreement**), which governs the terms and conditions of any initial public offering (**IPO**) of AmRest. The Flotation Agreement was subsequently amended in May 2002, September 2003, September 2004, October 2004 and January 2005. According to the Flotation Agreement, the parties may elect, at any time on or before 31st December, 2005, to proceed with an IPO, provided, however, that certain qualifications and conditions are met. The conditions precedent for an IPO include:

- AmRest is and has been for a period of the prior 12 months in full and complete compliance with each of its obligations under the Franchise Agreements;
- AmRest is and has been for a period of the prior 12 months in full and complete compliance with each of its obligations under the Development Agreement;
- each party obtains assurance from the underwriter that the IPO will produce a specified minimum amount of proceeds for that party;
- AmRest has secured the release of KFCPH and ARC and any member of their respective groups from any guarantees, indemnities, letters of comfort or counter-indemnities to third parties in relation to the business of AmRest and its subsidiaries;
- AmRest has repaid any loans and other indebtedness (other than that incurred in the ordinary course of business) owing to KFCPH and ARC and any member of their respective groups; and
- ARC purchases all Shares held by KFCPH and not sold in the IPO at a specified discount to the Offer Price and on certain other specified terms and conditions.

KFCPH has the right to veto the IPO unless each of the following conditions is, and continues until the IPO becomes effective to be, satisfied:

- no cross indemnities are required to be given by the parties in respect of the underwriting of the IPO or otherwise and the underwriting agreement(s) shall impose on KFCPH, ARC and AmRest several obligations only;
- KFCPH is permitted to sell or offer for sale 50 per cent of its interest in AmRest;
- KFCPH is reasonably satisfied that the market capitalisation of AmRest immediately following the IPO shall be not less than US$100,000,000;
- ARC will retain not less than 25 per cent of the shares of AmRest (excluding any Shares not sold by KFCPH in the IPO and which are required to be purchased by ARC) upon the IPO;
- KFCPH is satisfied that any text and visual representation in any of the offering memorandum, prospectus and all other offering documents relating to the IPO is consistent with Yum!'s manuals and standards; and
- without prejudice to the clause above, KFCPH is reasonably satisfied with the text and visual representation of the offering documentation.

The Flotation Agreement also provides that, in connection with ARC's purchase of Shares from KFCPH discussed above, ARC must pay for certain of such Shares by way of a promissory note payable to KFCPH and enter into a stock pledge and escrow agreement whereby the Shares are pledged to secure payment of the promissory note, although this provision was replaced in January 2005 by an equivalent provision in the Share Purchase Agreement referred to below.

Shareholders' Agreement

On 18th October, 2000 ARC and KFCPH entered into a shareholders' agreement relating to AmRest. This agreement was subsequently amended in May 2001, May 2002, September 2003, July 2004, September 2004 and January 2005. The shareholders' agreement provides that it shall automatically terminate upon any public offering of shares in AmRest.

Loan Agreement

On 4th April, 2005, AmRest (as guarantor) and AmRest Poland and American Restaurant s.r.o (as borrowers) (together, the **Obligors**) signed a facility agreement (the **Facility Agreement**) with ABN AMRO Bank N.V. (**ABN AMRO**).

Under the Facility Agreement, ANB AMRO is to provide AmRest Poland and American Restaurant s.r.o with a loan facility in a maximum amount of PLN 110 million. The facility will include two tranches. The first tranche (**Tranche A**) will be used to refinance existing debt (see ''*Use of Proceeds*'') and will be in a maximum amount of PLN 100 million. The second tranche (**Tranche B**) will be used to finance capital expenditures related to the construction and/or acquisition of new restaurants and will be in a maximum amount of PLN 30 million. The final allocation between Tranche A and Tranche B is subject to completion of the Offering and is to be agreed by ABN AMRO and AmRest on the Closing Date.

AmRest may draw on Tranche A until 4th May, 2005 and Tranche A matures on 4th April, 2010. AmRest may draw on Tranche B until 4th April, 2008, which is also the date on which Tranche B matures.

Certain collateral will be granted to secure the obligations of the Obligors under the Facility Agreement, including a pledge over machinery, equipment and inventory, mortgages on certain real properties and an assignment of rights under certain insurance contracts.

Under the Facility Agreement, the Obligors undertake a number of covenants including: maintenance of business insurance; informing ABN AMRO of any proceedings or claims; delivering financial statements to ABN AMRO; transferring certain accounts to ABN AMRO; maintenance in good repair of restaurants; securing ABN AMRO's approval for changes in management; not making any other loans or guarantees or incurring any debt in excess of PLN 1,000,000; not granting any security interests in excess of PLN 1,000,000; not selling any assets (subject to certain exceptions); and maintaining certain financial ratios at designated levels.

Upon default by the Obligors, whether by breach of the Facility Agreement or by triggering a number of specified events of default, ABN AMRO may refuse to make further advances, reduce the amount of the facility or terminate the Facility Agreement and demand repayment of any amounts advanced.

Share Purchase Agreement

On 31st January, 2005, ARC and KFCPH entered into a Share Purchase Agreement under which KFCPH sold its 5 million Shares in AmRest to ARC subject, among other conditions, to the condition subsequent that AmRest's entire share capital is not admitted to listing on the Warsaw Stock Exchange by no later than 30th April, 2005. If the condition is fulfilled (that is, the Offering has not taken place by that date), the sale of the Shares will be dissolved by operation of law. As part of the Agreement (as amended), the parties agreed to amend, among other documents, the Flotation Agreement for the period from its execution until 30th April, 2005 or earlier termination of the Flotation Agreement. The amendments to the Flotation Agreement provide that ARC must procure the sale of 3,750,000 Shares in the Offering to ensure that payment for the 5 million Shares sold can be made to KFCPH upon completion of the Offering. Payment for 2.5 million of the Shares sold will be at the offer price (less any underwriting fee) and the remaining Shares will be sold at a price equal to 85 per cent of the offer price and will be made partly in cash and partly by way of a promissory note payable to KFCPH. In connection therewith, ARC will enter into a pledge agreement whereby 2,500,000 Shares will be pledged to secure payment of the promissory note.

In early April 2005, AmRest, ARC and KFCPH agreed that ARC and KFCPH would each set aside 182,187 Shares to satisfy options previously granted under the Company's performance participation plan, see "*The Company — Material Agreements*". The KFCPH Shares will be taken from the Shares to be sold at the offer price.

Performance Participation Plans

AmRest adopted a Performance Participation Plan (the **Plan**) in 1999 which was designed to enable AmRest to attract and retain skilled employees and to promote an entrepreneurial attitude among key employees. In early April 2005, AmRest, ARC and KFCPH agreed that the Plan would be terminated and that ARC and KFCPH would each set aside 182,187 Shares to satisfy options granted under the Plan. These options vest on dates ranging from zero to four years after 30th April, 2005 and expire from between four and nine years after that date. The strike price on these options ranges between PLN 6.40 and PLN 25.60.

Approximately 80 individuals, including all the members of the management board and executive management team named under "*Management and Employees*" with the exception of James Glover, will benefit from these options.

The Plan is described in more detail in note 18 to the 2004 Financial Statements included at the end of this Offering Circular.

After the completion of the Offering, AmRest intends to enter into a new performance plan which will enable the Management Board, with the prior approval of the Supervisory Board, to grant options to specific employees to subscribe Shares. It is currently anticipated that the plan will provide that options may not be granted in respect of more than 200,000 Shares in each year, capped at 3 per cent of issued shares, and that options granted will become exercisable within three to five years after their grant. The Management Board will have discretion to determine the subscription price for the Shares upon exercise of the options.

Intellectual Property

AmRest has rights to use, among others, the KFC and Pizza Hut names, logos and products in connection with operating its restaurants pursuant to the terms of the Franchise Agreements. The Franchise Agreements license AmRest as a franchisee to use the trademarks, the system and the system property developed by the franchisor for the preparation, marketing and sale of food products in accordance with the KFC and/or Pizza Hut concepts at each AmRest restaurant location. The KFC and Pizza Hut trademarks, system and system property are owned by Yum! and/or its subsidiaries and affiliates.

Responsibility for enforcing any infringement of the intellectual property licensed to AmRest lies with the franchisor.

AmRest owns the Ice*Land brand and has taken appropriate steps open to it in Poland and the Czech Republic to protect this brand.

Subsidiaries and Affiliates

AmRest is a holding company with seven consolidated subsidiaries and four consolidated affiliates, which are listed in note 1(a) to the 2004 Financial Statements included at the end of this Offering Circular. The only two subsidiaries which are significant to its business are American Restaurants Sp. z o.o. and American Restaurants s.r.o. (previously American Restaurants a.s., see "*History*" above), the companies which operate its restaurants in Poland and the Czech Republic, respectively.

Properties

The Company's KFC and Pizza Hut restaurants, almost all of which stand on land which is leased, are located in 35 cities in Poland and 6 cities in the Czech Republic. The principal terms which AmRest seeks to negotiate in relation to its leases are described under "*Restaurant Development*" above.

AmRest owns or co-owns a small number of properties on which its restaurants are located.

Related Party Transactions

AmRest is party to the following significant transactions with related parties:

- AmRest leases nine restaurant properties from ARS. In all cases, AmRest believes that the lease terms agreed are normal market terms and the rent payable in respect of these properties is in line with the average rent payable across all of its leased restaurants;

- AmRest has significant obligations to its franchisor (which is a Yum! group company) including the payment of continuing fees, see "*The Company-Material Agreements*";

- AmRest has been and is a party to loan agreements with certain ARC and Yum! group companies. In all cases, AmRest believes that the loan terms (including interest payable) agreed were and are normal market terms;

- A significant amount of AmRest's borrowings are guaranteed by ARC and Yum! group companies, see note 22 to the 2004 Financial Statements included at the end of this Offering Circular. Under the terms of the Flotation Agreement, all of AmRest's loans which are guaranteed by Yum! group companies are required to be repaid at the time of the Offering, see "*Use of Proceeds*". These loans aggregated PLN 105.5 million at 31st December, 2004;

- AmRest currently manages four restaurants in Warsaw owned by Spolpep, a limited life joint venture company whose charter expires on 7th November, 2007 and which is 50 per cent owned by a Yum! group company and 50 per cent owned by ARS. Under a separate contract with Spolpep, AmRest provides management services which are charged at 7.5 per cent of monthly sales. ARS has a lease in relation to the premises from which the Spolpep restaurants operate which commences on 7th November, 2007 and expires 10 years later;

- AmRest has entered into a Performance Participation Plan with Henry McGovern, the President of its Management Board, and other key employees, see "*Material Agreements — Performance Participation Plan*";

- ARC is responsible for paying the salaries and certain other expenses of certain members of AmRest's executive management team and also provides accounting and certain other services under management agreements between ARC and AmRest's Czech and Polish operating subsidiaries. These salaries and services are invoiced to the AmRest subsidiaries on a monthly basis;

- Henry McGovern owns a company which owns and leases to AmRest a building used as a training centre and as an apartment. The building was previously owned by ARS. AmRest believes that the lease terms (including rent) agreed are normal market terms;

- Henry McGovern also indirectly owns slightly over five per cent of a company which operates a loyalty programme to which AmRest is currently a party but which it has notified its partners it will be exiting before the end of 2005;

- AmRest has made certain loans and advances to its directors and executive management. No guarantees have been provided by AmRest in respect of the obligations of any such person. The amounts of such advances outstanding at the date of this Offering Circular are:

Peter Whiskerd-Wegorzewski	PLN 30,152.92
Tomasz Suchowierski	PLN 131,072.32

  These loans have generally been made without interest or with interest rates which are lower than market rates;

- In 2002, AmRest outsourced its marketing activities to Synergy, a company which is 80 per cent owned by AmRest's affiliate, WCS. The remaining 20 per cent is owned by Mr Tomasz Piotrowski, a member of AmRest's executive management team. In January 2004, AmRest acquired a controlling interest in WCS. Prior to this acquisition, fees paid to WCS group companies (including Synergy and Red 8 Communications Group Sp. z o.o.) were recorded as a direct marketing expense in AmRest's income statement. From the acquisition until 30th December, 2004, such fees were eliminated on consolidation. AmRest receives a management fee from certain WCS group companies which, prior to being eliminated on consolidation due to the above-mentioned acquisition, was recorded in other operating income on its income statement; and

- AmRest and its subsidiaries are party to a range of inter-company agreements entered into in the normal course of their respective businesses.

Certain of these transactions are described in more detail in note 25 to the 2004 Financial Statements included at the end of this Offering Circular.

MANAGEMENT AND EMPLOYEES

AmRest has a two-tier corporate governance structure, consisting of a management board (the **Management Board**) and a supervisory board (the **Supervisory Board**). The day-to-day management and policy-making of AmRest is vested in the Management Board, under the supervision of the Supervisory Board. There are currently two members of the Management Board whose names are set out below. The Supervisory Board supervises the Management Board and AmRest's general course of affairs and the business it conducts. It also supports the Management Board with advice. The Supervisory Board is required by AmRest's Articles to consist of six members (together, the **Supervisory Directors**), three of whom must be independent. In performing their duties, Supervisory Directors must act in accordance with the interests of AmRest and the business it conducts. For a detailed description of the powers and functions of the Management Board and the Supervisory Board, see "*Description of the Shares — Management Board*" and "*— Supervisory Board*".

The authority to represent AmRest is vested in Henry McGovern and Peter Whiskerd-Wegorzewski, the current members of the Management Board. Members of the Management Board (**Managing Directors**) are appointed by the shareholders in general meeting and may be suspended or dismissed by the shareholders in general meeting. Resolutions to appoint and remove Managing Directors require the approval of specific majorities of shareholders, see "*Description of the Shares — Management Board*".

None of the Directors has a written contract of employment.

Supervisory Directors

AmRest's Supervisory Board has the following members:

Christian Eisenbeiss, Chairman of the Supervisory Board

Until mid 2004, Mr Eisenbeiss was Chairman of the Supervisory Board of Holsten-Brauerei AG, a position he had held since 1988. Before joining the company in which his family had, until then, held a significant interest, Mr. Eisenbeiss spent six years as an investment banker in New York with Dillon, Read & Co. Inc. He holds a Master of Arts from Columbia University in pure mathematics, where he was studying for a Ph.D. before moving to Wall Street in 1979. He is a graduate of Amherst College and Phillips Andover Academy.

Mr. Eisenbeiss' business activities include the chairmanship of Tivoli Werke AG, which is a malt factory in Hamburg, and brewpubs in the United States. He also supports the work of the artist Robert Wilson. Mr Eisenbeiss divides his time between Hamburg and New York City; he is unmarried.

Donald Kendall Sr.

Mr Kendall is co-founder of PepsiCo Inc. and was its Chief Executive Officer for 21 years before his retirement in May 1986. Mr. Kendall served as Chairman of the PepsiCo Inc. Board's Executive Committee from 1986 until 1991. Under Mr. Kendall's leadership, PepsiCo became one of the largest corporations in the United States. PepsiCo divisions also expanded their operations to new areas of the world, including the former USSR (where Pepsi-Cola was the first foreign consumer product to be sold) and the Peoples' Republic of China.

Throughout his career, Mr. Kendall has been extremely active in a wide variety of key cultural, economic and political organisations, both domestically and internationally. Major appointments include: National Alliance of Businessmen (Chairman, 1969; director for eight years), US-USSR Trade and Economic Council (first Co-Chairman, 1973-1977), Emergency Committee for American Trade (Chairman, 1969-1976), the Chamber of Commerce of the United States (Chairman of the Board, 1981-1982), National Center for Resource Recovery, Inc. (Chairman from 1970 to 1976), Grocery Manufacturers of America (Chairman from 1969-1971) and the American Ballet Theatre Foundation (Chairman of the Board, 1977-1983).

Mr. Kendall serves on the Boards of Directors of Orvis, Enfrastructure, and BUY.COM Inc. He is also a Director of the East Institute.

Mr. Kendall has been widely recognised for his contributions to American business. In 1987, the Board of Editors of Fortune magazine selected Mr. Kendall for induction into the National Business Hall of Fame, where he joined such business legends as Andrew Carnegie, Thomas Edison, Alfred Sloan and John D. Rockefeller. The award recognises outstanding business leaders who have contributed significantly to the growth of the private enterprise system and of the United States. Recognition of Mr. Kendall's leadership has extended beyond the business world. He was the 1989 recipient of the prestigious George F. Kennan Award for his outstanding contribution to improving U.S. — Soviet relations.

Donald Kendall Jr.

Mr Kendall is currently President of High Country Passage, LP, a travel services company based in San Francisco, California.

Until 2000, Mr Kendall was Chairman of the Board, President and Chief Executive Officer of more.com, a company which he co-founded in 1997. More.com was a leading online health, beauty and wellness superstore and was acquired by HealthCentral.com, a publicly traded internet content provider and retailer in October 2000. Before founding more.com, Mr Kendall was, for a short period, a strategy consultant to Firefly, a privately held provider of internet-based software tools for personalisation.

In 1993, Mr Kendall co-founded ARS and, between 1993 and 1996, he was President and Chief Operating Officer of ARS, see "*The Company — History*". Prior to co-founding ARS, Mr Kendall worked as a consultant with McKinsey & Company in New York.

Mr Kendall is a Member of the Boards of Directors of Hotwire (an internet travel business) and JustGive.org (an internet philanthropy portal). He is also a member of the Young President's Organisation and a trustee of the California Pacific Medical Center Foundation. Mr Kendall gained a Bachelor of Arts degree at Stanford University in 1990.

Peter Hearl

Mr Hearl is President and Chief Concept Officer of Dallas-based Pizza Hut, Inc., a division of Yum! Brands, Inc. Yum! Brands, Inc. is the parent company to A&W All-American Food, KFC, Long John Silver's, Pizza Hut and Taco Bell.

Prior to becoming head of Pizza Hut in late 2002, Mr Hearl was Executive Vice President and Chief People Officer at Yum! Brands, Inc. While in that position, he was responsible for Human Resources, which includes recruiting, staffing, compensation, benefits, employee relations, management development and training, safety, security, equal employment opportunity and facilities. He assumed this position in December 2001.

Before that, Mr Hearl was Executive Vice President for Yum! Restaurants International (**YRI**), the international division of Yum! Brands, Inc. He began his career with Exxon and held a variety of senior strategic planning, marketing and operations positions in Australia and the United States. In 1991, he joined KFC Australia as Director of Operations and moved to London in 1993 where he ran KFC's business in the UK, Ireland, Continental Europe and parts of Africa. In 1996, he moved back to Sydney as Regional Vice President overseeing KFC and Pizza Hut businesses in Australia, New Zealand and South Africa before accepting a position as Region Vice President for YRI in Asia Pacific in 1997.

Mr Hearl is an Australian citizen. He grew up and was educated in Sydney. He has a Bachelor of Commerce degree with an economics major from the University of New South Wales (Sydney).

Martin Shuker

Mr Shuker is General Manager of KFC UKII and assumed this role in April 2004. He has been with Yum Restaurants, formerly Tricon Restaurants and Pepsico, since 1995 holding a variety of general management and marketing roles.

Prior to his current assignment, Mr Shuker was General Manager of the European Franchise Business Unit, covering around 25 countries and responsible for both the Pizza Hut and KFC brands. He performed this role for more than three years, commencing January 2001.

Prior to these general management roles, Mr Shuker undertook a number of marketing roles within Yum! From mid 1999 to the end of 2000, Mr Shuker was based in Dallas, USA as Vice President of Marketing for KFC International. From mid 1998 to mid 1999, he was Vice President of Marketing for Continental Europe responsible for both Pizza Hut and KFC. From mid 1995 to the beginning 1998, Mr Shuker was Marketing Director for KFC UKII.

Prior to his career with Yum!, Mr Shuker was with United Biscuits for nine years working for the frozen food division Ross Youngs, formerly United Biscuits Frozen Foods, based in the UK. There he had a variety of marketing assignments initially with pizzas, then seafood and last of all within the ready meals division.

Mr Shuker started his career with a two year stint in marketing and sales for Norwich Brewery, part of the Grand Metropolitan Group, from 1984 to 1986.

He graduated from Heriot Watt University with a 2.1 honours degree in Business Organisation specialising in Marketing.

Laurence Roberts

Mr Roberts is the Chief Financial Officer of Pizza Hut (UK) Ltd., a 50/50 joint venture between YUM! Brands, Inc. and Whitbread Plc.

Prior to becoming CFO of Pizza Hut (UK), Mr Roberts was Vice President, Assistant Treasurer — International of YUM! Brands, Inc. and was responsible for the company's international funding and cash management activities. He assumed this position in April 2000.

Mr Roberts joined PepsiCo, Inc. in 1990 as an International Treasury Analyst and transferred to PepsiCo's international restaurants division in 1995 as a Planning Director. Upon the spin-off of the restaurants business from PepsiCo in 1997, which formed Tricon Global Restaurants (now YUM! Brands, Inc.), he assumed responsibility for YUM! Brands, Inc.'s international treasury activities in Europe and Latin America.

Mr Roberts is a U.S. citizen. He holds a Bachelor of Arts degree from Bucknell University with an economics major and a Masters in Business Administration from the University of Michigan.

Each of Mr Hearl, Mr Shuker and Mr Roberts has indicated that he will resign as a member of the Supervisory Board after the Offer Shares are delivered on the Closing Date. Following their resignation, AmRest expects that the following individuals, each of whom has indicated his willingness to serve, will be appointed as Supervisory Directors:

Per Steen Breimyr

Mr Breimyr is Vice President Global Sales with Interbrew in Belgium. Between January 1994 and September 2003 he held a variety of senior positions with companies in the PepsiCo group, including, most recently, Senior Director OP. Between November 1992 and January 1994 he worked as a Sales Director for Duracell Norway and, between August 1987 and November 1992, he held a variety of sales and account manager positions with MasterFoods Norway (Mars Inc).

Mr Breimyr attended Arendal Handelsskole marketing college between 1978 and 1980 and the London School of Foreign Trade between 1981 and 1982. He was born in 1961.

Przemyslaw Aleksander Schmidt

Mr Schmidt is a managing partner with Trigon, a Polish merchant banking firm, a position he has held since October 2001. During 2000 he was a Director of CentralEuropa.com LLC. Before that he was Senior Vice President of Business Development and General Counsel of @Entertainment, Inc in Hartford Connecticut (1997 to 2000) and President of Wizja TV. (1997 to 2000); Country Director of MeesPierson EurAmerica, a member of the ABN AMRO group, (1995 to 1997), a senior associate at the law firm Soltysinski, Kawecki & Szlezak (1992 to 1995) and a Lecturer at the School of Law, Adam Mickiewicz University in Poznan (1988 to 1992). Mr Schmidt has also held a number of other directorships and is currently Vice Chairman of the Board of United Way Poland and Co-founder and President of Polska Fundacja Rozwoju Oświaty ''POFRUŃ''.

Mr Schmidt gained a *summa cum laude* master of law degree at the School of Law, Adam Mickiewicz University in Poznan and attended postgraduate studies at the University of California, Hastings (*Fulbright Scholar*), at Georgetown University, Leiden University and the TMC Asser Institute in The Hague (Asser College Europe). Mr Schmidt is 41 years old.

Jan Sýkora

Mr Sýkora is Chairman of the Board of Directors of Wood & Company Financial Services, a Czech investment bank. Before joining Wood & Company, Mr Sýkora was a business consultant with Ameritech International in 1994 when he advised in relation to the first phase of the bidding process for SPT Telecom. Between 1991 and 1993, Mr Sýkora worked part-time as an assistant to the Director of the Anglo-American Business Institute, Inc. During the same period he also acted as a tourist service consultant and started his own business to advise travel companies. Mr Sýkora is currently a Member of the Board of Directors of the Prague Stock Exchange and Chairman of its Trading Committee, a Director of Madeta, a Director of Autoguide Group, a Member of the Young President's Association and a Member of the Supervisory Board of the Anglo American College in Prague.

Mr Sýkora gained a bachelor of business administration degree from the Prague University of Economics, a master of business administration from the Rochester Institute of Technology (Prague Campus) and a master of economics degree from the Czech Ministry of Education.

Managing Directors

AmRest's Management Board has the following members:

Henry McGovern — President of the Board

Mr. McGovern co-founded the Company and since 1995 has served as President, initially of ARS and, from 1999, of AmRest. Between 1993 and 1995, Mr. McGovern was a board member of ARS and President of American Retail Services, the real estate operations of ARC. Prior to founding ARC, Mr. McGovern was President and Founder of Metropolitan Properties, a residential and commercial real estate company, and Student Housing Association, Inc, specialising in off-campus student housing for University students. He was also a founding member of the Young Entrepreneur's Organization. Mr. McGovern studied Biology and Philosophy at Georgetown University and attended the London School of Economics. Mr McGovern is currently a member of Young President's Organisation and Chairman of the Poland Chapter. Mr. McGovern is 38 years old.

Peter Whiskerd-Wegorzewski — Chief Operating Officer

Mr. Whiskerd-Wegorzewski joined AmRest in the fall of 2002. Prior to joining AmRest, Mr. Whiskerd-Wegorzewski held a number of senior management positions across Europe during a nine year career with Mars Inc. In the early 1990s, he played a major role as Finance Director in establishing Mars Inc's businesses in Czech Republic, Hungary, Poland and Russia. Since 1996, Mr. Whiskerd-Wegorzewski has lived in Poland, working in media, initially in television for TVN and most recently as President of PWN, where he led a major restructuring of this publishing house. Mr. Whiskerd-Wegorzewski is a member of Young Presidents Organisation and served on YPO's European Regional governance from 2002 until earlier this year. He holds a Honours Degree in German Studies from Warwick University (UK) and is a member of the Chartered Institute of Management Accountants (CIMA). Mr. Whiskerd-Wegorzewski is 49 years old.

Executive Management

The executive management team of AmRest comprises Henry McGovern, Peter Whiskerd-Wegorzewski and the following individuals:

Alan Laughlin — Chief Financial Officer

Mr. Laughlin joined AmRest in December 2003 as Chief Financial Officer responsible for overseeing all financial matters. Prior to assuming his current position, Mr. Laughlin served as CFO for TDC (TeleDanmark) Internet in Poland, where he completed a significant restructuring of its business. From 1998 to 2000, he was Finance Director at Pioneer First Polish Investment Fund Company, one of the largest mutual fund companies in Poland. From 1994 to 1998, he was Finance Director and Planning Director for US WEST/Media One's directory publishing business in Poland. He began his career with Ernst & Young in Denver, Colorado USA. Mr. Laughlin holds a Bachelor of Science Degree in Business Administration and Accounting from Colorado State University. Mr. Laughlin is 42 years old.

Tomasz Piotrowski — Chief Marketing Officer

Mr Piotrowski has been the chief marketing officer for AmRest since May 2002. In 2002, he founded Synergy Marketing Partners, a professional marketing consulting and outsourcing firm whose clients include Carlsberg-Okocim and Leroy Merlin. Prior to founding Synergy, Mr. Piotrowski held several positions in multinational advertising agencies including the position of Strategic Planning Director at Ogilvy & Mather Poland Sp. z o.o. and TBWA Warszawa Sp. z o.o. and Strategic Planner at Ammirati Puris Lintas Warszawa Sp. z o.o. In these capacities he was responsible, among other things, for brand strategy development and advising clients including Unilever, Nestle, Kraft Jacobs Suchard, Beiersdorf, Seagram and Polish Telecom. Mr. Piotrowski majored in marketing at the Warsaw School of Economics and is 33 years old.

Tomasz Suchowierski — Chief Business Development Officer

Mr. Suchowierski joined ARC in 1996 and is currently responsible for the development of AmRest's business through its existing brands and concepts as well as the development of new brands and concepts and

geographical expansion. Following the establishment of AmRest and prior to January 2001, Mr. Suchowierski acted as Finance Director of AmRest. Prior to joining AmRest, Mr. Suchowierski was the Director for finance, IT systems and legal matters with ARS. Between 1989 and 1996, Mr. Suchowierski worked for Escada, a leading international fashion house, where he occupied various positions including that of chief accountant. Mr. Suchowierski read International Finance at the William Patterson University of New Jersey in the United States and completed an MBA at Wrocław Economic Academy. Mr. Suchowierski is 37 years old. Mr. Suchowierski is a member of the executive board of AmRest Poland.

James Glover — Pizza Hut Brand President, Poland

Mr. Glover joined AmRest in May 2004 as Operations Director responsible for brand strategy, positioning and operations of Pizza Hut Poland. Prior to joining AmRest, Mr. Glover spent 25 years working in the international hotel and food and beverage industries. From June 1996 to December 1999, Mr. Glover was employed by the Newport Bay Club Hotel, the largest hotel operated by Euro Disney, first as General Manager and later as the Vice President of Food operations for the seven hotels on the Euro Disney site. Prior to joining Euro Disney, Mr. Glover spent 14 years in various positions with Hilton International in London before joining InterContinental Greece as Food and Beverage Director. Mr. Glover graduated from Hotel Management School in Bournemouth. Mr. Glover is 48 years old.

Alan Polansky — KFC Brand President, Czech Republic

Mr. Polansky joined AmRest in 1996 and is currently responsible for the operations and strategy of KFC restaurants in the Czech Republic. Prior to assuming his current position, Mr. Polansky held several positions with AmRest where he was responsible for marketing and operations for KFC and Pizza Hut in Poland and the Czech Republic. Mr. Polansky spent one third of his career in the U.S. as a part owner of a Grandy's franchise and the president of a U.S.-based fine porcelain decorating company which he helped to turn around and sell. The remaining two thirds of his career were spent abroad in a variety of senior management capacities. Mr. Polansky also served as Deputy Assistant Secretary of Commerce in the Nixon/Ford administration, and negotiated numerous international trade agreements, and was responsible for worldwide sales of iron ore to leading steel companies in Japan, Canada, Europe and the U.S. Mr. Polansky holds a Law Degree from the University of Michigan, a Masters degree in International Relations from the Johns Hopkins University School of Advanced International Studies and a Bachelors degree from Case Western Reserve University.

Drew O'Malley — KFC Brand President, Poland

Mr. O'Malley joined AmRest in 1994 and developed the KFC brand for ARS in western Poland, including operations and local marketing until 1998, when he was appointed to run the then recently acquired Czech KFC operations. Mr O'Malley left AmRest in 1999 to complete his MBA in the US, and returned to Poland in 2001 as an associate consultant at McKinsey & Company in Warsaw. In 2003, Mr O'Malley rejoined AmRest and is responsible for the operations and strategy of KFC in Poland. Mr. O'Malley holds an MBA from the University of Michigan in Strategy and Finance, a BA in International Relations from Georgetown University and is fluent in Polish. Mr. O'Malley is 34 years old.

None of the Directors and members of executive management referred to above owns any shares in AmRest although many of them participate in the performance participation programme described under "*The Company — Material Agreements*".

The aggregate remuneration granted to the members of the Management Board during the year ended 31st December, 2004 and charged to AmRest was $494,000.

No Director or member of executive management has been involved in transactions with AmRest which are unusual in their nature or conditions during the year ended 31st December, 2004 or to date in 2005.

Employees

The experience of customers at the restaurants is one of the decisive factors in AmRest's success. Over several years of commercial operations, AmRest has developed training and personnel development programmes enabling it to train restaurant staff and management at the same pace as the development of new restaurants and to offer career development opportunities to its most capable employees. For example, approximately 76 per cent of restaurant managers have been trained and promoted from within AmRest. AmRest has also developed a compensation scheme that is closely tied to restaurant performance and has established awards for outstanding employees. Commitment to personnel development and effective motivational tools have resulted in restaurant

general manager turnover of approximately 3 per cent and staff turnover of approximately 65 per cent in 2004, well below international norms published by the 2003 People Report for the quick service restaurant industry of around 40 per cent and 129 per cent, respectively.

In addition to staff turnover, other key indicators showing effectiveness of training, employee satisfaction and staff stability are: (i) Restaurant General Manager turnover; (ii) Restaurant Management and Crew Organisational Effectiveness Survey Score indicating employee job satisfaction on a scale from 1 to 5; and (iii) Restaurant General Manager Stability showing what percentage of general managers have served as such for at least 12 months. Across all those indicators, AmRest compares favourably with Yum! benchmarks.

AmRest employed approximately 4,900 people at 31st December, 2004. Of those, approximately 1,600 were Pizza Hut restaurant staff in Poland, 2,300 were KFC restaurant staff in Poland and 900 were KFC and Pizza Hut staff in the Czech Republic.

The table below shows AmRest's average employees (including both full time and part time employees) in each of 2002, 2003 and 2004.

	2002	**2003**	**2004**
Restaurant staff (including managers)	4,625	4,457	4,764
Office and administration	125	133	130
Total	**4,750**	**4,590**	**4,894**

Notes:

(1) All numbers are full year averages.

(2) Figures using full-time equivalents are not available.

PRINCIPAL AND SELLING SHAREHOLDER

AmRest was established in 2000 as a joint venture owned 50 per cent by ARC, through IRI, and 50 per cent by KFCPH. On 31st January, 2005, KFCPH agreed to sell its entire holding of 5,000,000 Shares in AmRest to ARC (such Shares to be registered in the name of IRI) on the following terms:

- the sale is subject to the condition subsequent that AmRest's entire share capital is not admitted to listing on the Warsaw Stock Exchange by no later than 30th April, 2005. If the condition is fulfilled (that is, the Offering has not taken place by that date), the sale of the Shares will be dissolved by operation of law; and

- payment for the shares sold to ARC will be made on completion of the Offering in accordance with the terms of the Share Purchase Agreement which provides for payment to be partially in cash and partially by way of a promissory note, see "*Material Agreements — Share Purchase Agreement*".

As a result, IRI is the only selling shareholder in the Offering although a significant part of the proceeds raised by it will be used to make payment to KFCPH for the Shares sold by KFCPH to ARC.

ARC is entitled to procure the sale of up to 1,250,000 shares owned by IRI in the Offering. Following completion of the Offering (assuming that the sale option is not exercised), ARC will own 39.08 per cent of the shares in AmRest. AmRest believes that ARC's intention is to maintain approximately 40 per cent ownership of AmRest.

ARC was founded by Donald M. Kendall, Sr., Donald M. Kendall, Jr., Christian R. Eisenbeiss and Henry J. McGovern in 1996 as a vehicle to own and operate their activities in Poland and, at a later date, the Czech Republic. In order to fund his participation in ARC, Mr McGovern borrowed money from two of the other founders and this loan remains outstanding. ARC is incorporated under the laws of the State of Delaware in the United States and is subject to Subchapter S of the United States Internal Revenue Code, that is it is a flow-through entity for U.S. tax purposes.

The current ownership structure of ARC is shown in the table below:

	Number of shares owned	Ownership percentage
Donald M. Kendall, Sr.	332	30.00
Christian R. Eisenbeiss	314	28.36
Henry J. McGovern	249	22.49
Donald M. Kendall, Jr.	202	18.25
David A. Bobilya	10	0.90

In addition to its ownership interest in AmRest, ARC conducts real estate operations through its wholly-owned subsidiary, ARS. ARS owns several buildings directly. In most cases, all or a significant portion of the ground floor space is leased to AmRest for the operation of a restaurant, while the remainder of the building is leased to commercial tenants unrelated to AmRest. There are also cases where portions of the first floor are leased to AmRest for additional seating, or basement space is leased for utility and storage. AmRest's executive offices in Wrocław are also located in a building owned by ARS, see "*The Company — Related Party Transactions*".

In addition to its direct real estate investments, ARS owns 50 per cent of Spolpep and 45.44 per cent of STR Sp. z o.o. (**STR**). STR owns five buildings in Szcecin, which are part of a primarily commercial mixed-use real estate development project. None of the STR real estate is used by or connected with the business of AmRest and STR is independently managed, although certain employees of AmRest have a seat on STR's supervisory board.

DESCRIPTION OF THE SHARES

*The following is a summary of certain information in relation to the share capital of AmRest and of certain significant provisions of Dutch corporate law and AmRest's Articles of Association (the **Articles of Association**). This summary is intended to contain all material information in relation to the share capital of AmRest and the rights attaching to the Shares and in relation to the Articles of Association of AmRest, but does not purport to be complete. This summary is qualified entirely by reference to the Articles of Association, which can be obtained from the commercial register in Amsterdam, and by Dutch law in effect at the date of this Offering Circular.*

General

The Company has a two-tier system of corporate governance, consisting of the Management Board and the Supervisory Board. The day-to-day management and policy-making of the Company is vested in the Management Board. The Supervisory Board supervises the management of the Management Board and the general course of affairs of the Company and the business connected with it. Furthermore, the Supervisory Board supports the Management Board with advice. In performing their duties the Supervisory Board members must act in accordance with the interests of the Company and the business connected with it.

Corporate purpose

The Articles of Association provide that the principle objects of the Company are (i) to incorporate, to participate in any way whatsoever in, to manage and to supervise businesses and companies; (ii) to finance businesses and companies; (iii) to borrow, to lend and to raise funds, including the issuance of bonds, promissory notes or other securities or evidence of indebtedness and to enter into agreements in connection with those activities; (iv) to render advice and services to businesses and companies with which the Company forms a group and to third parties; (v) to grant guarantees, to bind the Company and to pledge its assets for obligations of businesses and companies with which it forms a group and on behalf of third parties; (vi) to acquire, alienate, manage and exploit registered property and items of property in general; (vii) to trade in currencies, securities and items of properties in general; (viii) to develop and trade in patents, trade marks, licenses, know-how and other industrial property rights; (ix) to perform any and all activities of an industrial, financial or commercial nature; and (x) to do all that is connected with, or that may be conducive to, items (i) through (ix) above, all to be interpreted in the broadest sense.

Share Capital

Under the Articles of Association, the Company's authorised share capital amounts to €150,000, divided into 15,000,000 ordinary shares in registered or bearer form with a nominal value of €0.01 each. As at the date of this Offering Circular, the issued and outstanding share capital of the Company is 10,000,000 fully paid ordinary shares with a nominal value of €0.01 each. All of the Shares are ordinary shares, ranking *pari passu* with each other. On the occasion of the issuance of Shares, the corporate body authorised to issue the shares shall decide whether the Shares to be issued shall be bearer or registered Shares. Registered Shares may be converted to bearer Shares at any time at the option of the holder. Bearer Shares which are issued at the same time shall be represented by one single share certificate (the ***Global Certificate***). In case the corporate body authorised to issue Shares shall decide that bearer Shares are to be quoted on a stock exchange or traded in a securities market where it is required that the Shares or, as the case may be, the Global Certificate(s) representing the Shares must be deposited with a depository, the Global Certificate(s) representing such shares shall be deposited with such depository in accordance with the applicable securities market regulations for so long as is required by such regulations. The methods of administration and of evidencing the title to the Shares and the rules applicable to transfer of the Shares shall also be subject to such applicable securities market regulations. If the corporate body authorised to issue Shares is the Management Board, such resolution shall require the approval of the Supervisory Board.

New Shares may be issued pursuant to a resolution of the Management Board if and so far as the Management Board has been designated by the General Meeting of Shareholders as the authorised body for this purpose for a specific period of not more than five years, which may not be extended by more than five years on each occasion. Such resolution of the General Meeting of Shareholders requires a majority of at least seventy five per cent (75%) of the votes cast. Pursuant to the deed of incorporation dated 6th October, 2000, the Management Board has been designated as the body authorised to issue shares until October 2005. The Management Board requires the approval of the Supervisory Board for such an issue. If the Management Board has not been designated by the General Meeting of Shareholders as the authorised body to issue shares, the General Meeting

of Shareholders shall have the power, upon the proposal of the Management Board, which proposal must be approved by the Supervisory Board, to resolve to issue shares, which resolution requires the same majority.

Each holder of Shares shall have a right of pre-emption in proportion to the aggregate nominal value of such holder's Shares. Shareholders shall, however, have no right of pre-emption on Shares which are issued against a contribution other than cash, which are issued to employees of the Company or of a group company of the Company, or which are issued to any person who exercises a previously acquired right to subscribe for Shares.

Rights of pre-emption may be restricted or excluded by a resolution of the Management Board, if and in so far as the Management Board has also been designated by the General Meeting of Shareholders for this purpose as the authorised body for a specific period of not more than five years, which may not be extended by not more than five years on each occasion. Such resolution of the General Meeting of Shareholders requires a majority of at least eighty per cent (80%) of the votes cast. The Management Board requires the approval of the Supervisory Board for such restriction or exclusion. If the Management Board has not been designated by the General Meeting of Shareholders as the authorised body to restrict or exclude pre-emption rights, the General Meeting of Shareholders shall have the power, upon the proposal of the Management Board, which proposal must be approved by the Supervisory Board, to limit or exclude the pre-emptive rights accruing to shareholders. Such resolution of the General Meeting of Shareholders requires a majority of at least eighty per cent (80%) of the votes cast.

The table below shows the Company's share capital history including details of the stock split effected on 30th September, 2004 and the New Shares proposed to be issued in the Offering:

Issued ordinary share capital	Cumulative number of shares	Nominal value
		(€ per share)
Shares issued on incorporation (6th October 2000)	50,000	1.00
Share issue (31st August 2001)	100,000	1.00
Issued following 100 for 1 stock split (30th September, 2004)	10,000,000	0.01
Issued post-Offering	13,500,000	0.01

Purchase of its own Shares by the Company

The Company may acquire fully paid Shares at any time for no valuable consideration or, subject to certain provisions of Dutch law and the Articles of Association, if (i) the Company's shareholders' equity less the payment required to make the acquisition does not fall below the sum of called-up and paid-up share capital and any statutory reserves; (ii) the Company and its subsidiaries would thereafter not hold, or hold in pledge, shares with an aggregate nominal value exceeding ten per cent (10%) of its issued share capital; and (iii) the Management Board has been authorised by the General Meeting of Shareholders to make such acquisition, which authorisation shall be valid for not more than 18 months and shall specify the number of Shares which may be acquired, the manner in which they may be acquired, the limits within which the price must be set and the time within which the Shares must be resold.

No such authorisation is required for the acquisition by the Company of fully paid Shares for the purpose of transferring such Shares to employees of the Company or employees of a group company of the Company under a scheme applicable to such employees. Such Shares must be officially listed on an exchange.

Any such acquisition of Shares may be effected by a resolution of the Management Board, subject to approval of the Supervisory Board.

In the General Meeting of Shareholders, no voting rights may be exercised for any Share held by the Company or a subsidiary of the Company.

Reduction of the issued capital

The General Meeting of Shareholders may, subject to Dutch law and the Articles of Association, resolve to reduce the issued share capital. A reduction of the Company's issued capital may be effected (i) by cancellation of Shares held by the Company; or (ii) by reducing the nominal value of Shares, to be effected by an amendment to the Articles of Association. A reduction of the nominal value of Shares without repayment must be effected in proportion to all Shares. This principle may be deviated from with the consent of all shareholders. A resolution of the General Meeting of Shareholders to reduce the issued share capital requires a majority of at least seventy five per cent (75%) of the votes cast.

Transfer of Shares

The transfer of a registered Share shall be effected by deed of transfer and, unless the Company itself is party to the transfer, by either service upon the Company of the instrument of transfer or by written acknowledgement of the transfer by the Company. The same shall apply to an allotment of registered Shares in the event of a judicial partition of any community of property or interests, the transfer of a registered Share as a consequence of a judgement execution and the creation of limited rights in rem on a registered Share.

The transfer of bearer Shares shall be effected by delivery in accordance with applicable Polish securities market rules.

Management Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. The Articles of Association require that the Management Board shall obtain prior approval from the Supervisory Board for certain resolutions. These resolutions are resolutions relating to: (i) acquiring, alienating, encumbering, leasing, letting and in any other way obtaining and giving the use or benefit of registered property; (ii) entering into agreements whereby the Company is granted credit by a bank; (iii) lending and borrowing money, with the exception of acquiring money under a credit already granted to the Company by a bank; (iv) long term direct or indirect co-operation with another company and the termination of such co-operation; (v) direct or indirect participation in the capital of another company and changing the size of such a participation; (vi) investments and divestitures; (vii) entering into agreements by which the Company binds itself as guarantor or as severally-liable co-debtor, or otherwise guarantees or agrees to bind itself as security for a debt of a third party; (viii) appointing officers of the Company and determining their authority and title; (ix) settling litigation; (x) being a party to legal proceedings, including conducting arbitration proceedings, with the exception of taking legal measures that cannot be delayed; (xi) entering into and changing employment agreements whereby remuneration is granted which exceeds the annual maximum amount determined by the Supervisory Board and notified to the Management Board in writing; (xii) establishing pension plans and granting pension rights in excess of those arising from existing arrangements; and (xiii) filing a petition for bankruptcy or for a suspension of payments.

The Supervisory Board may determine that a resolution as referred to in the Articles of Association shall not require its approval if the amount involved does not exceed a value fixed by the Supervisory Board and notified to the Management Board in writing. In addition to the resolutions referred to in the Articles of Association, the Supervisory Board is entitled to require further resolutions of the Management Board to be subject to its approval. Such resolutions shall be clearly specified and notified to the Management Board in writing. By a resolution passed in October 2004, the Supervisory Board approved the Company's annual operating plan and determined that all transactions up to a maximum amount of U.S.$1,000,000 specified in the Company's annual operating plan shall not require further approval of the Supervisory Board.

In addition, the Management Board shall require the prior approval of the General Meeting of Shareholders for resolutions entailing a significant change in the identity or character of the Company or its business.

The absence of approval by the General Meeting of Shareholders or the Supervisory Board, as the case may be, for a resolution that requires the approval of the General Meeting of Shareholders or the Supervisory Board, respectively, shall not affect the authority of the Management Board or its members to represent the Company.

The Articles of Association provide that the Management Board shall consist of two or more Managing Directors. Managing Directors are appointed by the General Meeting of Shareholders. The Supervisory Board shall nominate one or more candidates for each vacant seat. If the nomination by the Supervisory Board with respect to a vacant seat consists of a list of two or more candidates it shall be binding and the appointment in the vacant seat concerned shall be effected through election from the persons on the list. However, the General Meeting of Shareholders may, at any time, by resolution passed with a majority of at least two-thirds of the votes cast, resolve that the list shall not be binding. A resolution of the General Meeting of Shareholders to appoint a Managing Director other than in accordance with a binding or non-binding nomination by the Supervisory Board shall require at least two-thirds of the votes cast. The Supervisory Board may appoint one of the Managing Directors as chairperson.

Managing Directors may be suspended or removed by the General Meeting of Shareholders at any time. A resolution of the General Meeting of Shareholders to suspend or remove a Managing Director other than at the proposal of the Supervisory Board shall require at least two-thirds of the votes cast. Managing Directors may also be suspended by the Supervisory Board, but such suspension may be discontinued at any time by the General Meeting of Shareholders.

The Articles of Association provide that the Company shall have a policy on the remuneration of the Management Board, which policy shall be proposed by the Supervisory Board and adopted by the General Meeting of Shareholders. The remuneration and further terms of employment of the Management Board shall be determined by the Supervisory Board, with due observance of the remuneration policy. If the remuneration of the Management Board also consists of schemes under which Shares and/or rights to subscribe for Shares are granted, the Supervisory Board shall submit these schemes to the General Meeting of Shareholders for approval. The proposal must as a minimum state the number of Shares or rights to subscribe for Shares that can be granted to the Management Board and the conditions for the granting and amending thereof.

The authority to represent the Company is vested in the Management Board. Each Managing Director shall also be authorised to represent the Company.

In the event of a conflict of interest between the Company and a Managing Director, the Company shall still be represented by the Management Board or any Managing Director, unless the General Meeting of Shareholders has appointed one or more other persons to represent the Company in the case at hand or in general in the event of such a conflict. A resolution of the Management Board with respect to a matter involving a conflict of interest with a Managing Director in a private capacity shall be subject to the approval of the Supervisory Board, but the absence of such approval shall not affect the authority of the Management Board or any Managing Director to represent the Company.

The Management Board may appoint officers with general or limited power to represent the Company.

Supervisory Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. The Supervisory Board advises the Management Board and is responsible for supervising the management of the Management Board and the general course of affairs of the Company and the business connected with it. In performing their duties, the Supervisory Directors shall act in accordance with the interests of the Company and the business connected with it.

The Articles of Association provide that the Company shall have a Supervisory Board consisting of six Supervisory Directors, three of which shall be independent as defined in the Articles of Association. Supervisory Directors are appointed by the General Meeting of Shareholders for a period of five years, unless provided otherwise in the resolution to appoint the Supervisory Director concerned.

Each Supervisory Director may be suspended or removed by the General Meeting of Shareholders at any time, which resolution requires a majority of at least two-thirds of the votes cast.

The Supervisory Board may appoint one of the Supervisory Directors as chairperson of the Supervisory Board. The Supervisory Board shall meet whenever a Supervisory Director or the Management Board deems necessary. The Supervisory Board shall meet with the Management Board as often as the Supervisory Board or the Management Board deems necessary. The chairman of the Supervisory Board shall not have a casting vote and, in the event of deadlock on a matter presented to the Supervisory Board, the matter will be deemed not to have been approved.

The General Meeting of Shareholders shall establish the remuneration for each Supervisory Director.

Notification Requirements

Under Dutch law, any transfer that results in a shareholder reaching, exceeding or falling below a threshold of 5, 10, 25, 50 or 66⅔ of the share capital or voting rights in a company limited by shares under Dutch law whose shares are admitted to official listing on a securities exchange operating and established in one of the Member States of the European Union must be disclosed by the relevant shareholder to the relevant company and to the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*, or AFM). The Company qualifies as such a company.

The Company has agreed with its franchisor that any shareholder who acquires 20 per cent or more of the company's shares will be required to execute a standard international guarantee in favour of the franchisor. The Company is in the process of amending its Articles of Association to include this requirement.

General Meeting of Shareholders

The annual General Meeting of Shareholders shall be held within six months after the end of the financial year to: (i) discuss the annual report; (ii) discuss and adopt the annual accounts; (iii) discuss and adopt the release

from liability of the Managing Directors and Supervisory Directors; (iv) discuss the allocation of profits; and (v) discuss other business presented for discussion by the Management Board, the Supervisory Board or by shareholders representing in the aggregate at least one-tenth of the Company's issued capital.

Other General Meetings of Shareholders shall be held as often as the Management Board or the Supervisory Board deems necessary. Shareholders representing in the aggregate at least one-tenth of the Company's issued capital may request the Management Board or the Supervisory Board to convene a General Meeting of Shareholders, stating specifically the business to be discussed. If the Management Board or the Supervisory Board has not given proper notice of a General Meeting of Shareholders within four weeks following receipt of such request such that the meeting can be held within six weeks after receipt of the request, the applicants shall be authorised to convene a meeting themselves.

Notwithstanding the previous paragraph, notice of General Meetings of Shareholders shall be given by the Management Board or the Supervisory Board, no later than on the fifteenth day prior to the day of the meeting. The notice of the meeting shall specify the business to be discussed and the manner in which shareholders can register and exercise their rights. All notices of General Meetings of Shareholders, all announcements concerning dividends and other payments and all other communications to shareholders shall be effected by means of a notice in a Dutch national daily paper and in accordance with applicable securities market regulations. In case there are registered Shares issued, such notices and announcements shall also be sent to the addresses of the shareholders shown in the register of shareholders.

Unless the notice of the meeting includes the contents of all documents which, according to Dutch law or the Articles of Association, are to be available to shareholders for inspection in connection with the meeting to be held, these documents are to be made available free of charge to shareholders at the registered office of the Company in The Netherlands, at its office in Wrocław, Poland and on the Company's website, www.amrest.com.pl.

Shareholders who, alone or jointly, represent at least one per cent of the issued capital or, as the Company is listed at a stock exchange not being a Dutch stock exchange, a block of shares, alone or jointly, worth at least €50 million according to the price list of that exchange, shall have the right to request to the Management Board or the Supervisory Board that items be placed on the agenda of the General Meeting of Shareholders. Such requests shall be complied with by the Management Board or the Supervisory Board provided (i) that important interests of the Company do not dictate otherwise and (ii) that the request is received by the chairperson of the Management Board or of the Supervisory Board in writing at least 60 days before the date of the General Meeting of Shareholders.

General Meetings of Shareholders are held in Amsterdam, or at Schipol Airport (Municipality of Haarlemmermeer). General Meetings of Shareholders may also be held elsewhere, within or outside The Netherlands, in which case valid resolutions of the General Meeting of Shareholders may only be adopted if all of the Company's issued capital is represented. Shareholders may adopt resolutions of the General Meeting of Shareholders in writing without holding a meeting, provided they are adopted by the unanimous vote of all shareholders entitled to vote.

The General Meeting of Shareholders shall be presided over by the chairperson of the Supervisory Board, which may be substituted in accordance with the Articles of Association.

Record Date

The Management Board shall schedule a record date for each General Meeting of Shareholders. This record date shall not be earlier than the seventh day prior to the date of the General Meeting of Shareholders. The voting rights and the right to attend the General Meeting of Shareholders and the pre-meeting (see below) shall accrue to those holding such entitlements and registered as such in a register designated for that purpose by the Management Board on this record date, irrespective of to whom these rights accrue at the time of the General Meeting of Shareholders or the pre-meeting, respectively. The record date scheduled shall be specified in the notice of the relevant meeting together with the manner in which shareholders can register and exercise their rights, all in accordance with the Articles of Association.

Pre-meeting in Poland

The Management Board must hold a pre-meeting in Poland before each General Meeting of Shareholders. A pre-meeting will be held after the record date and not later than one business day before the General Meeting of Shareholders. In the pre-meeting all the items on the agenda of the General Meeting of Shareholders will be discussed. In the pre-meeting it will be possible for shareholders to authorise the Management Board and/or the

Supervisory Board by proxy in writing to attend the General Meeting of Shareholders, to address the meeting and to exercise their voting rights on their behalf in accordance with their instructions in the proxy. Details of the pre-meeting shall be specified in the notice of the meeting together with the manner in which Shareholders can register and exercise their rights. Notice of the pre-meeting shall be given not later than on the 10th day prior to the pre-meeting. The other provisions applicable to General Meetings of Shareholders described in this section apply equally to pre-meetings.

Voting Rights

At the General Meeting of Shareholders and (so far as applicable) at the pre-meeting, each Share confers the right to cast one vote, subject to the relevant provisions of the Articles of Association. Each shareholder that has duly registered at the record date is entitled to attend the General Meeting of Shareholders and/or the pre-meeting, to address the meetings and to exercise his or her voting rights, in accordance with the Articles of Association.

Where it concerns registered Shares, the Management Board must be notified in writing of the intention to attend the General Meeting of Shareholders and/or the pre-meeting. The Management Board must receive such notice no later than on the date mentioned in the notice of the relevant meeting. Shareholders that have duly registered at the record date may be represented in a meeting by a proxy authorised in writing, provided that the power of attorney has been received by the Management Board no later than on the date mentioned in the notice of the relevant meeting. In both instances, this date shall not be earlier than the seventh day prior to the date of the General Meeting of Shareholders and one day prior to the date of the pre-meeting.

With respect to the voting rights and the rights to participate in meetings, the Company shall also recognise as shareholder the parties mentioned in a written statement issued by a depositary in accordance with applicable securities market regulations as parties entitled to a given number of bearer Shares belonging to such depositary's collective deposit of Shares in the Company as of the record date, provided that the statement is filed in time at such place as stated in the notice of the meetings, against a receipt, which receipt shall serve as a ticket of admission for the meetings. The date on which the filing of the statement must have been effected at the latest shall be specified in the notice of the General Meeting of Shareholders and of the pre-meeting. This date shall not be earlier than the seventh day prior to the date of the General Meeting of Shareholders and one day prior to the date of the pre-meeting.

At a General Meeting of Shareholders and at a pre-meeting, each person present with voting rights must sign the attendance list. The chairperson of the relevant meeting may decide that the attendance list must also be signed by other persons present at the relevant meeting.

The shareholder shall have the right to vote on Shares which are subject to a right of usufruct (*vruchtgebruik*) or a right of pledge.

To the extent that Dutch law and the Articles of Association do not provide otherwise, all resolutions of the General Meeting of Shareholders shall be adopted by a simple majority of the votes cast. The Supervisory Board members and the Management Board members have, as such, the right to render advice in the General Meeting of Shareholders.

Shareholders may adopt resolutions of the General Meeting of Shareholders in writing without holding a meeting, provided they are adopted by the unanimous vote of all shareholders entitled to vote.

Annual accounts

Annually, not later than five months after the end of the financial year, save where this period is extended by the General Meeting of Shareholders by not more than six months by reason of special circumstances, the Management Board shall prepare annual accounts, which must be accompanied by an annual report and an auditor's report. The Supervisory Board shall prepare a report, which shall be enclosed with the annual accounts and the annual report. All Managing Directors and Supervisory Directors must sign the annual accounts.

The annual accounts, the annual report, the report of the Supervisory Board and the auditor's report must be made available to the shareholders for review as from the day of the notice convening the General Meeting of Shareholders at the registered office of the Company in The Netherlands, at its office in Wrocław, Poland and on the Company's website, www.amrest.com.pl. Shareholders may inspect the documents at that place and obtain a copy free of charge. The annual accounts shall be adopted by the General Meeting of Shareholders. After adoption of the annual accounts, the General Meeting of Shareholders shall pass a resolution concerning release of the Managing Directors and the Supervisory Directors from liability for the exercise of their respective duties,

insofar as the exercise of such duties is reflected in the annual accounts or otherwise disclosed to the General Meeting of Shareholders prior to the adoption of the annual accounts. The scope of a release from liability shall be subject to limitations by virtue of the law.

Dividends and other distributions

The Management Board shall determine the amount of the profits accrued in a financial year that shall be added to the reserves of the Company. A resolution to that effect shall require the approval of the Supervisory Board. The allocation of the profits (if any) remaining shall be determined by the General Meeting of Shareholders. The Management Board may, subject to the prior approval of the Supervisory Board, resolve to make interim distributions at the expense of any reserve of the Company.

Distributions to shareholders may only be made in so far as the Company's shareholders' equity exceeds the sum of the paid-up and called-up share capital plus the reserves required to be maintained by law and by the Articles of Association. Any distribution of profit shall be made only after the adoption of the financial statements by the General Meeting of Shareholders from which it is demonstrated that such distribution is permitted.

Distributions that have not been claimed within five years as from the date that they have become available shall lapse.

Statutory merger and statutory demerger

The Company may enter into a statutory merger with one or more other legal entities. A merger resolution may only be adopted on the basis of a merger proposal prepared by the management boards of the merging legal entities. A merger proposal shall be subject to approval of the Supervisory Board. Within the Company, the merger resolution shall be adopted by the General Meeting of Shareholders, which resolution requires a majority of at least seventy five per cent (75%) of the votes cast. In certain specific circumstances, Dutch law allows for the merger resolution to be adopted by the Management Board. The Company may also be a party in a statutory demerger, which may include both split-up and spin-off. The procedure is very similar to the procedure for statutory mergers, as described above.

Right to acquire minority shareholdings

Section 2:92a of the Dutch Civil Code contains a procedure for the acquisition of shares owned by minority shareholders of a Dutch public limited company such as the Company. If a majority shareholder (either alone or together with its group companies) holds directly and for its own account at least 95 per cent of the issued share capital of the Company, such shareholder may institute proceedings against the minority shareholders in order to force them to transfer their shares to the majority shareholder.

Amendment to the Articles of Association and dissolution

The General Meeting of Shareholders may resolve to amend the Articles of Association by a resolution which requires a majority of at least seventy five per cent (75%) of the votes cast. When a proposal to amend the Articles of Association is to be made to the General Meeting of Shareholders, the notice convening the General Meeting of Shareholders must state so and a copy of the proposal, including the verbatim text thereof, shall be deposited and kept available at the registered office of the Company in The Netherlands, at its office in Wrocław, Poland and on the Company's website, www.amrest.com.pl. for inspection by the Shareholders, until the conclusion of the meeting. From the day of deposit until the day of the meeting, a shareholder shall, on application, be provided with a copy of the proposal free of charge.

The Company may be dissolved pursuant to a resolution to that effect by the General Meeting of Shareholders. When a proposal to dissolve the Company is to be made to the General Meeting of Shareholders, this must be stated in the notice convening the General Meeting of Shareholders. A resolution of the General Meeting of Shareholders to dissolve the Company shall require a majority of at least seventy five per cent (75%) of the votes cast.

Liquidation rights

If the Company is dissolved pursuant to a resolution of the General Meeting of Shareholders, the Company's business shall be liquidated with due observance of the provisions of Dutch law and the Managing Directors shall become liquidators of the Company's property. During liquidation, the provisions of the Articles of Association shall remain in force to the extent possible. The balance remaining after payment of the Company's debts shall be transferred to the shareholders in proportion to the aggregate nominal value of the shares held by each of them.

Directors' Liability

Under Dutch law, members of the Management Board and Supervisory Board are jointly and severally liable to the Company for failure to fulfil their respective duties properly. Members of either board may, in the event of the Company's bankruptcy, be liable to the trustee in bankruptcy for improper fulfilment of their respective duties. The provisions of Dutch law governing such liability are mandatory in nature. In certain exceptional circumstances, liability of directors towards third parties may also arise.

Dutch Corporate Governance Code

On 1st January, 2004 the Dutch Corporate Governance Code (the **Code**) entered into force. The Code is based upon national and international best practices in corporate governance. The Code contains 21 principles and 113 best practice provisions covering the management board, the supervisory board, the shareholders and general assembly, financial reporting, auditors, disclosure, compliance and enforcement. The Code requires Dutch companies that are listed on a government-recognised stock exchange whether in The Netherlands or in any other country to disclose in their annual reports, commencing with those annual reports for financial years beginning on or after 1st January, 2004, whether or not they comply with the provisions of the Code and, if they do not comply, to explain the reasons why. Compliance with these measures was initially voluntary. However, since 31st December, 2004, Dutch companies are legally required to either comply with the Code or explain why they do not.

The Company acknowledges the importance of good corporate governance. The Management Board has reviewed the Code. In certain respects where the provisions of the Code conflict with Polish law or Polish corporate governance requirements, the Company has determined that it will comply with the Polish requirements rather than the provisions of the Code in view of the fact that the Company is solely listed on a Polish stock exchange and the majority of its public shareholders are expected to be based in Poland.

Principles of reasonableness and fairness

On the basis of a general rule of Dutch corporate law, a company and those connected with it pursuant to law or its articles of association are bound to act towards each other in accordance with the ''principles of reasonableness and fairness''. Acts in violation of such principles may be challenged through court proceedings.

POLISH SECURITIES MARKET RULES AND REGULATIONS

Stock market regulation

The principal legislation in relation to the Polish securities market and the Warsaw Stock Exchange is the Law on Public Trading of Securities and the Rules of the Warsaw Stock Exchange (the **WSE Rules**), which contain detailed provisions concerning the admission of securities for public trading and listing, continuing obligations for an issuer of securities, the organisation of the Warsaw Stock Exchange and the terms of listing.

Form of securities

Pursuant to the Law on Public Trading of Securities, securities (including the Offer Shares) are represented by book-entry on the securities account operated for an investor by a stockbroker or custodian licensed in Poland. The ownership of securities registered on an account is deemed to belong to the holder of such account and, as a consequence, any transfer of securities to an account held under another name is deemed to be a transfer of ownership of securities.

Public issuance of securities

Subject to certain exceptions, the admission of any securities (including the Shares) to public trading in Poland requires the publication of a Polish language prospectus or memorandum of information complying with the terms of an Ordinance of the Council of Ministers dated 11th August, 2004 and the formal approval of the prospectus by the Polish Securities and Exchange Commission (the **Commission**).

Pursuant to the Polish Commercial Code, the members of the management board of a company may be civilly liable in respect of any false information concerning the company's share capital submitted to the relevant registration court. Members of the management board may also be liable for any injury to the company inflicted by an act violating Polish law or the provisions of the company's statute and for any loss caused to the company by any failure on their part to exercise proper due diligence while performing their duties in relation to the same.

The Polish Commercial Code also provides that any person participating in the issue of shares by a company may be civilly liable if that person wilfully or negligently publishes false information or conceals material information. In addition, under the Polish Commercial Code, a company's directors may be criminally liable for acting to the detriment of the company and for allowing shares to be issued to a shareholder who has not fully paid all amounts due in respect of such shares.

Under the Law on Public Trading of Securities, the issuer, the selling shareholder as well as any person who has participated in the drafting of information in relation, *inter alia*, to a public equity offering, is liable for damages incurred as a result of false information included in, or material information omitted from, such published information. In addition, any person responsible for information included in the prospectus or other information connected with the introduction of securities to public trading and who provides false information or conceals material information may be guilty of a criminal offence punishable by imprisonment and a fine.

Notification, approval and tender offer obligations

Certain Polish rules will apply to the Company and the holders of the Shares after the Shares are admitted to public trading in Poland and the Company becomes a public company for purposes of Polish law.

Under Article 147 of the Law on Public Trading in Securities, an investor whose holding reaches or exceeds 5 per cent or 10 per cent of the total number of votes of any publicly traded company's shares, must notify the Commission and the company within four days from the date of the change in the number of votes held, or from the date it learned of such change or should have learned of it if acting diligently. Any investor who has held shares representing at least 5 per cent or 10 per cent of the total votes of a publicly traded company's shares and as a result of a sale is entitled to less than 5 per cent or 10 per cent of votes, respectively, must notify the Commission and the company within four days from the date of the change in the number of votes held, or from the date it learned of such change or should have learned of it if acting diligently.

Furthermore, any investor holding shares representing more than the 10 per cent threshold must notify the same entities each time it acquires or sells (whether in one or more transactions) a number of shares representing at least (i) 2 per cent of the total voting shares in the case of a company listed on a regulated market or (ii) 5 per cent of the total voting shares in the case of other public companies.

The above-mentioned requirement also applies to an investor who either: (i) as a result of acquiring a public company's shares, reaches or exceeds 25 per cent, 50 per cent or 75 per cent of the total number of votes at such

company’s general meeting or (ii) as a result of selling a public company’s shares, will cross any of the above mentioned thresholds.

The notification requirements in certain cases include an obligation to notify any intention (or change in intention) to make further acquisitions within 12 months following the notification date and the underlying purpose of such acquisitions or intended acquisitions.

Under Article 151 of the Law on Public Trading in Securities, if an investor is to acquire in one or more transactions concluded within a 90-day period, on the secondary market, a number of shares of a company representing at least 10 per cent of the total number of votes of such company, such acquisition may only be effected by a public tender. The manner of announcing public tenders and the terms and conditions on which securities are to be purchased by way of a public tender are regulated by the Ordinance of the Council of Ministers dated 17th July, 2001. An investor announcing a public tender must deposit with a bank or other relevant institution cash or other collateral in an amount equal to 100 per cent of the value of the shares subject to the acquisition.

Furthermore, under Articles 154 and 155 of the Law on Public Trading of Securities, if an investor increases its holding by the acquisition of more than 50 per cent of the total voting equity securities of a company, the investor must, prior to exercising any voting rights related to such securities, either sell shares in order to fall below the 50 per cent threshold, or announce a tender for the purchase of the remaining shares at a price not lower than the average market price for the past six months or, if the period of public trading was shorter, the average market price for such shorter period. In the event the shares are not being publicly traded, the price must not be lower than the primary market issue price. Furthermore, the price must not be lower than the highest price paid for the shares within the last 12 months by such bidding investor, its subsidiaries, parent companies or any party acting in concert with such bidding investor.

In addition, under Article 149 of the Law on Public Trading of Securities, any investor who intends to increase its holding by acquiring up to 25 per cent, 33 per cent or 50 per cent of the total voting equity securities of a company must file a separate notice with the Commission to obtain its consent to such acquisition. Within 14 days after the submission of such notice, the Commission may issue an order prohibiting the acquisition of such securities, if the acquisition would cause an infringement of Polish law or would pose a threat to the interest or national economy of Poland, or may issue an order consenting to such acquisition. If such acquisition is approved, the Commission will ensure that the acquirer’s intention to acquire the shares of a company is available to the public at an information agency.

Where an investor is a company, its holding will be aggregated with any holdings of its subsidiaries for the purpose of calculating the relevant percentages set out above.

Article 158a of the Law on Public Trading in Securities contains a broad definition of “parties acting in concert” and the obligations set forth in this act apply to entities that, among other things, enter into a written or oral understanding related to the joint purchase of shares of a company or common voting at the general meeting of shareholders of the company in connection with important company matters.

If an investor fails to perform any of its obligations under Articles 147, 149, 151 and 155 of the Law on Public Trading in Securities in respect of a transaction regulated by any such Articles, such investor will be prohibited by law from exercising his voting rights with regard to the securities acquired. If an investor fails to perform his obligation under Article 154 of the Law on Public Trading in Securities, such investor may not exercise all of his voting rights resulting from the shares held.

Under Articles 167, 168, 168a and 171 of the Law on Public Trading in Securities, in the event that an investor fails to provide the notices required by Article 147 and does not comply with his obligations under Article 149, 151 or 154, such investor is subject to a fine of up to PLN 1.0 million.

Listing

Listing of securities on the Warsaw Stock Exchange requires a resolution of the Warsaw Stock Exchange Council concerning the admission of securities to trading on the Warsaw Stock Exchange and a resolution of the Warsaw Stock Exchange Management Board concerning the introduction to trading on the market segment on which the shares are to be traded.

Trading of securities listed on the Warsaw Stock Exchange may be suspended for limited periods if the suspension is necessary for the interests and safety of the market participants, in the event of the issuer’s persistent non-compliance with the exchange’s regulation and customary procedures or upon the application of the issuer.

The Warsaw Stock Exchange

As of the date hereof, the Warsaw Stock Exchange (which resumed operations in April 1991 after a 52-year suspension) is the only stock exchange in Poland. As at 4th April, 2005, the Warsaw Stock Exchange consisted of 19 brokerage houses, a majority of which are owned in whole or in part by non-Polish persons or entities. As at 4th April, 2005, the equity shares of 237 companies (including 14 National Investment Funds), as well as 82 treasury bond issues, were listed on the Warsaw Stock Exchange and as at 4th April, 2005 the total market capitalisation of the listed companies was approximately PLN 314 billion. Futures contracts in the continuous trade system and European style warrants on the exchange are also traded on the Warsaw Stock Exchange.

Under current laws, all transactions are on a delivery versus payment (DVP) basis, with the transfer of rights in securities occurring, with respect to ordinary trades, upon settlement on a T + 3 basis although in practice market participants may be willing to settle only prior to trading. Each investor must hold a securities account and a cash account with a local broker or custodian and each broker (except affiliated brokers) and custodian must hold a securities account in the National Securities Depository and maintain a cash account with a clearing bank. The process of accounting, and the preparation of data for settlement and registration, are fully computerised.

All securities admitted for trading are required to be deposited with the National Securities Depository and are traded in book-entry form only. Shareholders are supplied with depository receipts and account statements from the broker or custodian with whom they hold an account.

The detailed provisions concerning settlement are in the WSE Rules and in the rules of the National Securities Depository (together, the **Rules**). According to the Rules, the National Securities Depository is required to settle trades on the basis of instructions submitted by the Warsaw Stock Exchange members. In turn, the Warsaw Stock Exchange members coordinate settlement with the clients on whose account the trades were executed.

Stock Exchange trading mechanisms

Trading sessions on the Warsaw Stock Exchange are held regularly from Monday to Friday between 9.00 a.m. and 4:20 p.m., unless the Warsaw Stock Exchange Management Board decides otherwise. Trading on the Warsaw Stock Exchange is made in a continuous trading system or in a single-price auction system with one auction or two auctions. The price for each session is established on the basis of all the orders being submitted in a way that maximises turnover and matches buy and sell orders as closely as possible. Continuous trading for equities was introduced in July 1996 and as of 4th April, 2005 applied to shares in 214 companies.

Price information and trading volume, together with surpluses or reduction in sale and in purchase orders and any specific rights (i.e., pre-emption or dividend rights) attached to the relevant securities, are published daily in the Warsaw Stock Exchange Quotation, which is the official journal of the Warsaw Stock Exchange, and are also available on the official web site of the Warsaw Stock Exchange at www.gpw.com.pl.

Continuous trading starts with the announcement of the opening price and closes with the announcement of the closing price. The opening price and the closing price are determined on the basis of both broker's limit orders and broker's orders without limit prices. In determination of the opening price and the closing price, the following rules apply in the following order of priority: (i) maximising the value of turnover, (ii) minimising the difference between the number of securities in sell orders and in buy orders which may be executed at the determined price, and (iii) minimising the difference between the price being determined and the reference price. Once announced, the opening (closing) price is the price at which the transactions at the opening (closing) are made.

In the continuous trading system, price variations are restricted. The transaction price or the closing price may not exceed the upper limit or fall below the bottom limit by more than 10 per cent for shares. In the case of market balancing activities the chairman of the session may change price variation limits, however the maximum permissible variation from the reference price may not exceed 21 per cent for shares unless a member of the Warsaw Stock Exchange Management Board decides otherwise. If during the determination of the opening (closing) price a divergent market occurs, the chairman of the session shall announce the opening (closing) of continuous trading and the price of the first transaction made in a continuous trading system session will be the opening price, and the price of the last transaction in the session shall be the closing price. After the opening of continuous trading is announced, transactions shall be made at the transaction price equal to the limit price of awaiting order. Orders awaiting execution are executed in the priority of their limit price, and where any limit prices are equal, in the priority in which they have been accepted or displayed.

Brokerage commissions in Poland are not fixed by the Warsaw Stock Exchange or other regulatory bodies, but rather vary depending on the size of the transaction and the brokerage house executing the trade.

Subject to a limited number of exemptions set forth in the Law on Public Trading of Securities, the ownership of shares listed on the Warsaw Stock Exchange may not be transferred outside the stock exchange trading systems. With the consent of the Warsaw Stock Exchange Management Board, off-market trades may be executed provided that certain criteria (relating, among other things, to the minimum volume and transaction price) set forth in the Warsaw Stock Exchange Rules are met.

Insider trading

The Law on Public Trading of Securities defines ''insider information'' as precise information regarding, directly or indirectly, the issuer, financial instruments (including shares), or the transfer of financial instruments if such information has not been provided to the general public and its disclosure could materially influence the price of such financial instruments or the price of derivative rights arising from such financial instruments if it was used by investors acting reasonably in making their investment decisions. Pursuant to the Law on Public Trading of Securities, insider information must be precise, meaning that it must indicate circumstances which either have occurred or which are likely to occur, and must enable an assessment of their potential influence on the value of financial instruments and/or related derivative rights.

Subject to certain exceptions, persons who acquire insider information in connection with their position in a company's governing bodies, their ownership of a company's shares, their employment in such company or their profession, are prohibited by law from using or disclosing such information to third parties. The above also applies to persons who illegally obtained insider information or obtained such information in another manner but should have known that the information was insider information.

Any person publicising or using insider information in violation of the Law on Public Trading of Securities may be guilty of an offence punishable by imprisonment and a fine.

Price Manipulation

The Law on Public Trading in Securities forbids share price manipulation, including taking actions whose effect could be misleading as to the actual demand, supply or price of the shares in question or actions involving placing orders or executing transactions that cause an artificial fixation of the share price, unless the grounds on which such actions were effected are legitimate and such actions have not infringed the established Warsaw Stock Exchange Rules. Manipulation may also include disseminating false or inaccurate information that may mislead investors, as well as placing orders or executing transactions in order to profit from investors having been misled as to the price or value of the shares in question.

TAXATION

The following summaries are not intended as a complete analysis of the tax consequences under Polish or Dutch law as a result of the acquisition, ownership and sale of Offer Shares by investors. Potential investors should, therefore, consult their own tax advisers on the tax consequences of such acquisition, ownership and sale, including specifically the tax consequences under Polish or Dutch law, the law of the jurisdiction of their country of residence (if different) and any tax treaty between The Netherlands and their country of residence.

Dutch Taxation

General

The following summary describes the principal Dutch tax consequences of the acquisition, ownership and sale by investors of Offer Shares. This summary does not purport to be a comprehensive and exhaustive description of all Dutch tax considerations that may be relevant to a decision to acquire, to own or to sell the Offer Shares. Each potential investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Offer Shares. The discussion of certain Dutch taxes set forth below is included for general information only.

This summary is based on the tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Offering Circular, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

For the purposes of this summary it has been assumed that:

(i) a corporate investor does not hold, either directly or indirectly, an interest of five per cent or more of the total nominal paid-up capital of the Company; and

(ii) an individual investor, alone or together with his or her partner (statutory defined term) or certain other related persons, does not hold, directly or indirectly, a "substantial interest" (*aanmerkelijk belang*) in the Company, within the meaning of Section 4.3 of the Income Tax Act 2001 (*Wet op de inkomstenbelasting 2001*) (the **Dutch Income Tax Act**). Generally speaking, an investor holds a substantial interest in the Company if such investor, alone or together with his or her partner or certain other related persons, directly or indirectly, holds: (i) an interest of five per cent or more of the total issued capital of the Company or of five per cent or more of the issued capital of a certain class of the Company's Shares; (ii) rights to acquire, directly or indirectly, such an interest; or (iii) certain profit sharing rights in the Company.

An investor that holds or acquires an interest in excess of the aforementioned thresholds is strongly advised to consult a professional tax adviser with respect to the Dutch tax consequences of an investment in Offer Shares.

Dividend withholding tax

Distributions on Offer Shares are treated as dividends for Dutch tax purposes and are generally subject to Dutch dividend withholding tax at a rate of 25 per cent Dividends include, but are not limited to, distributions in cash or in kind including deemed and constructive distributions and repayments of paid-in capital not recognised as capital for Dutch dividend withholding tax purposes.

Residents of The Netherlands

In general, the Dutch dividend withholding tax which is withheld with respect to distributions made by the Company will be creditable for Dutch corporate income tax or Dutch personal income tax purposes in the hands of the recipient of such distributions who is also the beneficial owner of such distributions or, subject to certain conditions, may be recoverable in whole or in part by the Dutch resident recipient who is also the beneficial owner of such dividend.

On request and if certain conditions are satisfied, a refund of the Dutch dividend withholding tax applies to Dutch qualifying pension funds, certain exempt entities and Dutch investment institutions as defined in article 28 of the Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*).

Non-residents of The Netherlands

If an investor is a resident of a country other than The Netherlands and if a treaty for the avoidance of double taxation with respect to taxes on income is in effect between The Netherlands and that country, and such investor is the beneficial owner of the distributions and a qualifying resident for purposes of such treaty, such investor

will, depending on the terms of that particular treaty, qualify for full or partial relief at source or for a refund in whole or in part of the Dutch dividend withholding tax.

Residents of Poland

Under the application of the treaty for the avoidance of double taxation with respect to taxes on income between The Netherlands and Poland (the **Treaty**), the Dutch dividend withholding tax rate on distributions made by the Company to residents of Poland may be reduced.

If an investor is a resident of Poland and if such investor is the beneficial owner of the distributions and a qualifying resident for purposes of the Treaty, the Dutch dividend withholding tax rate will generally be reduced to 15 per cent.

Anti-dividend stripping legislation

In The Netherlands, legislation exists that affects the eligibility for an exemption, reduction, refund or credit of dividend withholding tax. A recipient of a distribution on the Offer Shares will not be entitled to an exemption, reduction, refund in whole or in part or credit of dividend withholding tax if such recipient is not considered the beneficial owner of such distribution. This is the case if the following requirements are met:

(i) the recipient of the distribution, in connection with the receipt of the distribution, has incurred an obligation, as part of one or more related transactions as a result of which the distribution in whole or in part has accrued or will accrue to the benefit of a person that is to a lesser extent entitled to an exemption, reduction, refund in whole or in part or credit of Dutch dividend withholding tax than the recipient of the distribution is entitled to; and

(ii) such person, other than the recipient of the distribution, retains or acquires, directly or indirectly, a comparable interest in the Offer Shares or any other Shares in the Company on which the distribution is paid, as such person had before the related transaction was (or the related transactions were) entered into.

Corporate income tax and personal income tax

Residents of The Netherlands

If a corporate investor is subject to Dutch corporate income tax and the Offer Shares are attributable to its business assets (actual or deemed), distributions on the Offer Shares and the gains realised upon the sale of the Offer Shares are generally taxable.

If an individual investor is a resident or deemed to be a resident of The Netherlands for Dutch tax purposes (including an individual who has opted to be taxed as a resident of The Netherlands), distributions on the Offer Shares and the gains realised upon the sale of the Offer Shares are taxable at the progressive rates specified in the Dutch Income Tax Act, if:

(i) the investor has an enterprise or an interest in an enterprise, to which enterprise the Offer Shares are attributable; or

(ii) such distributions and gains qualify as income from ''miscellaneous activities'' (*resultaat uit overige werkzaamheden*) in The Netherlands within the meaning of Section 3.4 of the Dutch Income Tax Act, which include activities with respect to the Offer Shares that exceed ''regular, active portfolio management'' (*normaal, actief vermogensbeheer*).

If neither (i) nor (ii) applies to the individual investor, the fair market value of the Offer Shares will be included in the individual's yield basis. Consequently, actual distributions on the Offer Shares and the actual gains realised upon the disposal of the Offer Shares will not be taxable. Instead, such investor will be taxed at a flat rate of 30 per cent on deemed income from ''savings and investments'' (*sparen en beleggen*) within the meaning of Section 5.1 of the Dutch Income Tax Act. This deemed income amounts to four per cent of the average of the individual's ''yield basis'' (*rendementsgrondslag*) within the meaning of article 5.3 of the Dutch Income Tax Act at the beginning of the calendar year and the individual's yield basis at the end of the calendar year, insofar the average exceeds a certain threshold. The fair market value of the Offer Shares will be included in the individual's yield basis.

Non-residents of The Netherlands

Distributions on the Offer Shares or capital gains realised upon the disposal of the Offer Shares for an investor that is not resident nor deemed to be resident of The Netherlands for Dutch tax purposes (and, in the case of an individual, has not opted to be taxed as a resident of The Netherlands) are not taxable in The Netherlands, provided that:

(i) the investor does not have an enterprise or an interest in an enterprise that is carried on through a permanent establishment or a permanent representative in The Netherlands to which Dutch permanent establishment or permanent representative the Offer Shares are attributable; and

(ii) the investor is not entitled to a share in the profits of an enterprise that is effectively managed in The Netherlands, other than by way of securities (*effectenbezit*) or through an employment contract, and to which enterprise the Offer Shares are attributable; and

(iii) with respect to an individual, the distributions or capital gains do not qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*) in The Netherlands within the meaning of Section 3.4 of the Dutch Income Tax Act, which include activities in The Netherlands with respect to the Offer Shares that exceed ''regular, active portfolio management'' (*normaal, actief vermogensbeheer*).

Gift and inheritance taxes

Residents of The Netherlands

Generally, gift and inheritance taxes will be due in The Netherlands in respect of the acquisition of the Offer Shares by way of a gift by, or on the death of, an investor who is a resident or deemed to be a resident of The Netherlands for the purposes of the Dutch gift and inheritance tax at the time of the gift or his or her death.

An individual of Dutch nationality is deemed to be a resident of The Netherlands for Dutch gift and inheritance tax purposes if he or she has been resident of The Netherlands during the 10 years that preceded the gift or his or her death. An individual of any other nationality is deemed to be a resident of The Netherlands for the purposes of the Dutch gift and inheritance tax only if he or she has been residing in The Netherlands at any time during the 12 months preceding the date of the gift or his or her death.

Non-residents of The Netherlands

No gift or inheritance taxes will arise in The Netherlands in respect of the acquisition of the Offer Shares by way of gift by, or as a result of the death of, an investor who is neither a resident nor deemed to be a resident of The Netherlands unless:

(i) the individual holder at the time of the gift has, or at the time of his or her death had, an enterprise or an interest in an enterprise that is or was, in whole or in part carried on through a permanent establishment or a permanent representative in The Netherlands and to which Dutch enterprise or part thereof the Offer Shares are or were attributable; or

(ii) the Offer Shares are or were attributable to the assets of an enterprise that is effectively managed in The Netherlands and the donor is or the deceased was entitled, other than by way of securities (*effectenbezit*) or through an employment contract, to a share in the profits of that enterprise at the time of the gift or, as applicable, at the time of his or her death; or

(iii) in the case of a gift of the Offer Shares by an individual who at the date of the gift was neither a resident nor deemed to be a resident of The Netherlands, such individual dies within 180 days after the date of the gift, while at the time of his or her death being a resident or deemed to be a resident of The Netherlands.

Treaties

Treaties may limit the Dutch sovereignty to levy gift and inheritance tax.

Value added tax

In general, no Dutch value added tax will arise with respect to the Offering or with respect to distributions or other payments and distributions on the Offer Shares.

Capital tax

Dutch capital tax will, in principle, be due by the Company at a rate of 0.55 per cent of the fair market value of the contribution made to the Company on the issuance of the New Shares, but not on the offering of the Existing Shares.

Other taxes and duties

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in The Netherlands by an investor in relation to or in connection with the subscription, issue, placement, allotment or delivery of the Offer Shares.

Polish Tax

General

The following summary describes the principal Polish tax consequences of the acquisition, ownership and sale by investors of Offer Shares. This summary is not intended to constitute a complete analysis of the tax consequences under Polish law of the acquisition, ownership and sale of Offer Shares by investors. Potential investors should, therefore, consult their own tax advisers regarding the tax consequences of such acquisition, ownership and sale, including specifically the tax consequences under Polish law and the law of the jurisdiction of their residence.

Taxation of income from dividends

Polish corporate investors

Dividend payments on Offer Shares will be subject to taxation in Poland only if a corporate investor is a resident of Poland for Polish tax purposes. Where this is the case, the income from dividends received by legal persons from abroad is taxed on the general terms and conditions as set out in the Act on Corporate Income Tax. The tax on such income is charged at the rate of 19 per cent. Legal persons are obliged to include income received in the form of dividend payments in a monthly tax return regarding the amount of income received (or losses incurred) from the beginning of the tax year and to pay the applicable corporate tax prepayment to the Tax Office.

The advance payment is calculated as the difference between the tax due on the income earned since the beginning of the tax year and the sum of advance payments due in previous months.

If a corporate investor earns dividend income from shares of a company: (i) whose total income, regardless of where earned, is subject to tax in an EU member state other than Poland; and (ii) in which the corporate investor holds at least a 25 per cent equity interest for a period of more than two years, the investor may deduct an amount equal to the corporate income tax paid in such other member state on that part of profit from which the dividend was paid. However, the deduction may not exceed the amount of the tax computed prior to the deduction and which represents a proportionate part of the income earned from that source.

Polish individual investors

The income from dividends will be subject to taxation in Poland only if an individual investor is a resident of Poland for Polish tax purposes. Where this is the case, the income from dividends received by individual investors from abroad is taxed at progressive tax rates (19 per cent, 30 per cent, 40 per cent) unless the taxpayer elects for this income to be taxed as income from business activities pursuant to the method set out in Art. 9a of the Act on Personal Income Tax. The tax on such income is charged at the rate of 19 per cent.

For both corporate and individual investors a credit for any irrecoverable Dutch withholding tax should, depending on the circumstances, be given against any Polish tax liabilities in respect of dividends, up to, but not exceeding the amount of the Polish tax liability.

Foreign investors

The tax consequences applicable to dividend payments on Offer Shares paid to investors being resident in countries other than Poland should be determined on the basis of the tax laws binding in these countries.

Taxation of gains from the sale of shares

Polish corporate investors

Gains from the sale of Offer Shares obtained by legal persons are taxed on the general terms and conditions set out in the Act on Corporate Income Tax. The subject of taxation is the gain representing the difference between the amount received from the sale of shares (the proceeds) and the costs of earning such proceeds including all expenses relating to the purchase of the shares. Gains from the sale of shares are pooled with gains from other sources and are taxed according to the general terms and conditions. The tax on such gains is charged at the rate of 19 per cent.

Pursuant to Art. 25 of the Act on Corporate Income Tax, legal persons who sell shares are obliged to report the gains earned on such sale in their monthly tax return specifying the amount of gains made (or losses incurred) from the beginning of the tax year and to pay the applicable corporate tax amount to the Tax Office. The corporate tax amount represents the difference between the tax due on the gains made since the beginning of the tax year and the total amount of corporate tax payments due for the preceding months.

Polish individual investors

The income from the sale of Offer Shares is treated as a capital gain. Any income from the sale of Offer Shares is taxed as due proceeds even where such income has not been actually received. Pursuant to Art. 30b.2 of the Act on Personal Income Tax the subject of taxation is the income representing the difference between the amount received from the sale of shares (the **proceeds**) and the costs of earning such proceeds including all expenses relating to the purchase of the shares. Such income is not pooled with the other income of the natural person and is taxed separately at the rate of 19 per cent.

Any entities acting as intermediaries in the sale of securities by a natural person (e.g. brokerage houses) are obliged to send to this individual and the relevant Tax Office a notification of the amount of income received by the end of February of the calendar year after the year in which the natural person received the income (or incurred a loss) from the sale of securities.

The natural person who received income (incurred a loss) from the sale of shares is obliged to calculate the amount of his tax liability himself and to file a separate tax return regarding the amount of the income received (or losses incurred) by 30th April of the calendar year following the year in which the natural person received such income (incurred such loss). Such a tax return must be filed with the relevant Tax Office (as regards the domicile of the taxpayer) on the last day of the tax year and if domicile in Poland was discontinued prior to such date, in respect of the last day of domicile in Poland.

Foreign investors

Foreign individual investors and foreign corporate investors which have neither their residence, seat nor management office in Poland will not be liable to taxation in Poland on gains made from the sale of Offer Shares if they are residents of a country with which Poland has a treaty for the avoidance of double taxation that provides for such an exemption.

Where investors are resident in countries which have no treaty for the avoidance of double taxation with Poland, it is possible that the Minister of Finance's ordinance of 18th February, 2000 on the abandonment of calculation and collection of income tax on certain income of foreign legal persons (Journal of Laws no. 13, item 165) (the **Ordinance**) could apply. This states that the calculation and collection of tax should be abandoned where gains are made from the sale of shares admitted to public trading and purchased on the stock exchange by foreign legal persons seated abroad or managed from abroad. The Ordinance applies if the country where the taxpayer is seated or from which the taxpayer is managed follows the principle of reciprocity in respect of the taxation of the same income received by legal persons seated in or managed from Poland. As a result of changes to the tax laws in Poland, there are serious doubts as to whether the Ordinance still applies. Thus foreign investors being residents in countries with which Poland has no treaty for the avoidance of double taxation are strongly recommended to consult a professional tax adviser as to whether they may be entitled to exemption from taxation on this basis.

Tax on civil-law transactions

According to the Law on Public Trading in Securities, in principle, secondary trading in securities takes place on a regulated market through the mediation of brokers. Pursuant to Art. 9.9 of the Act on Tax on Civil-Law Transactions the sale of securities to the brokerage houses and banks carrying on brokerage activities, and the sale

of securities through brokerage houses and banks carrying on brokerage activities, is exempt from the tax on civil-law transactions.

In accordance with Art. 89 of the Law on Public Trading in Securities, it is possible for securities to be traded in the secondary market on an unregulated market without the mediation of brokers. Where this is the case, the sale of shares is subject to the tax on civil-law transactions at the rate of 1 per cent of the market value of such shares and this stamp duty is paid jointly and severally by the parties to such transaction. However, if the sale of the shares is exempt from VAT and there are no brokers used, it is possible to apply the exemption as set out in Art. 2.4. of the Act on Tax on Civil Law Transactions pursuant to which civil law transactions are exempt from the tax on civil law transactions where at least one of the parties to such transaction is subject to VAT or is exempt from VAT in respect of such transaction.

Gift and inheritance taxes

Liabilities to gift and inheritance tax (which applies only to individuals) may arise on a donation of shares or on an inheritance of shares in a Polish company. The amount of such tax depends on the family relationship between the donor and the donee.

Value added tax

In general, no Polish value added tax will arise with respect to the Offering or with respect to distributions or other payments and distributions on the Offer Shares.

Other taxes and duties

Except as provided above, no registration tax, customs duty, transfer tax or any other similar documentary tax or duty will be payable in Poland by an investor in relation to or in connection with the subscription, issue, placement, allotment or delivery of the Offer Shares.

Inter-company tax

According to the provisions of Article 22.4 of the Act on Corporate Income Tax, a company's income from dividends paid by legal persons having their seat in Poland are exempt from taxation if (i) such company does not have its seat or management board in Poland, (ii) its entire income, regardless of where it is earned, is taxable with income tax in an EU Member State and (iii) the company receiving the dividends holds directly at least 20 per cent of the shares in the Polish company paying the dividends for an uninterrupted period of at least two years. On this basis, dividends paid by the Company Poland to the Company will not be subject to taxation in Poland.

SUBSCRIPTION, PURCHASE AND SALE

The Offering

CA IB Corporate Finance Beratungs Ges. m.b.H and CA IB Securities S.A. (the **Managers**) have, pursuant to a subscription agreement (the **Subscription Agreement**), dated 10th April, 2005 and made between, *inter alia*, the Company, the Selling Shareholder and the Managers and upon the terms and subject to the conditions therein contained, severally agreed to subscribe or procure subscribers for an aggregate of 6,342,000 Offer Shares.

The price paid to the Company and the Selling Shareholder for each Offer Share will be PLN 24 (the **Offer Price**). The Company will pay the Managers a fee of 4 per cent of the Offer Price in respect of the New Shares. The Selling Shareholder will pay the managers a fee of 4 per cent of the Offer Price in respect of the Existing Shares sold on behalf of ARC and a fee of 3.25 per cent in respect of the Existing Shares sold on behalf of KFCPH, see *''Principal and Selling Shareholder''*. In addition, the Company and the Selling Shareholder have agreed to indemnify the Managers against certain liabilities and to reimburse the Managers for certain of their expenses in connection with the management of the Offering. The Managers are entitled in certain circumstances to be released and discharged from their respective obligations under the Subscription Agreement prior to the closing of the Offering. Such circumstances include the non-satisfaction of certain conditions precedent and the occurrence of certain force majeure events.

As part of the Offering, the Selling Shareholder has granted to CA IB Securities S.A. an option, exercisable within a period of 30 days after the Closing Date, to sell to the Selling Shareholder up to a maximum of 900,000 Existing Shares. The sale price, in respect of such Shares shall be the Offer Price less the fee described above.

The Offer Price has been determined by negotiation between the Company, the Selling Shareholder and the Managers and may bear no relationship to the market price of the Offer Shares subsequent to the Offering.

Pursuant to the Subscription Agreement, the Company, ARC and certain members of senior management of AmRest have agreed that they will not directly or indirectly offer or sell any Offer Shares (or securities convertible into Offer Shares) for a period of one year after the Offering without the prior written consent of CA IB Securities S.A.

This Offering Circular has not been submitted for approval by the Warsaw Stock Exchange or the Polish Securities and Exchange Commission and accordingly may not be used in connection with any offer to purchase, subscribe or sell any shares in Poland. The Polish Prospectus has been prepared in accordance with Polish legal requirements and has been authorised for use in Poland by the Warsaw Stock Exchange and the Polish Securities and Exchange Commission.

Settlement and Delivery

Payment for the Offer Shares will be in Polish złoty.

It is expected that institutional Investors will be allocated Offer Shares on or about 26th April, 2005, after which payment for the Offer Shares so allocated will be made on the same date. Delivery of Offer Shares to securities accounts of Institutional Investors will be made later on the same date.

The Offer Shares are expected to be accepted for clearance through the facilities of the Polish Central Securities Depository.

Selling Restrictions

The Offer Shares have not been and will not be registered under the Securities Act and nor may they be offered, sold or delivered within the United States or to U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. In addition, until 40 days after the later of the commencement of the Offering and the Closing Date, an offer or sale of the Offer Shares within the United States by the Managers may violate the registration requirements of the Securities Act.

Each Manager has confirmed that it has (i) not offered or sold and prior to the expiry of a period of six months from the Closing Date, will not offer or sell, any Offer Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) only communicated or caused to be communicated and will only communicate

or cause to be communicated any invitation on inducement to engage in investment activity (within the meaning of section 21 of the Financial Markets and Services Act 2000 (the **FSMA**)) received by it in connection with the issue or sale of any Offer Shares in circumstances in which section 21(1) of the FMSA does not apply to the Company; and (iii) complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

Each Manager has also agreed that it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells any Offer Shares or possesses or distributes this Offering Circular or any part of it and it will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Offer Shares under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and neither the Company nor the Selling Shareholder shall have any responsibility therefor.

GENERAL INFORMATION

1. AmRest has been incorporated for an indefinite period as a *naamloze vennootschap* under Section 64, Book 2 of the Dutch Civil Code. AmRest is registered in the commercial register in The Netherlands under number 34142963. AmRest's registered office is at Koningslaan 34, 1075 AD Amsterdam and its principal administrative office is at Ul. M. Sklodowskiej-Curie 1, 50-381 Wrocław.

2. The Offering and the issue of the New Shares were authorised and approved by the Management Board of the Company on 2nd February, 2005 and by the Supervisory Board of the Company on 7th February, 2005. All other consents, approvals, authorisations and other formalities required under Dutch and Polish law to be obtained or satisfied in connection with the Offering have been so obtained or satisfied.

3. Neither the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which may have or have had in the last 12 months a significant effect on the financial position of the Company and its subsidiaries, taken as a whole, and, so far as the Company is aware, no such litigation or arbitration proceedings are pending or threatened.

4. There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of the Company or of the Company and its subsidiaries, taken as a whole, since 31st December, 2004, the date of the Company's latest audited consolidated financial statements.

5. KPMG Audyt Sp. z o.o., chartered accountants, have audited, without any qualification, the Company's annual accounts in accordance with International Financial Reporting Standards for each of the four financial years ended 31st December, 2004. KPMG Audyt Sp. z o.o. has given and not withdrawn its written consent to the inclusion in this Offering Circular of its reports in the form and context in which they are included.

FINANCIAL INFORMATION

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Report of the Independent Auditor to the shareholders of AmRest Holdings N.V.

We have audited the accompanying consolidated balance sheets of AmRest Holdings N.V. (''the Company'') and its subsidiaries (''the Group'') as of 31 December 2003, 2002 and 2001 and the related consolidated income statements, statements of changes in shareholders' equity and statements of cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2003, 2002 and 2001 and of the results of its operations and cash flows for each of the years then ended in accordance with International Financial Reporting Standards.

KPMG Audyt Sp. z o.o.

Warsaw, Poland
28 June 2004

KPMG Audyt Sp. z o.o., a Polish limited liability company, is a member firm of KPMG International, a Swiss cooperative.

Spolka zarejestrowana w Sadzie Rejonowym dla m. st. Warszawy XIX Wydzial Gospodarczy Krajowego Rejestru Sadowego KRS 0000104753 Zarzad: Andrzej Scislowski, Richard Cysarz, Bogdan Debicki, Leszek Dubicki, Zofia Poplawska, Bozena Graczyk, Marek Strugala, Wojciech Stopka, Marcin Domagala, Marek Gajdzinski Kapital zakladowy PLN 125.000 NIP: 526-10-24-841

AmRest Holdings N.V.

Consolidated Financial Statements

as at and for the years ended 31st December, 2003, 2002 and 2001

AmRest Holdings N.V.

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AmRest Holdings N.V.

Consolidated income statements

For the year ended 31st December

in thousands of Polish złoty

	Note	2003	2002	2001
Restaurant sales		430,783	383,693	353,740
Restaurant expenses:	4			
Cost of food		(153,356)	(136,687)	(124,362)
Direct marketing expenses		(21,231)	(19,820)	(18,890)
Direct depreciation and amortization expenses		(30,623)	(28,820)	(26,135)
Payroll and employee benefits		(75,233)	(68,325)	(66,473)
Continuing franchise fees		(25,738)	(22,933)	(21,051)
Occupancy and other operating expenses		(73,624)	(66,230)	(61,219)
Total restaurant expenses		(379,805)	(342,815)	(318,130)
Gross profit on sales		50,978	40,878	35,610
General and administrative (G&A) expenses	4	(38,571)	(41,414)	(36,261)
Depreciation and amortization expense (G&A)	4	(1,904)	(2,155)	(2,165)
Other operating income/(expense), net	5	5,136	8,500	8,218
Loss on the sale of fixed assets	4, 8	(138)	(2,143)	(2,017)
Impairment losses	4, 8	(7,089)	(32)	(4,987)
Goodwill and negative goodwill amortization	4	199	1,249	(960)
Profit/(loss) from operations		8,611	4,883	(2,562)
Net financing costs	6	(16,101)	(22,504)	(19,777)
Net loss before tax		(7,490)	(17,621)	(22,339)
Income tax expense	7	(3,857)	(3,157)	(2,396)
Net loss for the year		(11,347)	(20,778)	(24,735)
Basic loss per share in Polish złoty	23	(113)	(208)	(247)

See accompanying notes to the consolidated financial statements

AmRest Holdings N.V.

Consolidated balance sheets

As of 31st December

in thousands of Polish złoty

	Note	2003	2002	2001
Assets				
Property, plant and equipment, net	8	174,595	183,428	180,565
Intangible assets	9	7,456	7,698	6,605
Goodwill/(negative goodwill), net	10	(3,453)	(3,652)	(6,238)
Investments		253	490	81
Other non-current assets	11	1,243	1,570	598
Deferred tax assets	7	2,245	1,524	1,752
Total non-current assets		182,339	191,058	183,363
Investments		576	643	100
Inventories	12	6,407	7,722	5,447
Trade and other receivables	13	12,651	10,420	8,417
Other current assets	15	9,826	5,781	5,617
Cash and cash equivalents	14	8,558	7,330	7,625
Total current assets		38,018	31,896	27,206
Total assets		220,357	222,954	210,569
Equity	16			
Issued capital		373	373	373
Share premium		136,593	132,392	132,392
Retained deficit		(121,024)	(100,246)	(75,511)
Current year net loss		(11,347)	(20,778)	(24,735)
Cumulative translation adjustment		3,362	4,101	681
Total equity		7,957	15,842	33,200
Liabilities				
Interest-bearing loans and borrowings	17	26,039	33,714	33,059
Employee benefits	18	1,002	1,001	979
Other non-current liabilities		17	15	13
Deferred tax liabilities	7	—	410	55
Total non-current liabilities		27,058	35,140	34,106
Interest-bearing loans and borrowings	17	125,658	105,619	71,246
Trade and other accounts payable	19	52,939	63,154	64,041
Income tax payable		3,674	2,088	—
Provisions	20	3,071	1,111	7,976
Total current liabilities		185,342	171,972	143,263
Total liabilities		212,400	207,112	177,369
Total equity and liabilities		220,357	222,954	210,569

See accompanying notes to the consolidated financial statements

AmRest Holdings N.V.

Consolidated statements of cash flows

For the year ended 31st December

in thousands of Polish złoty

	Note	2003	2002	2001
Cash flows — operating activities				
Net loss before tax		(7,490)	(17,621)	(22,339)
Adjustments for:				
Depreciation and Amortization	8, 9, 10	32,328	29,723	29,259
Interest expense, net	6	8,432	12,605	12,593
Unrealised foreign exchange losses		2,478	4,370	4,670
Loss on disposal of fixed assets	4, 8	138	2,143	2,017
Impairment losses	4, 8	7,089	32	4,987
Working capital changes:				
(Increase)/decrease in receivables		(2,773)	(880)	9,834
(Increase)/decrease in I/C receivables		(190)	(967)	52
(Increase)/decrease in inventories		978	(2,532)	(1,663)
(Increase)/decrease in other assets		(3,718)	(1,200)	(117)
Increase/(decrease) in payables		(14,048)	(3,723)	36,476
Increase/(decrease) in I/C payables		209	2,499	(52,737)
Increase/(decrease) in other liabilities		2,813	1,472	548
Increase/(decrease) in other provisions		916	(6,641)	7,694
		(15,813)	(11,972)	87
Income taxes paid		(3,803)	(787)	—
Interest paid		(6,005)	(8,825)	(4,405)
Other		(8)	(409)	(480)
Net cash provided by operating activities		17,346	9,259	26,389
Cash flows — investing activities				
Acquisition of subsidiary, net of cash acquired		—	(1,373)	(6,811)
Proceeds from the sale of property, plant and equipment and intangible assets	8, 9	123	8,131	7,050
Acquisition of property, plant and equipment and intangible assets	8, 9	(30,803)	(45,337)	(39,195)
Interest received		—	1,156	—
Net cash used in investing activities		(30,680)	(37,423)	(38,956)
Cash flows — financing activities				
Cash contribution from shareholder	16	4,201	—	—
Proceeds from borrowings		17,405	29,912	19,864
Repayment of borrowings		(7,557)	(2,328)	(6,055)
Net cash provided by financing activities		14,049	27,584	13,809
Net change in cash and cash equivalents		715	(580)	1,243
Cash and cash equivalents, beginning of period		7,330	7,625	6,370
Effect of exchange rate fluctuations on cash held in foreign currency		513	285	12
Cash and cash equivalents, end of period		**8,558**	**7,330**	**7,625**

See accompanying notes to the consolidated financial statements

AmRest Holdings N.V.

Consolidated statements of changes in equity

in thousands of Polish złoty

	Share capital	Share premium	Retained deficit	Translation reserve	Total
Balance as at 1st January, 2001	373	132,392	(75,511)	1,561	58,815
Currency translation adjustment	—	—	—	(880)	(880)
Net loss for the period	—	—	(24,735)	—	(24,735)
Balance as at 31st December, 2001	**373**	**132,392**	**(100,246)**	**681**	**33,200**
Currency translation adjustment	—	—	—	3,420	3,420
Net loss for the period	—	—	(20,778)	—	(20,778)
As at 31st December, 2002	**373**	**132,392**	**(121,024)**	**4,101**	**15,842**
Currency translation adjustment	—	—	—	(739)	(739)
Net loss for the period	—	—	(11,347)	—	(11,347)
Additional payment to equity	—	4,201	—	—	4,201
As at 31st December, 2003	**373**	**136,593**	**(132,371)**	**3,362**	**7,957**

See accompanying notes to the consolidated financial statements

1 Company overview and significant accounting policies

(a) Background

AmRest Holdings N.V. (the ''Company'') was incorporated in the Netherlands in October 2000. The Company is domiciled in the Netherlands and jointly owned and controlled by International Restaurant Investments, LLC (IRI) of the United States and Kentucky Fried Chicken Poland Holdings BV (KFC BV) of the Netherlands pursuant to the terms of the Shareholders Agreement related to AmRest Holdings N.V. (''Joint Venture Agreement''). IRI is a wholly-owned subsidiary of American Retail Concepts, Inc. of the United States (ARC) and Yum! Brands, Inc. (YUM!) of the United States is the ultimate parent company of KFC BV.

The principal activity of the Company, through its subsidiaries, is to operate Kentucky Fried Chicken (KFC) and Pizza Hut franchised restaurants in Poland and the Czech Republic and ''Ice*Land'' ice cream outlets in Poland. At 31st December, 2003, the Company operated 148 restaurants. The existing restaurants, which were contributed to the joint venture at its inception, are operated under a Master Franchise Agreement (the ''Master Franchise Agreement''), dated 6th October, 2000, with YUM! Restaurants International Switzerland, Sarl (YRIS), a subsidiary of YUM!. New restaurants opened subsequent to the Master Franchise Agreement, are operated under separate franchise agreements with YRIS on substantially the same terms as the Master Franchise Agreement (all such franchise agreements together with the Master Franchise Agreement are referred to as the ''Franchise Agreements''). Each Franchise Agreement has a term of ten years, with provision for renewal by the Company for a further ten years, subject to certain conditions being met as described in the agreements.

In addition, the Company, through its subsidiaries, currently operates under a Development Agreement (the ''Development Agreement''), dated 25th September, 2003, with KFC International Holdings (KFCIH) and Pizza Hut International, LLC (PHILLC), subsidiaries of YUM!. The Company has the right and obligation to develop KFC and Pizza Hut outlets in Poland and the Czech Republic. Provided that the Company is in compliance with its obligations under the Development Agreement, the Company has a right of first refusal in relation to any new KFC or Pizza Hut restaurant in Poland and the Czech Republic proposed to be developed by the franchisor or in respect of which the franchisor proposes to grant franchise rights. The Development Agreement expires on 31st December, 2005 but may be renewed for a year or more. The parties are required to review the development targets on 25th September each year to negotiate the number of outlets to be built for each subsequent renewal period.

The consolidated financial statements of the Company for the year ended 31st December, 2003 comprise the Company and its subsidiaries (together referred to as the ''Group'') and the Group's interest in associates.

The table below presents a summary of the subsidiaries included within the Group as at 31st December, 2003:

Name of company	Registered address and country of incorporation	Principal activity	Parent company	Ownership interest and voting power	Date of effective control
American Restaurants Sp. z o. o.	ul. M. Curie-Skłodowskiej 1, Wrocław, Poland	Operating Pizza Hut and KFC restaurants in Poland	AmRest Holdings N.V.	100.00%	December 2000
American Restaurants a.s.	Na Porici 10, Praha 1, Czech Republic	Operating Pizza Hut and KFC restaurants in the Czech Republic	AmRest Holdings N.V.	100.00%	December 2000
International Fast Food Polska Sp. z o. o.	ul. M. Curie-Skłodowskiej 1, Wrocław, Poland	Rental of utility space and restaurant equipment	American Restaurants Sp. z o. o.	100.00%	January 2001
Delta Creator Sp. z o.o.	ul. Piłsudskiego 66, Wrocław, Poland	Operates one KFC restaurant in Poland	American Restaurants Sp. z o. o.	100.00%	December 2000
Pizza Hut Sro	Na Porici 10, Praha 1, Czech Republic	Owner of a building which was sold in 2002; no current activities.	American Restaurants a.s.	100.00%	December 2000
Grifex I Sp. z o. o.	ul. M. Curie-Skłodowskiej 1, Wrocław, Poland	Operates a childrens activity centre in Warsaw	American Restaurants Sp. z o.o.	100.00%	September 2003
Surf&Sip Eastern Europe Sp. z o. o.	ul. M. Curie-Skłodowskiej 1, Wrocław, Poland	Development of IT activities	American Restaurants Sp. z o.o.	100.00%	November 2003
Worldwide Communication Services LLC	711 S Carson Street, Ste 4, Nevada, USA	Marketing activity for the Group	American Restaurants Sp. z o.o.	66.66%	October 2003

The Company has the following associated company, which is accounted for using the equity method:

Name of company	Registered address and country of incorporation	Principal activity	Parent company	Ownership interest and voting power	Date of effective control
Global Communication Services Sp. z o. o.	ul. Włodarzewska 45a, Warsaw, Poland	Outsource marketing for AmRest Sp. z o. o.	American Restaurants Sp. z o.o.	33.33%	May 2002

The Group's corporate offices are located in Wroclaw, Poland. The restaurants operated by the Group are located throughout Poland and the Czech Republic.

The average number of employees employed by the Group is summarised as follows:

	2003	2002	2001
Restaurant staff	4,457	4,625	4.409
Office and administration	133	125	119
	4,590	4,750	4,528

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

These are the Group's first consolidated financial statements prepared in accordance with IFRS. IFRS 1 (June 2003) has been adopted before its effective date in the preparation of the Group's consolidated financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 27 to the consolidated financial statements.

The consolidated financial statements were authorized for issue by the Directors on 28th June, 2004.

(c) Basis of preparation

The consolidated financial statements are presented in Polish zloty (PLN), rounded to the nearest thousand (TPLN) and are prepared on the historical cost basis as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the income statement.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1st January, 2001 for the purposes of the transition to IFRS. The Group early adopted the IFRS below, which are relevant to its operations, as of 1st January, 2001:

- IAS 21 (revised 2003), *The Effects of Changes in Foreign Exchange Rates*
- IAS 32 (revised 2003), *Financial Instruments: Disclosure and Presentation*
- IAS 39 (revised 2003), *Financial Instruments: Recognition and Measurement*

The early adoption of the above standards has been consistently applied in all periods presented.

The Group generated a net loss of 11.347 TPLN for the year ended 31st December, 2003, primarily due to the significant impairment and financing costs associated with the continued expansion of its restaurant network in Poland and the Czech Republic. In addition, the Group has experienced significant losses since the inception of the Company, has a working capital deficit of PLN 147,324 TPLN, and limited net equity of 7,957 TPLN at 31st December, 2003. The working capital deficit includes a 103,032 TPLN short-term credit with Citibank, which is guaranteed by one of the Company's shareholders and is renewed annually.

For the year ended 31st December, 2003, the Group generated positive cash flows from operations of 17,346 TPLN. Based on the Group's current business plan and financial projections, the Group expects to further improve operating profit and net cash provided by operating activities in 2004 and subsequent years as the expanding restaurant network will provide continued revenue and profit on sales growth which is expected to exceed the growth in fixed costs.

Pursuant to the terms of the Joint Venture Agreement referred to above, the joint venture partners are required to fund capital deficiencies of the joint venture as described in the agreement. In the case of a capital deficiency, each party shall pay to the joint venture an amount equal to that party's proportion of the capital amount in consideration for the proportionate number of shares calculated in accordance with the provisions described in the Joint Venture Agreement. In addition, as described in Note 22, the Group's shareholders have provided guarantees for a significant portion of the Group's current liabilities.

The Group believes that cash and cash equivalents at 31st December, 2003, sustained positive cash flows from operations and the funding responsibilities and commitments of its shareholders will provide the Company with sufficient cash resources to fulfill its financial and strategic business objectives. The Company will in light of these financial and strategic business objectives continue its policy of assessing opportunities for additional debt and equity financing as they arise.

Based on the above, management believes that the Company will be able to continue as a going concern. Accordingly, these consolidated financial statements have been prepared on a going concern basis, which contemplates the continuation and expansion of activities as well as the realization of assets and liquidation of liabilities in the ordinary course of business.

(d) Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, 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 or convertible 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.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (''the functional currency''). The functional currency of the Polish operations is the PLN while the functional currency of the Czech operations is the Czech Crown.

The consolidated financial statements are presented in PLN which is the Company's functional and presentation currency. Due to the fact that the majority of its operations and transactions are PLN denominated, the Group considers the PLN as its functional currency.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies at the balance sheet date are translated to PLN at the foreign exchange rate prevailing at that date. All differences arising on translation are recognised in the income statement.

The results and financial position of all group entities, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- the assets and liabilities are translated into PLN at exchange rates ruling at the balance sheet date.
- the revenues and expenses of foreign operations are translated at average exchange rates which approximate the foreign exchange rates ruling at the dates of the transactions.
- foreign exchange differences arising on translation are recognised directly in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

None of the foreign operations has a currency of a hyperinflationary economy.

(f) Franchise, license and other fees

As noted in Note 1(a) above, restaurants are operated in accordance with franchise and development agreements with certain subsidiaries of YUM! as described in Note 1(a) above. The Franchise Agreements typically require that the Group pay an initial, non-refundable fee upon the opening of each new restaurant, pay continuing fees based upon a percentage of revenues and commit a fixed percentage of revenue to advertising as specified in the relevant agreement. In addition, at the conclusion of the initial term of the franchise agreement, the Group may renew the franchise agreement, subject to a renewal fee.

Initial fees paid are capitalized as other intangible assets and amortized over five to ten years. Continuing fees are expensed as incurred. Renewal fees are amortized over the renewal period when a renewal agreement becomes effective.

(g) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (o) below). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Internal development costs

Direct costs associated with site acquisition and the construction of a restaurant on that site, including direct internal payroll and payroll-related costs are capitalized. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized and included in restaurant development assets. If subsequently it is determined that a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed. Capitalised internal development costs are amortized over the estimated life of a restaurant, which is estimated to be ten years, however not to exceed the lease term.

Subsequent expenditure

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

- Buildings .... 30-40 years
- Restaurant development assets (includes leasehold improvements and internal development costs) .... 10 years
- Machinery and equipment .... 3-8 years
- Vehicles .... 5 years
- Other tangible assets .... 4-8 years

(h) Goodwill

Goodwill (positive and negative) represents amounts arising on acquisition of subsidiaries and associates. In respect of acquisitions from 1st January, 2001, goodwill (positive or negative) represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions that occurred before 1st January, 2001, goodwill is included on the basis of its deemed cost, which represents the total amount derived under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1st January, 2001 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1st January, 2001.

Positive goodwill is stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy (o) below). Goodwill arising on the acquisition of subsidiaries is presented separately on the face of the balance sheet. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets it is recognised in income immediately. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from goodwill.

(i) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy (o) below).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(j) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Positive goodwill is amortized from the date of initial recognition; other intangible assets are amortized from the date they are available for use.

The estimated useful lives are as follows:

- Software licenses . . . . 4-5 years
- Positive goodwill . . . . 5 years
- Other intangible assets . . . . 5 years

(k) Investments

The Group classifies its investments in the following categories: investments held for trading, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The Group does not have any investments classified as available-for-sale financial assets at the balance sheet dates.

Investments held for trading

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this

category are stated at fair value, with any resultant gain or loss recognized in the income statement, and classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as other non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (see accounting policy (l) below).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group has certain investments in government bonds, which are classified as held-to maturity investments.

(l) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognized initially at fair value and subsequently measured at amortized cost less impairment losses. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. If there is objective evidence that an impairment loss on receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the loss is recognized in the income statement.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. 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 location and condition.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(o) Impairment

The carrying amount of the Group's other assets, except for receivables (see accounting policy (l)), inventories (see accounting policy (m)) and deferred tax assets (see accounting policy (w)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset which does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Restaurants are evaluated using a ''one year history of operating losses'' as the primary indicator of potential impairment. For restaurants for which there is an indicator of potential impairment, discounted estimated cash

flows are used to assess the recoverable amount of the related assets. The impairment evaluation is based on the estimated cash flows from continuing operation of the restaurant through the expected disposal date and the expected terminal value.

In addition, when a decision is made to close a restaurant, the restaurant is reviewed for impairment and depreciable lives are adjusted accordingly. Likewise, a liability is recorded for any lease termination costs associated with the closing of the restaurant.

Goodwill was tested for impairment on 1st January, 2001, the date of transition to IFRS, even though no indication of impairment existed.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. In subsequent periods, borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings using the effective interest rate method.

(q) Employee benefits

Performance participation plan

The Group has a performance participation plan under which certain employees are granted participation units with an assigned value that, upon vesting and the occurrence of certain specified events or dates as described in Note 18, entitles the employees to receive compensation representing the difference between the assigned value of the vested units and the value calculated in accordance with the terms of the agreement on the date of the occurrence of the specified events or dates. The change in the estimated value of the vested units is recognised in the profit and loss account in the period in which the change of value occurs. Estimates are updated at each balance sheet date.

Long-term service benefits

Certain employees have the right to jubilee payments for long-term employment in accordance with the Group's employment regulations. These employees receive a lump sum in local currency equivalent of USD 300 after the completion of 5 years of employment and a lump sum in local currency equivalent of USD 1,000 after the completion of 10 years of employment.

The Group has made an accrual for the jubilee obligation as of 31st December, 2003, 2002 and 2001 in the amount of 490 TPLN, 500 TPLN and 464 TPLN, respectively. The accrual represents the Group's estimate of future benefits that employees have earned in return for their service in the current and prior periods, discounted to its present value.

(r) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

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

Site restoration

Management historically has and intends to continue to renew its leased restaurant premises on a long-term basis. As a result, the Company does not anticipate significant site restoration costs and, accordingly, has not recorded a site restoration provision.

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.

(s) Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost. Short-term payables are not discounted.

(t) Revenue Recognition

Revenues comprise the fair value for the sale of goods, net of value-added tax. Sales of goods are recognized when a Group entity sells a product to the customer. Sales are typically in cash or by credit card.

(u) Expenses

Operating lease payments

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 in the income statement as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses that are recognised in the income statement. Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(v) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited to the income statement except when it relates to items charged directly to equity in which case the deferred tax is also dealt with in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets 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.

(w) Use of estimates

The preparation of the consolidated financial statements requires management of the Group to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment; valuation allowances for receivables, inventories and deferred income tax assets. Actual results could differ from those estimates.

(x) Derivative Financial Instruments

The Group periodically uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational and financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. At the balance sheet dates, the Group did not have any derivatives which qualify for hedge accounting.

Derivative financial instruments are recognised initially at fair value and are subsequently remeasured at fair value. The changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement. The fair value of interest rate swaps are based on dealer quoted market prices for similar instruments at the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged in either providing products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different than those of other segments.

2 Segment reporting

Geographical segments

The restaurant operations are managed on a Group-wide basis, but operate in two principal geographical areas, Poland and the Czech Republic.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Inter-segment pricing is determined on an arm's length basis.

Geographical segment data is as follows:

	Poland	Czech	Unallocated	Total
2003				
Revenue from external customers	307,866	122,917	—	430,783
Net income/(loss)	(15,836)	3,628	861	(11,347)
Total assets	169,647	69,971	(19,261)	220,357
Total liabilities	188,671	51,563	(27,834)	212,400
Depreciation/amortization	25,347	6,981	—	32,328
Fixed assets acquired	14,576	16,227	—	30,803
Impairment losses	7,089	—	—	7,089
2002				
Revenue from external customers	288,936	94,757	—	383,693
Net income/(loss)	(25,062)	3,038	1,246	(20,778)
Total assets	185,367	55,710	(18,114)	222,954
Total liabilities	192,434	27,943	(13,265)	207,112
Depreciation/amortization	22,973	6,753	—	29,726
Fixed assets acquired	25,240	20,097	—	45,337
Impairment losses	32	—	—	32
2001				
Revenue from external customers	288,282	65,458	—	353,740
Net income/(loss)	(28,667)	3,286	646	(24,735)
Total assets	186,708	42,154	(18,293)	210,569
Total liabilities	188,060	20,683	(31,374)	177,369
Depreciation/amortization	25,743	3,517	—	29,260
Fixed assets acquired	22,923	16,272	—	39,195
Impairment losses	4,987	—	—	4,987

The unallocated column relates to balances and transactions of AmRest Holdings N.V. as well as transactions between the segments and AmRest Holdings N.V.

3 Acquisitions of subsidiaries

The acquisition date of subsidiaries and associated companies is detailed in Note 1; descriptions of the acquisitions are presented below:

Acquisition of International Fast Food Polska Sp. z o.o. ("IFFP")

In November 2000, the Company signed an agreement to acquire 100% of the shares of International Fast Food Polska Sp. z o.o. (at that time the operator of franchised Burger King restaurants in Poland) from International Fast Food Corporation for cash consideration of 9,093 TPLN (the equivalent of USD 2,019,064). The shares were legally acquired by the Company in March 2001. In accordance with the agreement referred to above and a subsequent contract signed in January 2001, the benefits and burdens of ownership of the shares were transferred to the Company effective as of 1st January, 2001. IFFP's primary activity is the lease of its restaurant

locations to American Restaurants Sp. z o.o. The fair value of assets acquired and liabilities assumed were as follows (amounts in TPLN):

Cash	909
Inventory	1,003
Accounts receivable	1,154
Other current assets	242
Property, plant and equipment	30,114
Intangible assets	109
Accounts payable and accruals	(17,020)
	16,511
Total purchase price (paid 2001 — 2002)	9,093
Less cash of IFFP	(909)
Cash paid on acquisition net of cash acquired	8,184

Other acquisitions

Worldwide Communication Services LLC (“WCS”) was established in October 2003, with the aim of providing marketing services to the Group. The Company, through its subsidiaries, holds 66.66% of WCS’s shares. As of 31st December, 2003, the entity was dormant.

Surf and Sip Eastern Europe Sp. z o.o. was established during 2003 with capital of 50 TPLN with the purpose of developing the Company’s IT activities.

Grifex I Sp. z o.o. was acquired in September 2003 for a total purchase consideration of 58 TPLN with the aim of operating Kids Play facilities in Poland. As of 31st December, 2003, the entity was dormant.

Global Communication Services Sp. z o.o. (“GCS”) was established during 2002. As of 31st December, 2003, the Company, through its subsidiaries, held a 33.33% interest in GCS. GCS provides outsourced marketing services to the Group.

4 Operating expenses

Operating expenses can be summarised as follows:

	2003	2002	2001
Amortization and depreciation	32,328	29,726	29,260
Food and material	160,013	142,597	131,608
Utilities	14,335	12,962	11,762
External services	35,798	31,349	33,523
Payroll	71,974	67,272	67,210
Social security and other benefits	16,449	14,832	13,356
Rent	34,593	30,365	26,080
Marketing expenses	21,231	19,820	18,890
Continuing franchise fees	25,738	22,933	21,051
Loss on the sale of fixed assets	138	2,143	2,017
Impairment losses	7,089	32	4,987
Insurance	2,157	1,960	1,153
Business travel	1,932	1,588	1,811
Other	3,533	9,731	1,812
	427,308	387,310	364,520

5 Other operating income/(expense), net

Other operating income/(expense) can be summarised as follows:

	2003	2002	2001
Management fee	2,880	2,713	2,313
Sublease income	1,634	2,011	1,420
Other, net	622	3,776	4,485
	5,136	8,500	8,218

6 Net financing costs

	2003	2002	2001
Interest expense	(9,011)	(13,332)	(13,139)
Interest income	579	727	546
Foreign exchange gain/(loss), net	(5,962)	(10,413)	(6,974)
Loan guarantee commissions	(1,116)	—	—
Other	(591)	514	(210)
	(16,101)	(22,504)	(19,777)

7 Income taxes

The Company is subject to income tax regulations in the Netherlands, Poland and the Czech Republic.

Tax laws applicable to the Group:

Results of operations for tax purposes of the Company are computed in accordance with Dutch tax legislation and, for subsidiaries, in accordance with the relevant Polish and Czech Republic tax legislation.

Income tax expense can be summarised as follows:

	2003	2002	2001
Current tax	4,801	2,330	448
Deferred tax	(944)	827	1,948
Income tax expense in the income statement	3,857	3,157	2,396

Tax rates applicable to the Company and its subsidiaries are as follows:

	Netherlands	Poland	Czech
2003	34,5%	27%	31%
2002	34,5%	27%	31%
2001	35,0%	28%	31%

The deferred tax assets and liabilities at 31st December was calculated using tax rates as follows:

	Poland	Czech
2003	19%	28%
2002	27%	31%
2001	28%	31%

Reconciliation of tax expense at Dutch corporate rate to actual tax expense:

	2003	2002	2001
Loss before tax	(7,490)	(17,621)	(22,339)
Income tax using the Dutch corporation rate	(2,584)	(6,079)	(7,819)
Effect of tax rates in Poland	1,188	1,629	2,293
Effect of tax rates in Czech	(262)	(217)	(227)
Permanent differences	2,240	134	4,831
Temporary differences	1,041	1,055	1,419
Tax saved on losses carry forward which were not recognized as deferred tax assets	(1,717)	(1,554)	(1,540)
Other differences	(1,000)	(666)	188
Income tax expense in the income statement	3,857	3,157	2,396
Potential benefits of tax loss carry forwards	(4,951)	(8,855)	(3,251)

Deferred income taxes

Deferred income taxes are primarily provided for all the temporary differences between the tax and the accounting basis of assets and liabilities based on the tax rate that is expected to be in effect at the time the deferred income taxes will be realised. Realisation of the deferred income tax assets is dependent upon generating sufficient taxable income in the period that deferred income tax assets are expected to be realised. Based on all available information, the Company believes that the deferred income tax assets detailed in the table below are realisable.

Recognised deferred tax assets and liabilities are in respect of the following items:

	Gross difference	Tax rate	Tax asset	Tax liability
2003				
Fixed assets	7,375	28%	2,065	—
Receivables provision	171	28%	48	—
Reserves	424	28%	119	—
Other temporary differences	49	28%	13	—
Total			2,245	—
2002				
Fixed assets	4,765	31%	1,477	—
Receivables provision	90	31%	28	—
Other temporary differences	62	31%	19	—
Unrealized foreign exchange gains	(1,323)	31%	—	(410)
Total			1,524	(410)
2001				
Fixed assets	4,904	31%	1,520	—
Receivables provision	92	31%	29	—
Reserves	656	31%	203	—
Unrealized foreign exchange gains	(177)	31%	—	(55)
Total			1,752	(55)

Unrecognised deferred tax assets

In Poland and the Czech Republic, the Group has tax loss carryforwards amounting to 85,094 TPLN and 3,008 TPLN, respectively. These tax loss carryforwards expire as detailed in the table below:

Year of expiration	Amount
2004	15,598
2005	13,694
2006	21,728
2007	25,120
2008	9,507
2009	1,059
2010	1,396
	88,102

In addition, the Polish subsidiaries as at 31st December, 2003, 2002 and 2001 have net tax deductible timing differences of 16,487 TPLN, 26,644 TPLN and 42,861 TPLN, respectively which, if realisable, would result in a deferred tax asset of 3,133 TPLN, 7,194 TPLN and 12,001 TPLN at each balance sheet date, respectively. Due to the significant historical tax losses in the Group's Polish subsidiaries as well as the subsidiary in the Czech Republic which also holds tax loss carryforwards, no deferred tax assets were recognised in relation to these timing differences or loss carryforwards at 31st December, 2003, 2002 or 2001.

8 Property, plant and equipment

Movements in property, plant and equipment can be presented as follows:

2003	Land	Buildings & Restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
Balance at 1/1/2003	306	195,358	100,434	754	4,960	4,956	306,768
Additions	—	12,724	10,637	364	783	—	24,508
Disposals	—	(12)	(9,948)	(244)	(8)	(1,146)	(11,358)
Exchange rate differences	—	4,090	3,501	—	—	253	7,844
Balance at 31/12/2003	306	212,160	104,624	874	5,735	4,063	327,762
Accumulated depreciation							
Balance at 1/1/2003	—	59,967	56,500	507	3,749	—	120,723
Depreciation expense	—	17,338	11,895	100	768	—	30,101
Disposals	—	(186)	(8,365)	(212)	(174)	—	(8,937)
Exchange rate differences	—	1,099	1,493	—	1	—	2 593
Balance at 31/12/2003	—	78,218	61,523	395	4,344	—	144,480
Impairment losses							
Balance at 1/1/2003	—	824	1,154	—	—	639	2,617
Increase	—	6,429	—	—	—	660	7,089
Disposals	—	—	(1,019)	—	—	—	(1,019)
Balance at 31/12/2003	—	7,253	135	—	—	1,299	8 687
Net book value 1/1/2003	**306**	**134,567**	**42,780**	**247**	**1,211**	**4,317**	**183,428**
Net book value 31/12/2003	**306**	**126,689**	**42,966**	**479**	**1,391**	**2,764**	**174,595**

2002	Land	Buildings & Restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
Balance at 1/1/2002	186	186,982	87,721	735	4,675	5,884	286,183
Additions	120	22,534	15,557	172	372	—	38,755
Disposals	—	(18,598)	(5,386)	(153)	(87)	(1,051)	(25,275)
Exchange rate differences	—	4,440	2,542	—	—	123	7,105
Balance at 31/12/2002	306	195,358	100,434	754	4,960	4,956	306,768
Accumulated depreciation							
Balance at 1/1/2002	—	48,712	47,876	524	3,519	—	100,631
Depreciation expense	—	17,537	10,827	103	253	—	28,720
Disposals	—	(7,286)	(3,372)	(120)	(23)	—	(10,801)
Exchange rate differences	—	1,004	1,169	—	—	—	2,173
Balance at 31/12/2002	—	59,967	56,500	507	3,749	—	120,723
Impairment losses							
Balance at 1/1/2002	—	2,563	1,154	—	—	1,270	4,987
Increase	—	32	—	—	—		32
Disposals	—	(1,771)	—	—	—	(631)	(2,402)
Balance at 31/12/2002	—	824	1,154	—	—	639	2,617
Net book value 1/1/2002	**186**	**135,707**	**38,691**	**211**	**1,156**	**4,614**	**180,565**
Net book value 31/12/2002	**306**	**134,567**	**42,780**	**247**	**1,211**	**4,317**	**183,428**

A calculation of the loss on the sale of fixed assets and a summary of impairment losses incurred during 2003, 2002 and 2001 are presented in the table below:

	2003	2002	2001
Proceeds from the sale of fixed assets	118	8,126	7,050
Net book value of fixed assets sold	(1,275)	(12,671)	(9,067)
Impairment reserves relating to fixed assets sold	1,019	2,402	—
Loss on sale of fixed assets	(138)	(2,143)	(2,017)
Impairment losses recorded	(7,089)	(32)	(4,987)

Impairment losses recognised in 2003, 2002 and 2001 relate primarily to underperforming restaurants where either a decision has been made to close the restaurant or the restaurant assets or a portion of the assets, primarily leasehold improvements, were not considered to be recoverable based on an analysis of estimated discounted cash flows.

9 Intangible assets

Intangible assets can be summarised as follows:

2003	Software licences	Other intangible assets	Total
Acquisition cost			
Balance at 1/1/2003	433	15,230	15,663
Additions	—	2,008	2,008
Disposals	(9)	—	(9)
Exchange rate differences	—	363	363
Balance at 31/12/2003	424	17,601	18,025
Accumulated amortization			
Balance at 1/1/2003	414	7,551	7,965
Amortization expense	3	2,424	2,427
Disposals	(4)	—	(4)
Exchange rate differences	—	181	181
Balance at 31/12/2003	413	10,156	10,569
Net book value 1/1/2003	**19**	**7,679**	**7,698**
Net book value 31/12/2003	**11**	**7,445**	**7,456**

2002	Software licences	Other intangible assets	Total
Acquisition cost			
Balance at 1/1/2002	436	12,083	12,519
Additions	2	3,332	3,334
Disposals	(5)	(429)	(434)
Exchange rate differences	—	244	244
Balance at 31/12/2002	433	15,230	15,663
Accumulated amortization			
Balance at 1/1/2002	386	5,528	5,914
Amortization expense	28	2,224	2,252
Disposals	—	(326)	(326)
Exchange rate differences	—	125	125
Balance at 31/12/2002	414	7,551	7,965
Net book value 1/1/2002	**50**	**6,555**	**6,605**
Net book value 31/12/2002	**19**	**7,679**	**7,698**

Other intangible assets are comprised primarily of initial fees (see Note 1(f)). Related amortization is included in direct depreciation and amortization expenses in the income statement.

10 Goodwill and negative goodwill

Goodwill relates to the acquisition of Delta Creator Sp. z o.o., which occurred prior to 1st January, 2001. Negative goodwill relates to the acquisition of International Fast Foods Polska Sp. z o.o. (see Note 3). Goodwill and negative goodwill movements are summarised in the table below:

2003	Goodwill	Negative goodwill	Total
Acquisition cost			
Balance at 1/1/2003	4,143	(7,418)	(3,275)
Additions	—	—	—
Disposals	—	—	—
Exchange rate differences	367	—	367
Balance at 31/12/2003	4,510	(7,418)	(2,908)
Accumulated amortization			
Balance at 1/1/2003	(3,262)	2,885	(377)
Amortization expense	(881)	1,080	199
Disposals	—		—
Exchange rate differences	(367)	—	(367)
Balance at 31/12/2003	(4,510)	3,965	(545)
Net book value 1/1/2003	**881**	**(4,533)**	**(3,652)**
Net book value 31/12/2003	**—**	**(3,453)**	**(3,453)**

2002	Goodwill	Negative goodwill	Total
Acquisition cost			
Balance at 1/1/2002	3,791	(8,755)	(4,964)
Additions	—	—	—
Disposals	—	1,337	1,337
Exchange rate differences	352	—	352
Balance at 31/12/2002	4,143	(7,418)	(3,275)
Accumulated amortization			
Balance at 1/1/2002	(2,750)	1,476	(1,274)
Amortization expense	(160)	1,409	1,249
Disposals	—	—	—
Exchange rate differences	(352)	—	(352)
Balance at 31/12/2002	(3,262)	2,885	(377)
Net book value 1/1/2002	**1,041**	**(7,279)**	**(6,238)**
Net book value 31/12/2002	**881**	**(4,533)**	**(3,652)**

11 Other non-current assets

Other non-current assets include mainly prepaid credit insurance on bank loans and long-term receivables from third parties.

12 Inventories

Inventories as at 31st December, 2003, 2002 and 2001 comprise primarily food and packaging materials used in restaurant operations.

13 Trade and other receivables

The trade and other receivables balance at 31st December of the respective year is summarised in the table below:

	2003	2002	2001
Trade receivable — third party	9,275	6,993	7,640
Trade receivable — related parties	1,336	1,314	464
Income tax receivable	—	183	253
Other tax receivable	2,800	2,447	532
Other	1,178	1,503	1,740
Provision for receivables	(1,938)	(2,020)	(2,212)
	12,651	10,420	8,417

14 Cash and cash equivalents

The cash and cash equivalents balance at 31st December of the respective year is summarised in the table below:

	2003	2002	2001
Cash at bank	6,521	5,178	6,091
Cash on hand	2,037	2,152	1,534
	8,558	7,330	7,625

15 Other current assets

The other current assets balance at 31st December of the respective year is summarised in the table below:

	2003	2002	2001
Prepaid property insurance	1,314	846	1,064
Prepaid rent	4,685	2,542	1,048
Prepaid utilities	474	1,126	1,681
Credit insurance	296	415	1,472
Prepaid marketing services	1,247	—	—
Loyalty program	526	—	—
Other	1,284	852	352
	9,826	5,781	5,617

16 Equity

Share capital and share premium

The share capital and share premium balances at 31st December of the respective year are summarised in the table below:

	2003	2002	2001
Share capital	373	373	373
Share premium	136,593	132,392	132,392

At 31st December, 2003, 2002 and 2001 share capital comprised 100,000 issued and outstanding ordinary shares with a par value of one Euro. The total authorized shares at the above dates is 250,000. The share capital amount of 373 TPLN represents the functional currency equivalent of Euro 100,000 at the date of contribution. All issued shares are fully paid.

Share premium at 31st December, 2002 and 2001 represents the assigned value of the assets contributed to the joint venture by KFC BV and IRI pursuant to the terms of the Joint Venture Agreement as described in Note 1. In 2000, the assigned value of the assets contributed by the joint venture parties pursuant to the joint venture agreement was reduced to the net book value of the assets contributed with the resulting charge recorded in the 2000 income statement and reflected in retained earnings at 1st January, 2001.

During 2003, additional shareholder contributions were made by each of the joint venture partners to bring the share premium balance to 136,593 TPLN at 31st December, 2003.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Company into PLN.

17 Interest-bearing loans and borrowings

The table below presents the period of maturity of third party and related party interest-bearing loans and borrowings at 31st December, 2003:

Current	125,658
Due between 1 to 2 years	14,044
Due between 2 to 5 years	11,995
Total interest bearing loans	151,697

The tables below present current and non-current interest bearing loans and borrowings at 31st December of the respective year:

(A) Non-current

		Interest rate %	2003	2002	2001
In US dollars	BRE Bank	3,20% – 4,60% + 1M LIBOR	23,856	26,934	40,359
	Amerbank	2,50% + ABL (1,50%)	520	2,700	4,983
In Polish złoty	Kredyt Bank	Lombard (6,75%)	50	202	1,140
	Kredyt Echo	3,00% + 1M WIBOR	288	101	—
In Czech crowns	Commerzbank	3,00% + 3M PRIBOR	10,820	6,376	—
In EURO	Centrum J	6%	—	946	—
			35,534	37,259	46,482
Loans from related parties		8%	2,865	2,983	—
Less current portion of non-current loans and borrowings					
In US dollars	BRE Bank	3,20% – 4,60% + 1M LIBOR	9,120	2,201	12,641
	Amerbank	2,50% + ABL (1,50%)	520	2,132	—
In Polish złoty	Kredyt Bank	Lombard (6,75%)	50	—	782
	Kredyt Echo	3,00% + 1M WIBOR	288	101	—
In Czech crowns	Commerzbank	3,00% + 3M PRIBOR	2,382	1,148	—
In EURO	Cenrtum J	6%	—	946	—
			12,360	6,528	13,423
Interest bearing loans and borrowings — non-current			26,039	33,714	33,059

		Interest rate %	2003	2002	2001
Current portion of non-current loans and borrowings			12,360	6,528	13,423
Short term bank credit					
In Czech crowns	Citibank	0,75% + 1M PRIBOR	103,032	92,288	47,319
	Raiffeisenbank	1,00% + 3M PRIBOR	1,205	—	609
In EURO	Citibank	0,75% + 1M EURIBOR	6,217	5,389	—
In Polish złoty	Kredyt Statoil	1,00% + 1M WIBOR	—	—	3,292
Interest bearing loans-related parties		8,00%	2,844	1,414	6,603
Interest bearing loans and borrowings — current			125,658	105,619	71,246

18 Employee benefits

Employee benefits consist of reserves allocated for bonuses and rewards for employees as described in Note 1 (q) and the expenses relating to the Performance Participation Plan, which is described in more detail below.

Performance Participation Plan

In 1999, the Company adopted a Performance Participation Plan (''the Plan''). Under the Plan, the Company is entitled to determine, among other matters, participating employees, the number of units to be awarded to each employee and the award and vesting date of all units. The grant value of each unit awarded is derived from an annual earnings multiple under which earnings represents net income in the respective fiscal year in which the units were granted adjusted for certain items as defined in the Plan. The grant value for each unit resulting from the above calculation is rounded to the nearest USD 100. Under the Plan, units vest over a five-year period (three-year period in limited cases) with one-fifth of a unit vesting on each anniversary of its award or one-third in the case of a three year vesting period.

Upon completion of a public offering of equity securities of the Company on a qualifying exchange (eg. an established exchange in the United States or Europe), the Company is required to pay to each participant the value of vested units at the date of the offering. The value of the vested units is the difference between the grant value and the value at the date of the public offering calculated in accordance with the terms specified in the Plan. Payment may be made, at the sole discretion of the Company, either (i) in two annual instalments the first of which will be made within three months immediately following the public offering date, (ii) in the equity securities offered in the public offering, in which case the number of such equity securities to be issued to the participant will be equal to the value of his or her vested units determined as of the date of the public offering, divided by the public offering price of the equity securities, or (iii) any combination of (i) and (ii) above. Units, which have been awarded before the public offering, will continue to vest with the value determined as of the date of the public offering.

If, as of 30th June, 2005, no public offering has occurred, the Company shall pay to each participant the value of units vested as of this date. The value of the vested units at this date is the difference between the grant value and the value at 30th June, 2005 calculated in accordance with the terms specified in the Plan. The value of a participant's vested units will be paid in two annual instalments, the first of which will be made within three months immediately following this date. If additional units vest after this date, the Company shall pay the participant the value of the unit, calculated as of 30th June, 2005, in two annual instalments the first of which will be made within three months immediately following the effective date of the additional vesting.

The Company has determined that the Plan will terminate at the time of a public offering such that no further units will be awarded subsequent to any public offering although the Company expects to establish a new plan after or in conjunction with any public offering.

At 31st December, 2003, 2002 and 2001, a liability of 500 TPLN has been accrued based on the estimated value of the vested units.

Under the Plan, the total units granted and forfeited are as follows in USD:

	Units	Average Price
Balance at 31 December 2000	1,357	460
Granted	813	800
Forfeited	(166)	500
Balance at 31 December 2001	2,004	594
Granted	746	576
Forfeited	(139)	653
Balance at 31 December 2002	2,611	586
Granted	551	516
Forfeited	(213)	637
Balance at 31 December 2003	2,949	569

At 31st December, 2003, 2002 and 2001, the number of vested units is 1,499, 939 and 521, respectively and the average grant value of these units is USD 553 at 31st December, 2003.

19 Trade and other accounts payable

Trade and other accounts payable are comprised of the following amounts:

	2003	2002	2001
Trade payables	31,192	44,539	47,520
Accounts payable to related parties	5,405	4,774	5,258
Payables to employees	2,979	2,181	2,070
Deposit received	350	—	—
Social Fund	505	442	395
Advance payment received for sale of premises	441	—	—
Accrual for holiday leave	308	611	866
Accrual for unpaid interest	277	722	294
Accrued bonuses to employees	1,474	1,497	1,673
Accrual for rent	376	232	—
Accrual for marketing services	450	—	—
Deferred revenue	432	648	—
Uninvoiced rent and deliveries for restaurants	2,461	2,139	1,582
Payables for social and health insurance	540	378	262
Other taxes payable	1,906	2,761	1,974
Bills of exchange payable	1,701	—	—
Accrual for professional services	273	371	372
Other accruals	1,869	1,859	1,775
	52,939	63,154	64,041

20 Provisions

The tables below present a rollforward of provisions:

	At the beginning of	Additions	Used	Released	At the end of period
2003					
Restaurant closing costs	873	200	(796)	(77)	200
Tax claims provision	238	—	—	—	238
Reserve for legal claims	—	2,523	—	—	2,523
Other	—	110	—	—	110
	1,111	2,833	(796)	(77)	3,071
2002					
SWAP transaction	6,115	—	(5,037)	(1,078)	—
Restaurant closing costs	1,233	178	(538)	—	873
Tax claims provision	406	—	(168)	—	238
Reserve for legal claims	222	—	(222)	—	—
	7,976	178	(5,965)	(1,078)	1,111
2001					
SWAP transaction	—	6,115	—	—	6,115
Restaurant closing costs	846	741	(354)	—	1,233
Tax claims provision	—	406	—	—	406
Reserve for legal claims	—	222	—	—	222
	846	7,484	(354)	—	7,976

From time to time, the Group is involved in litigation and proceedings during the normal course of business. As of the balance sheet date, the Group has recorded the provision for legal claims detailed above, which represents the Group's best estimate of the probable loss expected to result from such litigations or proceedings.

In August 2001, the Group entered into a 45,500 TPLN, seven-year foreign currency and interest rate swap in an effort to hedge certain Polish Złoty loans. At 31st December, 2001, the Group recorded the swap at fair value and made a provision of 6,115 TPLN. During 2002, the swap was terminated early and the related loss of 5,037 TPLN on the transaction was realised.

21 Operating leases

The Group has numerous non-cancellable operating leases, primarily for the rental of restaurant locations. Rental contracts for restaurant locations are typically concluded for a period of ten years, subject to certain minimum notice periods for cancellation.

Future minimum payments relating to non-cancelable operating leases are as follows:

	Minimum lease payment
Payable in less than 1 year	30,841
Payable between 1 to 5 years	108,315
Payable after 5 years	106,430
Total minimum lease payments	245,586

Rental expense for operating leases in 2003, 2002 and 2001 was as follows:

	2003	2002	2001
Czech	7,024	7,076	6,312
Poland	22,435	20,064	18,423
Total	29,459	27,140	24,735

Sublease income for the above periods is presented in Note 5.

22 Loan security

The proceeds from the loans detailed in Note 17 were used to finance the opening of restaurant locations as well as current operations. The loans are secured by various forms of collateral which primarily include certain real estate and fixed assets, bills of exchange and insurance policy guarantees made by the subsidiaries, which are the direct recipients of the loans.

In addition, a subsidiary of YUM!, the ultimate parent company of one of the Company's shareholders, is the guarantor of the short-term bank credit with Citibank. The Company and IRI, a shareholder of the Company, provide letters of guarantee as well as other forms of collateral as security for certain of the loans. ARC, the sole shareholder of IRI, leases nine restaurant properties to American Restaurants Sp. z o.o. in Poland through its wholly-owned subsidiary, American Retail Systems Sp. z o.o. (ARS). The properties owned by ARS are also pledged as collateral for certain loans.

23 Loss per share

Basic loss per share is calculated as follows:

	2003	2002	2001
Net loss attributable to ordinary shareholders	11,347	20,778	24,735
Weighted average number of ordinary shares	100,000	100,000	100,000
Basic loss per share PLN	(113)	(208)	(247)

24 Commitments and Contingencies

The Franchise Agreements (See Note 1 (a)) have a term of ten years each, the earliest of which commenced in 2000, and are renewable at the Company's option for a further ten years as described in the Franchise Agreements. The initial fees paid are currently USD 38,300 per restaurant and renewal fees are 50% of the initial fees, adjusted to reflect changes in the US Consumer Price Index during the term of the relevant franchise.

Under the Franchise Agreement, the Company, through its subsidiaries, must from time to time upgrade, modify, renovate or replace all or part of its restaurants or any of their fittings, fixtures or signage or any of the equipment, systems or inventory used in the restaurant in order to maintain compliance with the relevant franchisor's then current standards. During each of the initial term and the renewal term, if any, the franchisor may not, under the Master Franchise Agreement, require more than two comprehensive refurbishments of all fittings, fixtures, signage, equipment, systems and inventory in the "front-of-house" area of each AmRest restaurant to then current standards and more than one comprehensive refurbishment of all fittings, fixtures, signage, equipment, systems and inventory in the "back-of-house" area of each restaurant. Individual franchise agreements signed after the Master Franchise Agreement do not contain this provision. The Company estimates the cost of upgrades at 1.5 per cent of annual restaurant sales in future periods.

The Company, through its subsidiaries, operates under a development agreement as described in Note 1 (a). Provided that the Company is in compliance with that agreement, the Company has the right of first refusal in relation to any new KFC or Pizza Hut restaurants in Poland and the Czech Republic. To maintain this right, the Company would be required to build 14 new restaurants in 2004 and 10 in 2005 at an average per restaurant cost of approximately 2,000 TPLN depending on the type and location of the restaurant. Accordingly, projected capital requirements would be 28,000 TPLN in 2004 and 20,000 TPLN in 2005.

American Restaurants Sp. z o.o. is a guarantor of a credit agreement in the amount of 680 TPLN on behalf of Delta Creator Sp. z o.o. As at 31st December, 2003, the amount of the credit was 50 TPLN.

25 Related parties

As noted in Note 1(a), the Company is jointly owned and controlled by IRI and KFC BV. IRI is a wholly owned subsidiary of ARC and YUM! is the ultimate parent company of KFC BV.

ARC was founded by Donald M. Kendall, Sr., Donald M. Kendall, Jr. and Christian R. Eisenbeiss, who serve as Board members of the Company and Henry J. McGovern who is the senior executive managing the operating businesses in Poland and the Czech Republic.

The current ownership structure of ARC is shown in the table below:

	Per cent Ownership
Donald M. Kendall, Sr.	30.00%
Donald M. Kendall, Jr.	18.25%
Christian R. Eisenbeiss	28.36%
Henry J. McGovern	22.49%
David A. Bobilya	.90%

In addition to its ownership interest in the Company, ARC conducts real estate operations through its wholly-owned subsidiary, ARS. The Company leases nine restaurant properties from ARS at market rates consistent with the lease terms and conditions in its restaurant leases with third parties. The Company s executive offices, and an apartment and training center in Wroc aw are also located in buildings owned by ARS. The rent and other costs paid by the Company and its subsidiaries were 3,107 TPLN, 3,292 TPLN and 3,966 TPLN in 2003, 2002 and 2001 respectively.

Spolpep Sp. z o.o., which is jointly owned by a YUM! group company and ARS, own and operate two Pizza Hut and two KFC restaurants in Poland. The Group provides marketing and management services to this company. The fees for these services amounted to 5,195 TPLN, 4,768 TPLN and 4,098 TPLN in 2003, 2002 and 2001, respectively. The management fees are recorded as other income and the marketing fees received as a reduction in direct marketing expenses. The marketing and management fees agreements are valid through 2007.

The Group has significant related party transactions with its shareholders and the parent companies of its shareholders. These include loans and related interest expense as well as initial franchise fees, continuing franchise fees, professional fees and franchise renewal fees. During 2003, 2002 and 2001, these fees can be summarised as follows:

	2003	2002	2001
Initial Fees	1,311	2,820	2,351
Continuing franchise fees	25,738	22,933	21,051
Interest expense	324	433	1,365
Professional fees	3,837	3,929	3,520

Each franchise agreement (the earliest of which commenced in 2000) has a term of 10 years, renewable at AmRest's option for a further ten years, provided that AmRest remains in compliance with certain conditions described in the agreement. Current initial fees are $38,300 per restaurant. Renewal fees are currently 50% of the initial fee per restaurant.

The Company, through its subsidiaries, is required to pay continuing franchise fees equal to 6 per cent of its revenues. The franchise agreements also provide that AmRest must incur advertising expenses equal to 5 per cent of its revenues in the manner directed by the franchisor as described in the franchise agreement.

Professional fees represent management and consultancy services provided by ARC on a non-exclusive basis for the Company's Czech and Polish operating entities under defined agreements with each entity. The major obligation is for ARC to provide management services including paying the salaries and certain other expenses of

certain members of the Company's management team. These salaries and services are invoiced to the Company's subsidiaries monthly.

In addition to the above, the Company is a party to the following transactions with related parties:

- In 2002, the Company outsourced its marketing activities to Synergy Partners Sp. z o.o., a subsidiary of GCS, which is an associate of the Company (See Note 1(a)). The total marketing services paid to GCS and its subsidiaries amounted to 5,450 TPLN and 2,510 TPLN in 2003 and 2002, respectively, and are recorded as direct marketing expenses in the income statement. The Company, through its subsidiaries also provides management services to GCS and its subsidiaries resulting in other operating income of 438 TPLN and 234 TPLN in 2003 and 2002, respectively.
- The Company and its subsidiaries have entered into loan agreements with certain ARC and YUM! group companies (see Note 17).
- A significant amount of AmRest's borrowings are guaranteed by ARC and YUM! group companies (see Note 22). In 2003, a fee of approximately 1,116 TPLN was paid to YUM! for the guarantee.
- Henry McGovern indirectly owns approximately 5 per cent of a company which operates a loyalty program to which American Restaurants Sp. z o.o. is currently a party.
- Certain members of key management are participants in the Performance Participation Plan (see Note 18 for a description of the plan).

26 Financial Instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors.

Credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Group places its cash and cash equivalents in financial institutions with high credit ratings. There are no significant concentrations of credit risk with respect to trade and other receivables as sales are primarily made in cash or via major credit card.

Interest rate risk

The Group's interest-bearing borrowings typically bear floating interest rates (see Note 17). As at 31st December, 2003, this exposure to interest rate price risk and interest rate cash flow risk is not hedged.

Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the USD, Euro and Czech Crown. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

In order to minimise exposure to foreign currency risk, among other things, the Group aims to reduce the impact of short-term fluctuations. Over the long term, however, permanent changes in the foreign exchange and interest rates would have an impact on consolidated earnings.

The Group has certain investments in foreign operations, the Czech subsidiaries, whose net assets are exposed to foreign currency translation risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. In addition, as described in Note 1 (a), the shareholders of the Company are required to fund capital deficiencies of the joint venture pursuant to the terms of the Joint Venture Agreement.

Fair value of financial instruments

The following are details of the fair values of the financial instruments for which it is practicable to estimate such value:

- Cash and cash equivalents, short-term bank deposits and short-term bank credits. The carrying amounts approximate fair value because of the short maturity of these instruments.
- Trade accounts receivable, other accounts receivable, accounts payable and accrued liabilities. The carrying amounts approximate fair value because of the short-term nature of these instruments.
- Non-current interest bearing loans and borrowings. The carrying amounts approximate fair value due to the variable nature of the related interest rates.
- Derivative financial instruments are recorded at fair value as described in Note 20.

27 Explanation of transition to IFRS

As noted in Note 1, these are the Group's first consolidated financial statements prepared in accordance with IFRS. The accounting principles set out in Note 1 have been applied in preparing the financial statements for the years ended 31st December, 2003, 2002 and 2001 and the preparation of an opening IFRS balance sheet at 1st January, 2001, the Group's date of transition.

In accordance with regulations in the Netherlands, the Company is required to prepare and submit consolidated financial statements in accordance with generally accepted accounting principles in the Netherlands ("Dutch GAAP"). As of the date of these financial statements, the Company has not prepared such financial statements since its inception. The Company intends to prepare such financial statements and engage a certified auditor in the Netherlands to audit the financial statements in accordance with Dutch GAAP in due course.

As such, the Group has not prepared or presented consolidated financial statements under any previous GAAP.

28 Subsequent events

In May 2004, the Czech government increased the rate of value added tax on restaurant services (being food and beverages consumed in restaurants, excluding drive-through, take away and delivery sales) from 5 per cent to 19 per cent. Management believes that the Group has minimised the impact of this increase through cost reduction initiatives and menu price increases although it is too early to be certain of the full scale of the effect of the value added tax increases on its Czech business in subsequent years.

ARC and KFC BV are parties to a flotation agreement, which governs the terms and conditions of any initial public offering (IPO) of the Company. The parties may elect, at any time on or before 31st December, 2005, to proceed with an IPO; provided, however, that certain qualifications and conditions are met as described in the agreements. On 6th April, 2004, ARC provided notice to KFC BV, in accordance with the flotation agreement provisions, that the Company is proceeding with a flotation.

In January 2004, the Company, through its subsidiaries, purchased an additional 33.33% interest in GCS, increasing its ownership to 66.66%. GCS provides outsourced marketing activities to the Group (See notes 3 and 25).

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Report of the Independent Auditor to the shareholders of AmRest Holdings N.V.

We have audited the accompanying consolidated balance sheet of AmRest Holdings N.V. (''the Company'') and its subsidiaries (''the Group'') as of 31 December 2004 and the related consolidated income statement, statement of changes in shareholders' equity and statement of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2004, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Audyt Sp. z o.o.

Warsaw, Poland
23 March 2005

KPMG Audyt Sp. z o.o., a Polish limited liability company, is a member firm of KPMG International, a Swiss cooperative.

Spolka zarejestrowana w Sadzie Rejonowym dla m. st. Warszawy XIX Wydzial Gospodarczy Krajowego Rejestru Sadowego KRS 0000104753 Zarzad: Andrzej Scislowski, Richard Cysarz, Bogdan Debicki, Leszek Dubicki, Zofia Poplawska, Bozena Graczyk, Marek Strugala, Wojciech Stopka, Marcin Domagala, Marek Gajdzinski Kapital zakladowy PLN 125.000 NIP: 526-10-24-841

AmRest Holdings N.V.

Consolidated Financial Statements

as at and for the year ended 31st December, 2004

AmRest Holdings N.V.

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AmRest Holdings N.V.

Consolidated income statement

For the year ended 31st December

in thousands of Polish złoty

	Note	2004	2003
Restaurant sales		463,198	430,783
Restaurant expenses:	4		
Cost of food		(159,133)	(153,356)
Direct marketing expenses		(22,905)	(21,231)
Direct depreciation and amortization expenses		(30,196)	(30,623)
Payroll and employee benefits		(82,879)	(75,233)
Continuing franchise fees		(27,609)	(25,738)
Occupancy and other operating expenses		(81,929)	(73,624)
Total restaurant expenses		(404,651)	(379,805)
Gross profit on sales		58,547	50,978
General and administrative (G&A) expenses	4	(41,093)	(38,571)
Depreciation and amortization expense (G&A)	4	(1,688)	(1,904)
Other operating income/(expense), net	5	5,367	5,136
Gain/(loss) on the disposal of fixed assets	4, 8	319	(138)
Impairment losses	4, 8	(2,411)	(7,089)
Goodwill and negative goodwill amortization	4	799	199
Profit from operations		19,840	8,611
Net financing costs	6	(5,990)	(16,101)
Net profit/(loss) before tax		13,850	(7,490)
Income tax expense	7	(1,768)	(3,857)
Minority interest		(36)	—
Net profit/(loss) for the year		12,046	(11,347)
Basic profit/(loss) per share in Polish złoty	23	1.20	(1.13)

See accompanying notes to the consolidated financial statements

AmRest Holdings N.V.

Consolidated balance sheet

As of 31st December

in thousands of Polish złoty

	Note	2004	2003
Assets			
Property, plant and equipment, net	8	168,796	174,595
Intangible assets	9	6,854	7,456
Goodwill/(negative goodwill), net	10	(4,549)	(3,453)
Investments		688	253
Other non-current assets	11	5,013	4,840
Deferred tax assets	7	3,943	2,245
Total non-current assets		180,745	185,936
Investments		42	576
Inventories	12	5,819	6,407
Trade and other receivables	13	10,648	12,651
Other current assets	15	5,626	6,229
Cash and cash equivalents	14	11,486	8,558
Total current assets		33,621	34,421
Total assets		214,366	220,357
Equity	16		
Issued capital		373	373
Share premium		138,773	136,593
Retained deficit		(132,371)	(121,024)
Current year net profit/(loss)		12,046	(11,347)
Cumulative translation adjustment		141	3,362
Total equity		18,962	7,957
Minority interest		36	—
Liabilities			
Interest-bearing loans and borrowings	17	20,682	26,039
Employee benefits	18	1,782	1,002
Other non-current liabilities		16	17
Total non-current liabilities		22,480	27,058
Interest-bearing loans and borrowings	17	119,094	125,658
Trade and other accounts payable	19	52,306	52,939
Income tax payable		6	3,674
Provisions	20	1,482	3,071
Total current liabilities		172,888	185,342
Total liabilities		195,368	212,400
Total equity, minority interest and liabilities		214,366	220,357

See accompanying notes to the consolidated financial statements

AmRest Holdings N.V.

Consolidated statement of cash flows

For the year ended 31st December

in thousands of Polish złoty

	Note	2004	2003
Cash flows — operating activities			
Net profit/(loss) before tax		13,850	(7,490)
Adjustments for:			
Depreciation and Amortization	8, 9, 10	31,085	32,328
Interest expense, net	6	7,998	8,432
Unrealised foreign exchange (gains)/losses		(5,675)	2,478
(Gain)/loss on disposal of fixed assets	4, 8	(319)	138
Impairment losses	4, 8	2,411	7,089
Minority interest		36	—
Working capital changes:			
(Increase)/decrease in receivables		1,596	(2,773)
(Increase)/decrease in intercompany receivables		407	(190)
Decrease in inventories		588	978
Increase in other assets		(1,268)	(3,718)
Decrease in payables		(4,483)	(14,048)
Increase/(decrease) in intercompany payables		(1,757)	209
Increase in other liabilities		939	2,813
Increase/(decrease) in other provisions		(1,589)	916
		(5,567)	(15,813)
Income taxes paid		(7,319)	(3,803)
Interest paid		(7,522)	(6,005)
Other		162	(8)
Net cash provided by operating activities		29,140	17,346
Cash flows — investing activities			
Acquisition of subsidiaries, net of cash acquired	3	(1,427)	—
Proceeds from the sale of property, plant and equipment	8, 9	3,736	123
Acquisition of property, plant and equipment	8	(25,271)	(28,613)
Acquisition of intangible assets	9	(1,883)	(2,190)
Proceeds from sale of shares in subsidiaries		(765)	—
Loans granted to third parties		(435)	—
Net cash used in investing activities		(26,045)	(30,680)
Cash flows — financing activities			
Cash contribution from shareholders	16	2,180	4,201
Proceeds from borrowings		125,057	17,405
Repayment of borrowings		(127,091)	(7,557)
Net cash provided by financing activities		146	14,049
Net change in cash and cash equivalents		3,241	715
Cash and cash equivalents, beginning of period		8,558	7,330
Effect of foreign exchange rate movements		(313)	513
Cash and cash equivalents, end of period		**11,486**	**8,558**

See accompanying notes to the consolidated financial statements

AmRest Holdings N.V.

Consolidated statement of changes in equity

in thousands of Polish złoty

	Share capital	Share premium	Retained deficit	Translation reserve	Total
Balance as at 1st January, 2003	**373**	**132,392**	**(121,024)**	**4,101**	**15,842**
Currency translation adjustment	—	—	—	(739)	(739)
Net loss for the year	—	—	(11,347)	—	(11,347)
Additional payment to equity	—	4,201	—	—	4,201
Balance as at 31st December, 2003	**373**	**136,593**	**(132,371)**	**3,362**	**7,957**
Currency translation adjustment	—	—	—	(3,221)	(3,221)
Net profit for the year	—	—	12,046	—	12,046
Additional payment to equity	—	2,180	—	—	2,180
As at 31st December, 2004	**373**	**138,773**	**(120,325)**	**141**	**18,962**

See accompanying notes to the consolidated financial statements

AmRest Holdings N.V.

Notes to the Consolidated Financial Statements

(in thousands of Polish złoty unless otherwise stated)

1 Company overview and significant accounting policies

(a) Background

AmRest Holdings N.V. (the ''Company'') was incorporated in the Netherlands in October 2000. The Company is domiciled in the Netherlands and jointly owned and controlled by International Restaurant Investments, LLC (IRI) of the United States and Kentucky Fried Chicken Poland Holdings BV (KFC BV) of the Netherlands pursuant to the terms of the Shareholders Agreement related to AmRest Holdings N.V. (''Joint Venture Agreement''). IRI is a wholly-owned subsidiary of American Retail Concepts, Inc. of the United States (ARC) and Yum! Brands, Inc. (YUM!) of the United States is the ultimate parent company of KFC BV.

The principal activity of the Company, through its subsidiaries, is to operate Kentucky Fried Chicken (KFC) and Pizza Hut franchised restaurants in Poland and the Czech Republic and ''Ice*Land'' ice cream outlets in Poland. At 31st December, 2004, the Company operated 157 restaurants. The existing restaurants, which were contributed to the joint venture at its inception, are operated under a Master Franchise Agreement (the ''Master Franchise Agreement''), dated 6th October, 2000, with YUM! Restaurants International Switzerland, Sarl (YRIS), a subsidiary of YUM!. New restaurants opened subsequent to the Master Franchise Agreement, are operated under separate franchise agreements with YRIS on substantially the same terms as the Master Franchise Agreement (all such franchise agreements together with the Master Franchise Agreement are referred to as the ''Franchise Agreements''). Each Franchise Agreement has a term of ten years, with provision for renewal by the Company for a further ten years, subject to certain conditions being met as described in the agreements.

In addition, the Company, through its subsidiaries, currently operates under a Development Agreement (the ''Development Agreement''), dated 25th September, 2003, with KFC International Holdings (KFCIH) and Pizza Hut International, LLC (PHILLC), subsidiaries of YUM!. The Company has the right and obligation to develop KFC and Pizza Hut outlets in Poland and the Czech Republic. Provided that the Company is in compliance with its obligations under the Development Agreement, the Company has a right of first refusal in relation to any new KFC or Pizza Hut restaurant in Poland and the Czech Republic proposed to be developed by the franchisor or in respect of which the franchisor proposes to grant franchise rights. The Development Agreement expires on 31st December, 2005 but may be renewed for a year or more. For years subsequent to 31st December, 2005, the parties are required to review the development targets on 25th September each year to negotiate the number of outlets to be built for each subsequent renewal period.

The consolidated financial statements of the Company for the year ended 31st December, 2004 comprise the Company and its subsidiaries (together referred to as the ''Group'') and the Group's interest in associates.

The table below presents a summary of the subsidiaries included within the Group as at 31st December, 2004:

Name of company	City and country of incorporation	Principal activity	Parent company	Ownership interest and voting rights	Date of effective control
American Restaurants Sp. z o.o.	Wrocław, Poland	Operating Pizza Hut and KFC restaurants in Poland	AmRest Holdings N.V.	100.00%	December 2000
American Restaurants Sro	Prague, Czech Republic	Operating Pizza Hut and KFC restaurants in the Czech Republic	AmRest Holdings N.V.	100.00%	December 2000
International Fast Food Polska Sp. z o.o.	Wrocław, Poland	Rental of utility space and restaurant equipment	American Restaurants Sp. z o.o.	100.00%	January 2001
Delta Creator Sp. z o.o.	Wrocław, Poland	Operates one KFC restaurant in Poland	American Restaurants Sp. z o.o.	100.00%	December 2000
Pizza Hut Sro	Prague, Czech Republic	No current activities	American Restaurants Sro American Restaurants Sp. z o.o.	99.973% 0.027%	December 2000
Grifex I Sp. z o.o	Wrocław, Poland	Operates a children's activity centre in Warsaw	American Restaurants Sp. z o.o.	48.00%	September 2003
Surf & Sip Eastern Europe Sp. z o.o.	Wrocław, Poland	Development of IT activities	American Restaurants Sp. z o.o.	100.00%	November 2003

The Company has the following associated companies at 31st December, 2004 which were consolidated by the Company from January 2004 to 30th December, 2004. From 31st December, 2004, as a result of the sale of shares on 30th December, 2004 as described in Note 3, these associated companies are accounted for under the equity method.

Name of company	City and country of incorporation	Principal activity	Parent company	Ownership interest and voting rights	Date of initial investment
Worldwide Communication Services LLC	Nevada, USA	Marketing activity for the Group	American Restaurants Sp. z o.o.	33.33%	October 2003
Global Communication Services Sp. z o.o.	Warsaw, Poland	Marketing activity for the Group	Worldwide Communication Services LLC	33.33%	May 2002
Synergy Marketing Partners Sp. z o.o.	Warsaw, Poland	Marketing activity for the Group	Global Communication Services Sp. z o.o.	26.66%	May 2002
Red 8 Communications Group Sp. z o.o.	Warsaw, Poland	Marketing activity for the Group	Global Communication Services Sp. z o.o.	17.33%	May 2002

The Group's corporate offices are located in Wroclaw, Poland. The restaurants operated by the Group are located throughout Poland and the Czech Republic.

The average number of employees employed by the Group is summarised as follows:

	2004	2003
Restaurant staff	4,764	4,457
Office and administration	130	133
	4,894	4,590

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Directors on 23rd March, 2005.

(c) Basis of preparation

The consolidated financial statements are presented in Polish złoty (PLN), rounded to the nearest thousand (TPLN) and are prepared on the historical cost basis.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The Group generated a net profit of 12 046 TPLN in 2004. Although the Group has net equity of 18,962 TPLN at 31st December, 2004, the Group has experienced significant losses since the inception of the Company and has a working capital deficit of 139,167 TPLN. The working capital deficit includes a 105,545 TPLN short-term credit with Citibank, which is guaranteed by one of the Company's shareholders and is renewed annually.

In 2004, the Group generated positive cash flows from operations of 29,140 TPLN compared to 17,346 TPLN in 2003. Based on the Group's current business plan and financial projections, the Group expects to further improve operating profit and net cash provided by operating activities in 2005 and subsequent years as the expanding restaurant network will provide continued revenue and profit on sales growth which is expected to exceed the growth in fixed costs.

Pursuant to the terms of the Joint Venture Agreement referred to above, the joint venture partners are required to fund capital deficiencies of the joint venture as described in the agreement. In the case of a capital deficiency, each party shall pay to the joint venture an amount equal to that party's proportion of the capital amount in consideration for the proportionate number of shares calculated in accordance with the provisions described in the Joint Venture Agreement. In addition, as mentioned above and described in Note 22, the Group's shareholders have provided guarantees for a significant portion of the Group's current liabilities.

The Group believes that cash and cash equivalents at 31st December, 2004, sustained positive cash flows from operations and the funding responsibilities and commitments of its shareholders will provide the Company with sufficient cash resources to fulfill its financial and strategic business objectives. The Company will in light of these financial and strategic business objectives continue its policy of assessing opportunities for additional debt and equity financing as they arise. The Company is currently pursuing an initial public offering on the Warsaw Stock Exchange as described in Note 27.

Based on the above, management believes that the Company will be able to continue as a going concern. Accordingly, these consolidated financial statements have been prepared on a going concern basis, which contemplates the continuation and expansion of activities as well as the realization of assets and liquidation of liabilities in the ordinary course of business.

(d) Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, 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 or convertible 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.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised

gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (''the functional currency''). The functional currency of the Polish operations is the PLN while the functional currency of the Czech operations is the Czech Crown.

As the majority of its operations and transactions are PLN denominated, the consolidated financial statements are presented in PLN which is the Company's functional and presentation currency.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies at the balance sheet date are translated to PLN at the foreign exchange rate prevailing at that date. All differences arising on translation are recognised in the income statement.

The results and financial position of all group entities, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- the assets and liabilities are translated into PLN at exchange rates ruling at the balance sheet date.
- the revenues and expenses of foreign operations are translated at average exchange rates which approximate the foreign exchange rates ruling at the dates of the transactions.
- foreign exchange differences arising on translation are recognised directly in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

None of the foreign operations has a currency of a hyperinflationary economy.

(f) Franchise, license and other fees

As noted in Note 1(a) above, restaurants are operated in accordance with franchise and development agreements with certain subsidiaries of YUM!. The Franchise Agreements typically require that the Group pay an initial, non-refundable fee upon the opening of each new restaurant, pay continuing fees based upon a percentage of revenues and commit a fixed percentage of revenue to advertising as specified in the relevant agreement. In addition, at the conclusion of the initial term of the franchise agreement, the Group may renew the franchise agreement, subject to a renewal fee.

Initial fees paid are capitalized as other intangible assets and amortized over five to ten years. Continuing fees are expensed as incurred. Renewal fees are amortized over the renewal period when a renewal agreement becomes effective.

(g) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (o) below). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Internal development costs

Direct costs associated with site acquisition and the construction of a restaurant on that site, including direct internal payroll and payroll-related costs are capitalized. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized and included in restaurant development assets. If subsequently it is determined that a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed. Capitalised internal development costs are amortized over the estimated life of a restaurant, which is estimated to be ten years, however not to exceed the lease term.

Subsequent expenditure

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

- Buildings . . . . 30-40 years
- Restaurant development assets (includes leasehold improvements and internal development costs) . . . . 10 years
- Machinery and equipment . . . . 4-8 years
- Vehicles . . . . 5 years
- Other tangible assets . . . . 4-8 years

(h) Goodwill

Goodwill (positive and negative) represents amounts arising on acquisition of subsidiaries and associates and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Positive goodwill is stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy (o) below). Goodwill arising on the acquisition of subsidiaries is presented separately on the face of the balance sheet. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the

extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets it is recognised in income immediately. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from goodwill.

(i) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy (o) below).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(j) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Positive goodwill is amortized from the date of initial recognition; other intangible assets are amortized from the date they are available for use.

The estimated useful lives are as follows:

- Software licenses . . . . 4-5 years
- Positive goodwill . . . . 5 years
- Other intangible assets . . . . 5-10 years

(k) Investments

The Group classifies its investments in the following categories: investments held for trading, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The Group does not have any investments classified as available-for-sale financial assets at the balance sheet dates.

Investments held for trading

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are stated at fair value, with any resultant gain or loss recognized in the income statement, and classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. There were no investments classified as held for trading at 31st December, 2004 and 31st December, 2003.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as other non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (see accounting policy (l) below).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group has certain investments in government bonds, which are classified as held-to maturity investments.

(l) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognized initially at fair value and subsequently measured at amortized cost less impairment losses. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. If there is objective evidence that an impairment loss on receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the loss is recognized in the income statement.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. 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 location and condition.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(o) Impairment

The carrying amount of the Group's assets, except for receivables (see accounting policy (l)), inventories (see accounting policy (m)) and deferred tax assets (see accounting policy (w)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset which does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Restaurants are evaluated using a ''one year history of operating losses'' as the primary indicator of potential impairment. For restaurants for which there is an indicator of potential impairment, discounted estimated cash flows are used to assess the recoverable amount of the related assets. The impairment evaluation is based on the estimated cash flows from continuing operation of the restaurant through the expected disposal date and the expected terminal value.

In addition, when a decision is made to close a restaurant, the restaurant is reviewed for impairment and depreciable lives are adjusted accordingly. Likewise, a liability is recorded for any lease termination costs associated with the closing of the restaurant.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. In subsequent periods, borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings using the effective interest rate method.

(q) Employee benefits

Performance participation plan

The Group has a performance participation plan under which certain employees are granted participation units with an assigned value that, upon vesting and the occurrence of certain specified events or dates as described in Note 18, entitles the employees to receive compensation representing the difference between the assigned value of the vested units and the value calculated in accordance with the terms of the agreement on the date of the occurrence of the specified events or dates. The change in the estimated value of the vested units is recognised in the profit and loss account in the period in which the change of value occurs. Estimates are updated at each balance sheet date.

Long-term service benefits

Certain employees have the right to jubilee payments for long-term employment in accordance with the Group's employment regulations. These employees receive a lump sum in local currency equivalent to USD 300 after the completion of 5 years of employment and a lump sum in local currency equivalent to USD 1,000 after the completion of 10 years of employment.

The Group has made an accrual for the jubilee obligation as of 31st December, 2004 and 2003 in the amount of 492 TPLN and 490 TPLN, respectively. The accrual represents the Group's estimate of future benefits that employees have earned in return for their service in the current and prior periods, discounted to its present value.

(r) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

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

Site restoration

Management historically has and intends to continue to renew its leased restaurant premises on a long-term basis. As a result, the Company does not anticipate significant site restoration costs and, accordingly, has not recorded a site restoration provision.

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.

(s) Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost. Short-term payables are not discounted.

(t) Revenue recognition

Revenues comprise the fair value of the sale of goods, net of value-added tax. Sales of goods are recognized when a Group entity sells a product to the customer. Sales are typically in cash or by credit card.

(u) Expenses

Operating lease payments

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 in the income statement as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses that are recognised in the income statement. Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(v) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited to the income statement except when it relates to items charged directly to equity in which case the deferred tax is also dealt with in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets 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.

(w) Use of estimates

The preparation of the consolidated financial statements requires management of the Group to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangibles and goodwill, valuation allowances for receivables, inventories and deferred income tax assets. Actual results could differ from those estimates.

(x) Derivative Financial Instruments

The Group periodically uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational and financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. At the balance sheet dates, the Group did not have any derivatives which qualify for hedge accounting.

Derivative financial instruments are recognised initially at fair value and are subsequently remeasured at fair value. The changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged in either providing products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different than those of other segments.

2 Segment reporting

Geographical segments

The restaurant operations are managed on a Group-wide basis, but operate in two principal geographical areas, Poland and the Czech Republic.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Inter-segment pricing is determined on an arm's length basis.

Geographical segment data as at and for the years ended 31st December, 2004 and 2003 is as follows:

	Poland	Czech	Unallocated	Total
2004				
Revenue from external customers	324,433	138,765	—	463,198
Net profit for the year	6,317	4,894	835	12,046
Segment assets	145,020	64,187	5,159	214,366
Segment liabilities	98,166	99,364	(2,162)	195,368
Depreciation/amortization	23,219	8,190	(324)	31,085
Fixed assets acquired	14,043	13,111	—	27,154
Impairment losses	1,839	572	—	2,411
2003				
Revenue from external customers	307,866	122,917	—	430,783
Net profit/(loss) for the year	(15,836)	3,628	861	(11,347)
Segment assets	154,122	62,615	(3,620)	220,357
Segment liabilities	180,377	30,067	(1,956)	212,400
Depreciation/amortization	25,347	6,981	—	32,328
Fixed assets acquired	14,576	16,227	—	30,803
Impairment losses	7,089	—	—	7,089

The unallocated column relates to balances and transactions of AmRest Holdings N.V. as well as transactions between the segments and AmRest Holdings N.V.

3 Acquisitions and disposals of subsidiaries

The acquisition date of subsidiaries is detailed in Note 1; descriptions of the acquisitions and disposals are presented below:

Acquisition of the assets of Kids Play S.A. ("Kids Play") by Grifex I Sp. z o.o. ("Grifex")

In January 2004, the Company, through its subsidiaries, signed an agreement to acquire Kids Play, a business in liquidation, consisting primarily of a children's entertainment facility including land, buildings and certain other assets. The fair value of the assets acquired were as follows (amounts in TPLN):

Land	1,004
Buildings	2,120
Other tangible assets	415
	3,539
Total purchase consideration paid	1,711

Negative goodwill of 1,828 TPLN arose on the acquisition.

The assets are held by the Company's subsidiary, Grifex. The acquisition was financed by a bank loan obtained by Grifex and secured by the land and buildings acquired. Grifex was acquired by the Company in September 2003 for cash consideration of 58 TPLN in anticipation of using this entity to acquire and develop entertainment/restaurant facilities focusing on children. At December 2003, the entity was dormant.

In conjunction with the acquisition of the Kids Play assets, the Company entered into an agreement to sell 52% of the shares in Grifex to a third party. Although the Company does not own a majority of the shares in Grifex at 31st December, 2004, the Company continues to control the management and operations of Grifex and, accordingly, Grifex is consolidated as a subsidiary.

The contribution made by this subsidiary to net income was not significant for the year ended 31st December, 2004.

Acquisition of Global Communication Services Sp. z o.o. ("GCS") by Worldwide Communication Services LLC ("WCS")

WCS was established in the United States in October 2003, with the aim of providing marketing services to the Group. In January 2004, WCS acquired 100% of the shares of GCS, 33.33% of which were previously owned by American Restaurants Sp. z o.o. Through this acquisition, the Company also acquired a controlling interest in GCS's two subsidiaries, Synergy Marketing Partners Sp. z o.o. and Red 8 Communications Sp. z o.o. The fair value of assets acquired and liabilities assumed were as follows (amounts in TPLN):

Cash	348
Inventory	16
Accounts receivable	2,172
Other current assets	24
Property, plant and equipment	136
Intangible assets	15
Accounts payable and accruals	(2,482)
Minority interest in subsidiaries of GCS	(33)
Net GCS assets acquired	196
Less: minority interest in GCS	(65)
Net assets acquired by WCS	131
Total purchase consideration paid	64
Less cash acquired	(348)
Cash paid on acquisition net of cash acquired	(284)

Negative goodwill of 67 TPLN arose on this acquisition.

In September 2004, WCS reduced its shareholding in Synergy Marketing Partners Sp. z o.o. from 90% to 80% and in Red 8 Communications Sp. z o.o. from 91,1% to 52,2%, realising a loss of 150 TPLN on these transactions.

On 30th December, 2004, American Restaurants Sp. z o.o. sold 33.33% of the shares in WCS to a third party, realising a loss of 42 TPLN on the transaction. As a result of this transaction, as at 31st December, 2004, the Company, through its subsidiaries, holds 33.33% of WCS shares and through GCS, 26.66% and 17.33% of Synergy Marketing Partners Sp. z o.o. and Red 8 Communications Sp. z o.o. shares, respectively. Since the date of this transaction, WCS and its subsidiaries are accounted for as associates in the consolidated financial statements. At 31st December, 2004, the carrying amount of the investment in WCS and its subsidiaries is 58 TPLN and is included in the non-current Investments line item of the balance sheet.

The contribution made by this subsidiary to net income for the year ended 31st December, 2004 was 260 TPLN.

All acquisitions were accounted for using the purchase method of accounting.

4 Operating expenses

Operating expenses can be summarised as follows:

	2004	2003
Amortization and depreciation	31,085	32,328
Food and materials	167,812	160,013
Utilities	15,315	14,335
External services	36,269	35,798
Payroll	79,667	71,974
Social security and other benefits	17,735	16,449
Rent (See Note 21)	38,791	34,593
Marketing expenses	22,905	21,231
Continuing franchise fees	27,609	25,738
(Gain)/loss on the disposal of fixed assets	(319)	138
Impairment losses	2,411	7,089
Insurance	2,092	2,157
Business travel	1,919	1,932
Onerous contracts	1,482	—
Other	3,952	3,533
	448,725	427,308

5 Other operating income/(expense), net

Other operating income/(expense) can be summarised as follows:

	2004	2003
Management fee	2,018	2,880
Sublease income	2,336	1,634
Other, net	1,013	622
	5,367	5,136

6 Net financing costs

	2004	2003
Interest expense	(8,281)	(9,011)
Interest income	283	579
Foreign exchange gain/(loss), net	3,692	(5,962)
Loan guarantee commissions	(1,086)	(1,116)
Other	(598)	(591)
	(5,990)	(16,101)

7 Income taxes

The Company is subject to income tax regulations in the Netherlands, Poland, the Czech Republic and the United States.

Tax laws applicable to the Group:

Results of operations for tax purposes of the Company are computed in accordance with Dutch tax legislation and, for its primary operating subsidiaries, in accordance with the relevant Polish and Czech Republic tax legislation.

Income tax expense can be summarised as follows:

	2004	2003
Current tax	3,651	4,801
Deferred tax	(1,883)	(944)
Income tax presented in the income statement	1,768	3,857

Tax rates applicable to the Company and its subsidiaries are as follows:

	Netherlands	Poland	Czech	USA
2004	34.5%	19%	28%	35%
2003	34.5%	27%	31%	35%

The deferred tax assets and liabilities at 31 December were calculated using tax rates as follows:

	Poland	Czech
2004	19%	26%
2003	19%	28%

Reconciliation of tax expense at Dutch corporate rate to actual tax expense:

	2004	2003
Net profit/(loss) before tax	13,850	(7,490)
Income tax using the Dutch corporation rate	4,778	(2,584)
Effect of tax rates in Poland	(736)	1,188
Effect of tax rates in the Czech Republic	(505)	(262)
Effect of tax rates in the USA	(3)	—
Permanent differences	2,598	2,240
Tax saved on losses carried forward which were not recognized as deferred tax assets	(3,020)	(1,717)
Deferred tax asset recognized on tax losses carried forward (unrecognized in prior periods)	(1,360)	—
Other differences	(58)	41
Income tax presented in the income statement	1,768	3,857
Potential benefits of tax loss carry forwards	(74)	(4,951)

Deferred income taxes

Deferred income taxes are primarily provided for all the temporary differences between the tax and the accounting basis of assets and liabilities based on the tax rate that is expected to be in effect at the time the deferred income taxes will be realised. Realisation of the deferred income tax assets is dependent upon generating sufficient taxable income in the period that deferred income tax assets are expected to be realised. Based on all available information, the Company believes that the deferred income tax assets detailed in the table below are realisable.

Recognised deferred tax assets and liabilities are in respect of the following items:

	Assets		Liabilities		Net	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
Property, plant and equipment	(2,345)	(2,065)	6	—	(2,339)	(2,065)
Goodwill	—	(349)	—	—	—	(349)
Trade and other receivables	(29)	(216)	—	—	(29)	(216)
Long term investments	—	—	540	467	540	467
Borrowings	—	(293)	—	—	—	(293)
Provisions	(709)	(808)	—	—	(709)	(808)
Trade and other payables	—	—	—	1,033	—	1,033
Tax loss carry forwards	(1,360)	—	—	—	(1,360)	—
Other differences	(46)	(14)	—	—	(46)	(14)
Deferred tax (asset)/liability	(4,489)	(3,745)	546	1,500	(3,943)	(2,245)
Net deferred tax (asset)/liability	—	—	—	—	(3,943)	(2,245)

Tax loss carry forwards and unrecognised deferred tax assets

In Poland and the Czech Republic, the Group has tax loss carry forwards amounting to 59,163 TPLN and 3,778 TPLN, respectively. These tax loss carry forwards expire as detailed in the table below:

Year of expiration	Amount
2005	8,135
2006	21,731
2007	19,959
2008	9,706
2009	1,994
2010	1,416
	62,941

At 31st December, 2004, the Group has recognised a deferred tax asset relating to 7,158 TPLN of the above loss carry forwards at its Polish subsidiaries. No deferred tax asset has been recognised with respect to the remaining tax loss carry forwards at the Group's Polish subsidiaries as well as the tax loss carry forwards at the subsidiary in the Czech Republic which holds the above loss carry forwards due to uncertainty regarding their realisation. In addition, the Polish subsidiaries as at 31st December, 2004 and 2003 have net tax deductible timing differences of 26,393 TPLN and 16,487 TPLN, respectively which, if realisable, would result in deferred tax assets of 5,015 TPLN and 3,133 TPLN at each balance sheet date, respectively. No deferred tax asset has been recognised with respect to these timing differences due to uncertainty regarding their realisation.

8 Property, plant and equipment

Movements in property, plant and equipment in 2004 and 2003 can be presented as follows:

2004	Land	Buildings & Restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
Balance at 1/1/2004	306	212,160	104,624	874	5,735	4,063	327,762
Acquisitions (Note 3)	1,004	2,128	128	—	415	—	3,675
Additions	—	8,519	14,083	62	371	6,534	29,569
Disposals	—	(6,977)	(8,507)	(76)	(886)	(523)	(16,969)
Exchange rate differences		(2,948)	(2,788)	—	—	(319)	(6,055)
Balance at 31/12/2004	1,310	212,882	107,540	860	5,635	9,755	337,982
Accumulated depreciation							
Balance at 1/1/2004	—	78,218	61,523	395	4,344	—	144,480
Depreciation expense	—	16,843	11,904	122	572	—	29,441
Disposals	—	(2,751)	(7,292)	(27)	(879)		(10,949)
Exchange rate differences	—	(957)	(1,324)	—	—	—	(2,281)
Balance at 31/12/2004	—	91,353	64,811	490	4,037		160,691
Impairment losses							
Balance at 1/1/2004	—	7,253	135	—	—	1,299	8,687
Increase	—	1,716	—	—	—	695	2,411
Disposals	—	(2,203)	(135)	—	—	(265)	(2,603)
Balance at 31/12/2004	—	6,766	—	—	—	1,729	8,495
Net book value 1/1/2004	**306**	**126,689**	**42,966**	**479**	**1,391**	**2,764**	**174,595**
Net book value 31/12/2004	**1,310**	**114,763**	**42,729**	**370**	**1,598**	**8,026**	**168,796**

2003	Land	Buildings & Restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
Balance at 1/1/2003	306	195,358	100,434	754	4,960	4,956	306,768
Additions	—	12 724	10,637	364	783	—	24,508
Disposals	—	(12)	(9,948)	(244)	(8)	(1,146)	(11,358)
Exchange rate differences	—	4,090	3,501	—	—	253	7,844
Balance at 31/12/2003	306	212,160	104,624	874	5,735	4,063	327,762
Accumulated depreciation							
Balance at 1/1/2003	—	59,967	56,500	507	3,749	—	120,723
Depreciation expense	—	17,338	11,895	100	768	—	30,101
Disposals	—	(186)	(8,365)	(212)	(174)	—	(8,937)
Exchange rate differences	—	1,099	1,493	—	1	—	2,593
Balance at 31/12/2003	—	78,218	61,523	395	4,344	—	144,480
Impairment losses							
Balance at 1/1/2003	—	824	1,154	—	—	639	2,617
Increase	—	6,429	—	—	—	660	7,089
Disposals	—	—	(1,019)	—	—	—	(1,019)
Balance at 31/12/2003	—	7,253	135	—	—	1,299	8,687
Net book value 1/1/2003	**306**	**134,567**	**42,780**	**247**	**1,211**	**4,317**	**183,428**
Net book value 31/12/2003	**306**	**126,689**	**42,966**	**479**	**1,391**	**2,764**	**174,595**

A calculation of the loss on the disposal of fixed assets and a summary of impairment losses incurred during 2004 and 2003 are presented in the table below:

	2004	2003
Proceeds from the sale of fixed assets	3,736	118
Net book value of fixed assets	(6,020)	(1,275)
Impairment reserves relating to fixed assets sold	2,603	1,019
Gain/(loss) on disposal of fixed assets	319	(138)
Impairment losses	(2,411)	(7,089)

Impairment losses recognised in 2004 and 2003 relate primarily to underperforming restaurants where either a decision has been made to close the restaurant or the restaurant assets or a portion of the assets, primarily leasehold improvements, were not considered to be recoverable based on an analysis of estimated discounted cash flows.

Property, plant and equipment used as collateral for the Company's bank borrowings are described in Note 22.

9 Intangible assets

Intangible assets movements in 2004 and 2003 can be presented as follows:

2004	Software licenses	Other intangible assets	Total
Acquisition cost			
Balance at 1/1/2004	424	17,601	18,025
Acquisitions (Note 3)	—	15	15
Additions	—	1,827	1,827
Disposals	—	(475)	(475)
Exchange rate differences	—	(114)	(114)
Balance at 31/12/2004	424	18,854	19,278
Accumulated amortization			
Balance at 1/1/2004	413	10,156	10,569
Amortization expense	11	2,432	2,443
Disposals	—	(418)	(418)
Exchange rate differences	—	(170)	(170)
Balance at 31/12/2004	424	12,000	12,424
Net book value 1/1/2004	**11**	**7,445**	**7,456**
Net book value 31/12/2004	**—**	**6,854**	**6,854**

2003	Software licenses	Other intangible assets	Total
Acquisition cost			
Balance at 1/1/2003	433	15,230	15,663
Additions	—	2,008	2,008
Disposals	(9)	—	(9)
Exchange rate differences	—	363	363
Balance at 31/12/2003	424	17,601	18,025
Accumulated amortization			
Balance at 1/1/2003	414	7,551	7,965
Amortization expense	3	2,424	2,427
Disposals	(4)	—	(4)
Exchange rate differences	—	181	181
Balance at 31/12/2003	413	10,156	10,569
Net book value 1/1/2003	**19**	**7,679**	**7,698**
Net book value 31/12/2003	**11**	**7,445**	**7,456**

Other intangible assets are comprised primarily of initial fees (see Note 1(f)). Related amortization is included in direct depreciation and amortization expenses in the income statement.

10 Goodwill and negative goodwill

Goodwill relates to the acquisition of Delta Creator Sp. z o.o. in a prior period. Negative goodwill relates to the acquisition of International Fast Foods Polska Sp. z o.o. in a prior period and the acquisition of Kids Play in January 2004 as described in Note 3. The negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets, which ranges from ten to twenty years in respect of the above-mentioned acquisitions.

Goodwill and negative goodwill movements in 2004 and 2003 are summarised in the table below:

2004	Goodwill	Negative goodwill	Total
Acquisition cost			
Balance at 1/1/2004	4,510	(7,418)	(2,908)
Additions	—	(1,895)	(1,895)
Disposals	—	67	67
Exchange rate differences	(226)	—	(226)
Balance at 31/12/2004	4,284	(9,246)	(4,962)
Accumulated amortization			
Balance at 1/1/2004	(4,510)	3,965	(545)
Amortization	—	799	799
Disposals	—	(67)	(67)
Exchange rate differences	226	—	226
Balance at 31/12/2004	(4,284)	4,697	413
Net book value 1/1/2004	**—**	**(3,453)**	**(3,453)**
Net book value 31/12/2004	**—**	**(4,549)**	**(4,549)**

2003	Goodwill	Negative goodwill	Total
Acquisition cost			
Balance at 1/1/2003	4,143	(7,418)	(3,275)
Additions	—	—	—
Disposals	—	—	—
Exchange rate differences	367	—	367
Balance at 31/12/2003	4,510	(7,418)	(2,908)
Accumulated amortization			
Balance at 1/1/2003	(3,262)	2 885	(377)
Amortization	(881)	1,080	199
Disposals	—		—
Exchange rate differences	(367)	—	(367)
Balance at 31/12/2003	(4,510)	3,965	(545)
Net book value 1/1/2003	**881**	**(4,533)**	**(3,652)**
Net book value 31/12/2003	**—**	**(3,453)**	**(3,453)**

11 Other non-current assets

Other non-current balance at 31st December of the respective year is summarised in the table below:

	2004	2003
Rent prepayments	3,331	3,597
Unamortized bank loans commissions	477	768
Other	1,205	475
	5,013	4,840

12 Inventories

Inventories as at 31st December, 2004 and 2003 comprise primarily food and packaging materials used in restaurant operations.

13 Trade and other receivables

The trade and other receivables balance at 31st December of the respective year is summarised in the table below:

	2004	2003
Trade receivables — third party	7,705	9,275
Trade receivables — related parties	929	1,336
Other tax receivable	2,211	2,800
Other receivables	1,728	1,178
Provision for receivables	(1,925)	(1,938)
	10,648	12,651

14 Cash and cash equivalents

The cash and cash equivalents balance at 31st December of the respective year is summarised in the table below:

	2004	2003
Cash at bank	8,120	6,521
Cash on hand	3,366	2,037
	11,486	8,558

15 Other current assets

The other current assets balance at 31st December of the respective year is summarised in the table below:

	2004	2003
Prepaid property insurance	1,520	1,314
Prepaid rent	1,242	1,088
Deferred professional fees	1,766	—
Prepaid utilities	85	474
Credit insurance	291	296
Prepaid marketing services	57	1,247
Loyalty program	234	526
Other	431	1,284
	5,626	6,229

Deferred professional fees include accounting, audit and legal fees incurred through 31 December 2004 relating to the application the Company filed with the Polish Securities and Exchange Commission for admittance of its shares into public trading on the Warsaw Stock Exchange as described in Note 27.

16 Equity

Share capital and share premium

The share capital and share premium balances at 31st December are summarised in the table below:

	2004	2003
Share capital	373	373
Share premium	138,773	136,593

On 30th September, 2004, the Company registered new articles of association in the Netherlands which include specific provisions that relate to the potential initial public offering of the Company's shares on the WSE (see Note 27). These provisions included a 100 for 1 stock split increasing the current number of ordinary shares

from 100,000 to 10,000,000 and decreasing the nominal value from Euro 1.0 to Euro 0.01 per share. The authorized shares increased from 250,000 to 15,000,000 shares.

At 31st December, 2004 and 2003, share capital comprised 10,000,000 and 100,000 issued and outstanding ordinary shares, respectively, with a par value of Euro 1.0 and Euro 0.01 per share, respectively. The total authorized shares at 31st December, 2004 and 2003 were 15,000,000 and 250,000, respectively. The share capital amount of TPLN 373 represents the functional currency equivalent of Euro 100,000 at the date of contribution. All issued shares are fully paid.

Share premium at 31st December, 2004 represents the value of the assets contributed to the joint venture by KFC BV and IRI pursuant to the terms of the Joint Venture Agreement described in Note 1 and additional shareholder contributions made by each joint venture partner.

During 2004, additional shareholder contributions were made by each of the joint venture partners to bring the share premium balance to 138,773 TPLN at 31st December, 2004.

Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Company into PLN.

17 Interest-bearing loans and borrowings

The table below presents the period of maturity of third party and related party interest-bearing loans and borrowings at 31st December, 2004 and 2003:

	2004	2003
Current	119,094	125,658
Due between 1 to 2 years	15,308	14,044
Due between 2 to 5 years	5,374	11,995
Total interest bearing loans	139,776	151,697

The tables below present current and non-current interest bearing loans and borrowings at 31st December of the respective year:

(A) Non-current

		Interest rate %	2004	2003
In US dollars	BRE Bank*	3.20% - 4.60% + 1M LIBOR	—	23,856
	Amerbank	2.50% + ABL (1.50)%	—	520
In Polish złoty	Kredyt Bank	Lombard (6.75)%	—	50
	Kredyt Echo	3.00% + 1M WIBOR	—	288
	BRE Bank*	3.20% - 4.60% +1M LIBOR	15,396	—
	BPH-PBK	2.5% + 1M WIBOR	1,660	—
In Czech crowns	Commerzbank	3.00% + 3M PRIBOR	14,520	10,820
			31,576	35,534
Interest bearing loans — related parties		8%	2,237	2,865
Less current portion of non-current loans and borrowings				
In US dollars	BRE Bank*	3.20% - 4.60% + 1M LIBOR	—	9,120
	Amerbank	2.50%+ABL (1.50)%	—	520
In Polish złoty	Kredyt Bank	Lombard (6.75)%	—	50
	Kredyt Echo	3.00% + 1M WIBOR	—	288
	BRE Bank*	3.20% - 4.60% + 1M LIBOR	8,965	—
	BPH-PBK	2.5% + 1M WIBOR	420	—
In Czech crowns	Commerzbank	3.00% + 3M PRIBOR	3,745	2,382
			13,130	12,360
Interest bearing loans and borrowings — non-current			20,682	26,039

(B) Current

		Interest rate %	2004	2003
Current portion of non-current loans and borrowings			13,130	12,360
Short term bank credit				
In Czech crowns	Citibank	0,75% + 1M PRIBOR	67,318	103,032
	Raiffeisenbank	1,00% + 3M PRIBOR	213	1,205
In EURO	Citibank*	0,75% + 1M EURIBOR	—	6,217
In Polish złoty	BPH-PBK	1,75% + 1M WIBOR	206	—
	Citibank*	0,75% + 1M EURIBOR	38,227	—
			105,964	110,454
Interest bearing loans-related parties		8.00%	—	2,844
Interest bearing loans and borrowings — current			119,094	125,658

* Loan converted from Euro or USD to Polish złoty*

Please refer to Note 22 for details regarding security pledged for the above loans.

18 Employee benefits

Employee benefits consist of reserves allocated for bonuses and rewards for employees as described in Note 1(q) and the expenses relating to the Performance Participation Plan, which is described in more detail below.

Performance Participation Plan

In 1999, the Company adopted a Performance Participation Plan (''the Plan''). Under the Plan, the Company is entitled to determine, among other matters, participating employees, the number of units to be awarded to each employee and the award and vesting date of all units. The grant value of each unit awarded is established by the board of Directors at each award date.based on an annual earnings multiple under which earnings represents net income in the respective fiscal year in which the units were granted adjusted for certain items as defined in the Plan. The grant value for each unit resulting from the above calculation is rounded to the nearest USD 100. Under the Plan, units vest over a five-year period (three-year period in limited cases) with one-fifth of a unit vesting on each anniversary of its award or one-third in the case of a three year vesting period.

Upon completion of a public offering of equity securities of the Company on a qualifying exchange (eg. an established exchange in the United States or Europe), the Company is required to pay to each participant the value of vested units at the date of the offering. The value of the vested units is the difference between the grant value and the value at the date of the public offering calculated in accordance with the terms specified in the Plan. Payment may be made, at the sole discretion of the Company, either (i) in two annual instalments the first of which will be made within three months immediately following the public offering date, (ii) in the equity securities offered in the public offering, in which case the number of such equity securities to be issued to the participant will be equal to the value of his or her vested units determined as of the date of the public offering, divided by the public offering price of the equity securities, or (iii) any combination of (i) and (ii) above. Units, which have been awarded before the public offering, will continue to vest with the value determined as of the date of the public offering.

If, as of 30th June, 2005, no public offering has occurred, the Company shall pay to each participant the value of units vested as of this date. The value of the vested units at this date is the difference between the grant value and the value at 30th June, 2005 calculated in accordance with the terms specified in the Plan. The value of a participant's vested units will be paid in two annual instalments, the first of which will be made within three months immediately following this date. If additional units vest after this date, the Company shall pay the participant the value of the unit, calculated as of 30th June, 2005, in two annual instalments the first of which will be made within three months immediately following the effective date of the additional vesting.

The Company has determined that the Plan will terminate at the time of a public offering such that no further units will be awarded subsequent to any public offering although the Company expects to establish a new plan after or in conjunction with any public offering.

At 31st December, 2004 and 2003, a liability has been accrued based on the estimated value of the vested units of 1,292 TPLN and 500 TPLN, respectively.

Under the Plan, the total units granted and forfeited are as follows in USD:

	Units	Average Price
Balance at 31st December, 2002	2,611	586
Granted	551	516
Forfeited	(213)	637
Balance at 31st December, 2003	2,949	569
Granted	778	648
Forfeited	(147)	545
Balance at 31st December, 2004	3,580	586

At 31st December, 2004 and 2003, the number of vested units is 1,996 and 1,499, respectively and the average grant value of these units is USD 560 at 31st December, 2004.

19 Trade and other accounts payable

The trade and other accounts payable balance at 31st December is summarised in the table below:

	2004	2003
Trade payables	26,723	31,192
Accounts payable to related parties	3,634	5,405
Payables to employees	3,177	2,979
Deposit received	295	350
Social Fund	573	505
Advance payment received for sale of premises	—	441
Accrual for holiday leave	1,170	308
Accrual for unpaid interest on loans	192	277
Accrued bonuses to employees	2,234	1,474
Accrual for rent	592	376
Accrual for marketing services	22	450
Deferred revenue	1,898	432
Uninvoiced rent and deliveries for restaurants	3,565	2,461
Payables for social and health insurance	586	540
Other taxes payable	3,026	1,906
Bills of exchange payable	694	1,701
Accrual for professional services	882	273
Other accruals	3,043	1,869
	52,306	52,939

20 Provisions

The tables below present a roll forward of provisions:

	At the beginning of period	Additions	Used	Released	At the end of period
2004					
Restaurant closing costs	200	—	—	(200)	—
Tax claims provision	238	—	(238)	—	—
Reserve for legal claims	2,523	—	(675)	(1,848)	—
Onerous lease contracts	—	1,482	—	—	1,482
Other	110	—	(110)	—	—
	3,071	1,482	(1,023)	(2,048)	1,482
2003					
Restaurant closing costs	873	200	(796)	(77)	200
Tax claims provision	238	—	—	—	238
Reserve for legal claims	—	2,523	—	—	2,523
Other	—	110	—	—	110
	1,111	2,833	(796)	(77)	3,071

From time to time, the Group is involved in routine litigation and proceedings during the normal course of business. As of the balance sheet date, the Group has recorded the provision for legal claims detailed above, which represents the Group's best estimate of the probable loss expected to result from such litigations or proceedings.

21 Operating leases

The Group has numerous operating leases, primarily for the rental of restaurant locations. Rental contracts for restaurant locations are typically concluded for a period of ten years, subject to certain minimum notice periods for cancellation.

Future minimum payments relating to non-cancelable operating leases are as follows:

	Minimum lease payments
Payable in less than 1 year	31,805
Payable between 1 to 5 years	105,927
Payable after 5 years	96,018
Total minimum lease payments	233,750

Rental expense for operating leases in 2004 and 2003 was as follows:

	2004	2003
Czech	11,784	9,509
Poland	27,007	25,084
Total	38,791	34,593

22 Loan security

The proceeds from the loans detailed in Note 17 were used to finance the opening of restaurant locations as well as current operations. The loans are secured by various forms of collateral which primarily include certain real estate and fixed assets, bills of exchange and insurance policy guarantees made by the subsidiaries, which are the direct recipients of the loans.

In addition, a subsidiary of YUM!, the ultimate parent company of one of the Company's shareholders, is the guarantor of the short-term bank credit with Citibank. The Company and IRI, a shareholder of the Company, provide letters of guarantee as well as other forms of collateral as security for certain of the loans. ARC, the sole shareholder of IRI, leases nine restaurant properties to American Restaurants Sp. z o.o. in Poland through its wholly-owned subsidiary, American Retail Systems Sp. z o.o. (ARS). The properties owned by ARS are also pledged as collateral for certain loans.

As described in Note 3, the acquisition of Kids Play S.A. was financed by a bank loan obtained by the Company's subsidiary, Grifex 1 Sp. z o.o. The loan is secured by a mortgage on the land and building acquired as presented in Note 8 and by letters of guarantee from American Restaurants Sp. z o.o. and American Restaurants a.s.

23 Profit/(loss) per share

Basic profit/(loss) per share is calculated as follows:

	2004	2003
Net profit/(loss) attributable to ordinary shareholders	12,046	(11,347)
Weighted average number of ordinary shares	10,000,000	10,000,000
Basic profit/(loss) per share in Polish złoty	1.20	(1.13)

The weighted average number of ordinary shares used as a denominator in the above calculation of the basic profit/(loss) per share reflects the stock split which occurred during 2004 as discussed in Note 16.

24 Commitments and Contingencies

The Franchise Agreements (See Note 1(a)) have a term of ten years each, the earliest of which commenced in 2000, and are renewable at the Company's option for a further ten years as described in the Franchise

Agreements. The initial fees paid are approximately USD 38,700 per restaurant and renewal fees are 50% of the initial fees, adjusted to reflect changes in the US Consumer Price Index during the term of the relevant franchise.

Under the Franchise Agreement, the Company, through its subsidiaries, must from time to time upgrade, modify, renovate or replace all or part of its restaurants or any of their fittings, fixtures or signage or any of the equipment, systems or inventory used in the restaurant in order to maintain compliance with the relevant franchisor's then current standards. During each of the initial term and the renewal term, if any, the franchisor may not, under the Master Franchise Agreement, require more than two comprehensive refurbishments of all fittings, fixtures, signage, equipment, systems and inventory in the ''front-of-house'' area of each AmRest restaurant to then current standards and more than one comprehensive refurbishment of all fittings, fixtures, signage, equipment, systems and inventory in the ''back-of-house'' area of each restaurant.

Individual franchise agreements signed after the Master Franchise Agreement do not contain this provision. The Company estimates the cost of upgrades at 1.5 per cent of annual restaurant sales in future periods.

The Company, through its subsidiaries, operates under a development agreement as described in Note 1(a). Provided that the Company is in compliance with that agreement, the Company has the right of first refusal in relation to any new KFC or Pizza Hut restaurants in Poland and the Czech Republic. To maintain this right, the Company would be required to build 10 new restaurants in 2005. The average cost of building a restaurant is approximately 2,500 TPLN depending on the type and location of the restaurant. Accordingly, projected capital requirements for new restaurant openings to fulfill the development agreement requirements for 2005 are approximately 25,000 TPLN.

25 Related parties

As noted in Note 1(a), the Company is jointly owned and controlled by IRI and KFC BV. IRI is a wholly owned subsidiary of ARC and YUM! is the ultimate parent company of KFC BV.

ARC was founded by Donald M. Kendall, Sr., Donald M. Kendall, Jr. and Christian R. Eisenbeiss, who serve as Supervisory Board members of the Company and Henry J. McGovern who is a Management Board member and the senior executive managing the operating businesses in Poland and the Czech Republic.

The current ownership structure of ARC is shown in the table below:

	Per cent Ownership
Donald M. Kendall, Sr.	30.00%
Donald M. Kendall, Jr.	18.25%
Christian R. Eisenbeiss	28.36%
Henry J. McGovern	22.49%
David A. Bobilya	0.90%

In addition to its ownership interest in the Company, ARC conducts real estate operations through its wholly-owned subsidiary, ARS. The Company leases nine restaurant properties from ARS at market rates consistent with the lease terms and conditions in its restaurant leases with third parties. The Company s executive offices in Wroc aw are also located in buildings owned by ARS. In June 2004, the apartment and training center previously owned by ARS was sold to a company owned by Henry McGovern and is still utilized by the Company and its subsidiaries. The rent and other costs paid by the Company and its subsidiaries to ARS was 3 093 TPLN and 3,107 TPLN in 2004 and 2003, respectively. The rent and other costs paid by the Company and its subsidiaries to the company owned by Henry McGovern was 136 TPLN in 2004.

Spolpep Sp. z o.o., which is jointly owned by a YUM! group company and ARS, own and operate two Pizza Hut and two KFC restaurants in Poland. The Group provides marketing and management services to this company. The fees for these services amounted to 3,240 TPLN and 5,195 TPLN in 2004 and 2003, respectively. The management fees are recorded as other income and the marketing fees received as a reduction in direct marketing expenses. The marketing and management fees agreements are valid through 2007.

The Group has significant related party transactions with its shareholders and the parent companies of its shareholders. These include loans and related interest expense as well as initial franchise fees, continuing

franchise fees, professional fees and franchise renewal fees. During 2004 and 2003, these fees can be summarised as follows:

	2004	2003
Initial Fees (see Note 1(f))	1,678	1,311
Continuing franchise fees (see Note 1(f))	27,609	25,738
Interest expense	112	324
Professional fees	4,759	3,837

Initial fees are paid in accordance with the franchise agreements as described in Note 1(a) and Note 24.

The Company, through its subsidiaries, is required to pay continuing franchise fees equal to 6 per cent of its revenues. The franchise agreements also provide that AmRest must incur advertising expenses equal to 5 per cent of its revenues in the manner directed by the franchisor as described in the franchise agreement.

Professional fees represent management and consultancy services provided by ARC on a non-exclusive basis for the Company's Czech and Polish operating entities under defined agreements with each entity. The major obligation is for ARC to provide management services including paying the salaries and certain other expenses of certain members of the Company's management team. These salaries and services are invoiced to the Company's subsidiaries monthly.

In addition to the above, the Company is a party to the following transactions with related parties:

- In 2002, the Company outsourced its marketing activities to Synergy Partners Sp. z o.o., a subsidiary of GCS, which through 31st December, 2003 was an associate of the Company. From January 2004 to 30th December, 2004, as described in Note 1(a) and Note 3, GCS was a consolidated subsidiary of the Company. Tomasz Piotrwoski, a member of the Company's executive management team, is a minority shareholder in Synergy Partners Sp. z o.o. The marketing services paid to GCS and its subsidiaries amounted to 7,060 TPLN and 5,450 TPLN in 2004 and 2003, respectively. The Company, through its subsidiaries also provides management services to GCS and its subsidiaries. Amounts billed in 2004 and 2003 amounted to 199 TPLN and 438 TPLN, respectively. As GCS was consolidated during 2004, the amounts paid and received in 2004 eliminate on consolidation. The 2003 amounts were recorded as direct marketing expenses and other operating income, respectively, in the income statement.

- The Company and its subsidiaries have entered into loan agreements with certain ARC and YUM! group companies (see Note 17).

- A significant amount of AmRest's borrowings are guaranteed by ARC and YUM! group companies (see Note 22). In 2004 and 2003, a fee of approximately 830 TPLN and 1,116 TPLN, respectively, was paid to YUM! for the guarantee.

- Henry McGovern indirectly owns approximately 5 per cent of a company which operates a loyalty program to which American Restaurants Sp. z o.o. is currently a party.

- Certain members of key management are participants in the Performance Participation Plan (see Note 18 for a description of the plan).

26 Financial Instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors.

Credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Group places its cash and cash equivalents in financial institutions with high credit ratings. There are no significant concentrations of credit risk with respect to trade and other receivables as sales are primarily made in cash or via major credit card.

Interest rate risk

The Group's interest-bearing borrowings typically bear floating interest rates (see Note 17). As at 31st December, 2004, this exposure to interest rate price risk and interest rate cash flow risk is not hedged.

Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the USD, Euro and Czech Crown. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the rent due on a significant portion of the Company's restaurant leases is indexed to US dollar or euro exchange rates. Although the Company seeks where possible to agree rents in local currency, many lessors still require rents to be indexed to euro or US dollar exchange rates.

In order to minimise exposure to foreign currency risk, among other things, the Group aims to reduce the impact of short-term fluctuations. Over the long term, however, permanent changes in the foreign exchange and interest rates would have an impact on consolidated earnings.

The Group has certain investments in foreign operations, the Czech subsidiaries, whose net assets are exposed to foreign currency translation risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. In addition, as described in Note 1(a), the shareholders of the Company are required to fund capital deficiencies of the joint venture pursuant to the terms of the Joint Venture Agreement.

Fair value of financial instruments

The following are details of the fair values of the financial instruments for which it is practicable to estimate such value:

- Cash and cash equivalents, short-term bank deposits and short-term bank credits. The carrying amounts approximate fair value because of the short maturity of these instruments.
- Trade accounts receivable, other accounts receivable, accounts payable and accrued liabilities. The carrying amounts approximate fair value because of the short-term nature of these instruments.
- Non-current interest bearing loans and borrowings. The carrying amounts approximate fair value due to the variable nature of the related interest rates.

27 Initial Public Offering

On 21st February, 2005, the Polish Securities and Exchange Commission admitted the Company's shares into public trading on the Warsaw Stock Exchange (WSE) in Poland. The Company filed its application with the Polish Securities and Exchange Commission on 30th September, 2004.

Pursuant to the terms of the flotation agreement, which governs the terms and conditions of any initial public offering of the Company, between ARC and KFC BV, the parties may elect, at any time before 31st December, 2005, to proceed with an IPO provided certain conditions are met as described in the agreement.

Also on 30th September, 2004, the Company registered new articles of association in the Netherlands which include specific provisions that relate to the potential initial public offering of the Company's shares on the WSE. These provisions include a 100 for 1 stock split increasing the current number of ordinary shares to 10,000,000 at a nominal value of Euro 0.01 per share.

On 21st September, 2004, ARC, through its wholly owned subsidiary IRI, and KFC BV entered into a share purchase agreement under which KFC BV agreed to sell its 50,000 shares (5,000,000 shares after the stock split referred to above) in the Company to ARC. This share purchase agreement was subject to the condition that the Company's shares be admitted into public trading on the WSE by 22nd December, 2004. As this condition was not fulfilled, the agreement was not consummated. A new share purchase agreement was signed on 31st January, 2005 whereby KFC BV agreed to sell its 50,000 shares (5,000,000 shares after the stock split referred to above) in the Company to ARC subject to the condition that the flotation occurs before 30th April, 2005. If the condition is not fulfilled, the sale and transfer of the shares is dissolved unless the parties agree to further extend this date.

In addition, a subsidiary of YUM!, the ultimate parent company of one of the Company's shareholders, is the guarantor of the short-term bank credit (See Note 17 and Note 22). This guarantee will be removed at approximately the time the Company's shares begin trading on the WSE. Accordingly, the Group will be required to refinance its interest bearing loans and borrowings as an integral part of the flotation process.

28 Subsequent Events

On 23rd March, 2005, the Company, through its subsidiary, American Restaurants s.r.o., signed an agreement to acquire miklik's food s.r.o., a company which operates eight quick-service chicken restaurants in the Czech Republic under the brand name "Big Food" with one additional location leased which is under development. Upon acquisition, it is the Company's intention to convert all locations to KFC restaurants except one location which will not be utilized. The acquisition is contingent upon the completion of a due diligence review and other items specified in the agreement. Both parties have the right to withdraw from the agreement should the review and due diligence process not be completed within the prescribed timeframe. The purchase price per the agreement is CZK 45 million or approximately 6,200 TPLN and will be financed from proceeds from the anticipated public offering and operating cash flows. The estimated costs to convert the locations to KFC restaurants is approximately 2,400 TPLN.

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