

Review of Operations

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All of our restaurant chains continued to expand in 2007, strengthening their brand presence and enhancing their appeal. By keeping abreast of the latest market trends, we were able to make product innovations that ensured our relevance to our customers. By giving our people the fullest possible opportunity to develop, we further strengthened the star quality and teamwork that underly our success.

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STRATEGIC PLANS

We are resolute in our commitment to our stakeholders. At the heart of QSR's Strategic Business Plan 2007-2009, as approved by the Board of Directors, lies a series of strategic initiatives specifically designed to build and enhance stakeholder value.

In order to attract committed of long-term investors our goal is to develop a strong and sustainable business that delivers reliable, worthwhile returns. To achieve this, we continuously seek to enhance our operations so as to improve our financial results, especially in terms of earnings per share and dividends. At the same time, we place the highest possible emphasis on transparency and good governance.

To delight our customers, we endeavour to provide them with the highest quality products delivered in the fastest, friendliest and most efficient manner. To satisfy their palates, we regularly launch enticing new products at competitive prices; and to improve accessibility we constantly expand our network of restaurants.

When it comes to our employees, our philosophy is to create opportunities for our people to develop their potential to the fullest. We run programmes specially created to motivate, recognize and reward achievement, and constantly reinforce a corporate culture that is founded on trust, positive energy and empowerment.

PIZZA HUT

In another excellent performance, in 2007 QSR Brands Bhd (QSR), the franchise holder of Pizza Hut Malaysia and Singapore, saw its revenue rise 8.8% to RM466.4 million from RM428.5 million in 2006. There was also a praiseworthy increase in operating profit (before our share of the results of our associate KFCH) which grew 12% to RM33.7 million from RM30.1 million in the prior year.



Though profitability was affected by the interest costs arising from the acquisition of additional KFCH shares, this was more than covered by the rise in profit received from KFCH.

Pizza Hut Malaysia

At Pizza Hut Malaysia, revenue gained

by a healthy 12.4% to RM301.0 million as compared to RM267.9 million in 2006, thanks to an overall increase in Same Store Sales growth and continuing network expansion. Twenty new outlets were opened during the year (as against three closures) while a further 11 stores were remodeled under the Enhanced Dine-In concept.

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After a sluggish beginning to the year, sales expanded dramatically following the launch of the highly successful Sensasi Delight combo value meals in June, and were further increased by the introduction of new products such as Cheesy Bites Dip-Licious Pizza, Sausage Bites Dip-Licious Pizza and Mexican Fiesta Pizza.

The year also saw a rise in operating profit, which improved to RM25.5 million from RM23.9 million in 2006. This was principally due to the restaurants' higher operating margin from the growth in sales.

2007 was marked by an impressive series of product innovations. The year kicked off with Double Fortune Combos and leading to Chinese New Year, we had the new Ocean Happiness Pizza and Fortune Pockets. Then in February, we celebrated our 25th anniversary with the launch of our new packaging and uniforms, accompanied by special, super value Anniversary Meals.



March saw the introduction of the new Tropical Twist Pan Pizza, while in April Pasta Perfetto Wrap with three variants

tempted customers to try something new. To appeal to Asian taste, we added the Flaming Sambal Crunchy Crust Pizza to the menu in May.

A tremendous success was achieved in June with the launch of Sensasi Delight – Wave 1, which offered customers a variety of pizza, pasta and rice dishes. At only RM7.35 for a personal set, Sensasi Delight provided a quality meal at an affordable price.

July's Cheesy Bites Dip-licious Pizza was another big hit. With its tagline 'Pick it, Pull it, Dip it!', the new pizza offered the ultimate cheese experience with 24 bite-sized crusts coated with cheddar cheese, filled with three cheese flavours and served with barbeque cheese dip. Building on this success, in August we introduced the Sausage Bites Dip-licious Pizza, which proved equally popular.

For Juadah Ramadhan there were many new sensational delights, such as the Hawaiian X-Tra Pan Pizza and Sweet Spicy Prawn Rice. These were followed in October with Sensasi Delight – Wave

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2, while in November the Mexican Fiesta featured the Mexican Fiesta Pan Pizza with Mexican Corn Chips and Mexican Sauce. The Mexican Fiesta Bonanza concluded the year with three exotic Mexican delicacies.

As at 31 December 2007, Pizza Hut Malaysia had 168 restaurants, with 149 restaurants in the Peninsular, 10 in Sabah, and nine in Sarawak.

Pizza Hut Singapore

Pizza Hut Singapore (including results by Multibrands) achieved strong growth in 2007 with net sales at a record high of RM165.4 million, 3% higher than prior year's RM160.6 million. The improvement resulted mainly from better-received marketing programmes riding on Singapore's strong economic growth. Despite stiff competition, both Dine-in and Home Delivery segments performed well, especially the Dine-in segment which continued to build on its Enhanced Dine-In concept.

Driven mainly by a stronger top line, Pizza Hut Singapore posted an excellent

profit before tax of RM8.2 million, a rise 32% from the RM6.2 million achieved the year before. The positive impact of higher sales was partially offset by higher cost of sales caused by rising food costs plus increases in other operating expenses especially in the Home Delivery segment. For several years, Pizza Hut Delivery shared a common phone number with KFC Delivery. However, in June 2007, KFC launched its own number.

Among the key achievements for 2007 were the successful launches of the Double Sensations, Fortune Chinese New Year pizza, and American Superstars pizza promotions and the introduction of popular new products such as Crispy Thin Pizza, Pasta Perfetto, Cheesy Bites Fondue and Sambal Seafood Pizza.



Competition, however, continues to remain strong as other restaurant chains have also expanded and upgraded indicating that, in the years ahead, competition for share of the consumers' stomach and wallet will be tough.

Pizza Hut Singapore ended the year with 40 stores, which included three new openings and two relocations offset by three closures.

Meanwhile, Multibrands witnessed a decrease in revenue which fell to RM12.4 million from RM15.0 million in 2006 due to the closure of one 3-in-1 store in 2006. On the other hand, profit before tax rose to RM0.8 million from RM0.1 million in 2006.

KFC

In 2007, our associate, KFC Holdings (Malaysia) Bhd (KFCH), the franchise holder of the KFC brands in Malaysia, Singapore and Brunei, achieved record results. Turnover shot up 13.6% to RM1,730.4 million from RM1,523.8 million in 2006, and there was a 5.8% increase in profit before tax which rose to



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RM150.6 million from RM142.3 million in the previous year.

KFC Malaysia and Brunei

By the end of the year, KFC Malaysia and Brunei had garnered an 18.3% increase in turnover to RM1,055.1 million from RM892.1 million the year before, while profit before tax grew 17.0% to RM132.8 million from RM113.5 million.

Robust operational performance was driven by a series of highly effective initiatives. Consumer patronage to the restaurants was significantly increased by value and variety meal promotions and the launch of innovative products such as Chicken Poppers, Half-Half Meltz, Black Pepper Chicken Chop, Alaskan Fish Burger, Variety Bucket with Fish Fingers, and new X-meal combos.

In addition, as part of a continuing programme to attract new customers and strengthen its brand presence, KFC opened 39 new outlets during the year. Major progress was also made with restaurant image enhancement, as some 20 restaurants were refurbished. The new image has already proved to improve customer experience and boost frequency of visits.

In March, KFC's redesigned "Colonel" logo was launched, together with new staff uniform and product packaging. The launch was coordinated with a successful Colonel Rice combo promotion.

Revenue was boosted when the operating hours of 73 restaurants were extended to 24 hours a day.

In the last quarter of 2007, KFC introduced payment card facilities at its restaurants in the Klang Valley, Penang and Johor. By mid 2008 all of Malaysia's KFC restaurants are expected to accept payment cards.

As at 31 December 2007, KFC Malaysia's 410-strong restaurant network stood at 336 restaurants in the Peninsular, 40 in Sabah, 27 in Sarawak and 7 in Brunei.

KFC Singapore

In 2007, KFC Singapore achieved its best performance ever. Sales rose 3.0% to RM280.2 million from RM272.0 million in 2006; while profit before tax increased 12.3% to RM10.1 million from RM9.0 million the year before.

Following a back-to-school deal in January featuring KFC's signature Zinger Special, Chinese New Year was celebrated in February with a special 'Treasure Feast' bucket meal. In March, KFC Singapore used its vibrant 30th Anniversary media campaign to launch the new KFC logo, uniform and packaging.

The first step to adding a toasted range was taken in April with the introduction of Cheesy BBQ Meltz, while a campaign leading up to the school holidays targeted young people via a tie up with Pepsi and

WOW! Meals, tempting them with a range of cool prizes. To mark the June holidays, the Japanese-themed Miso Crunch was launched.

In July, consumers were on the lookout for deals following the increase in Singapore's Goods and Services Tax. In response, KFC ran a Coupon promotion based around the August National Day celebrations. Shortly afterwards, to test the acceptability of serving seafood (given the negative impact of Avian flu in 2006) KFC Singapore introduced the Surf and Turf seafood meal.

September saw the return of an old favourite – Hot Devil Drumlets; Chilli Pepper Meltz joined the menu in October; and the year ended with the November launch of the Buddy Meal. Breakfast meals were also introduced in a test store at the HarbourFront Centre.

KFC Singapore's Dine-in and Home Delivery segments both prospered during the year, achieving increases in revenue of 2.0% and 19.6% respectively. The Chicky Goes to School programme also continued with 40 schools receiving visits at which toys were given away to the children. Chicky Club membership has now risen to 60,000. Students, too, were offered special privileges with attractively priced Student Specials burger meals.

After sharing a common number with Pizza Hut Delivery for a number of years, in June KFC Delivery soft-launched its own delivery number – 6222 6111. To build awareness of the new number and push sales, KFC rolled out a multimedia campaign linked to a tie-up with HSBC bank which gave customers the chance to win S\$10,000 a week for five weeks, in addition to grand draw prizes worth S\$20,000.

As at the year end, KFC Singapore had 69 stores, including four new openings, five relocations and eight closures.

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INTEGRATED POULTRY & ANCILLARY OPERATIONS

At KFCH's Integrated Poultry Business, revenue increased 13.5% to RM756.6 million from RM666.6 million in 2006 thanks mainly to improved pricing and a rise in sales to KFC restaurants, the local open market and the export sector. This was in contrast to the previous year, when the impact of Avian flu had a powerful negative impact on results.

For several reasons, however, profitability fell to RM6.8 million from RM21.4 million in 2006. Not only did the rise in commodity prices force up the cost of internally produced poultry products, but increased demand for poultry meat from KFC's restaurants compelled the business to purchase from external suppliers at a higher cost.

To counter this drop in profitability and boost our frozen food sales, we now plan to capitalize on the growing global market for *halal* food by setting up a new company, KFC Marketing Sdn Bhd. The company will focus on the sale and marketing of Ayamas further processed poultry products. However, other food products under different brand names will eventually be added to the stable. This new trading arm should not only boost our frozen food market share and sales, but also enable us to penetrate new market segments.

Meanwhile, the performance of KFCH's Ancillary segment was positive, recording a healthy rise in sales to RM132.5 million from RM118.0 million in 2006 and a significant growth in profit before tax to RM0.9 million from a loss of RM1.7 million.

HUMAN CAPITAL DEVELOPMENT

QSR is one of the largest food sector employers in Southeast Asia, with over 22,000 employees in Malaysia, Brunei and Singapore.

In 2007, QSR invested over RM6.1 million – over 5% of the total Group payroll – to provide training opportunities for its more than 22,000 employees. Training was targeted at both restaurant and Restaurant Support Centre (RSC) personnel who each received, on average, one and two man days of training respectively.

The Group offers its people a carefully structured career path. The steps to Management level start with Team Member and then progress to STAR to All Star to Shift Manager and finally to Restaurant Manager.

The core of our Group training programmes is CHAMPS, the acronym for Cleanliness, Hospitality, Accuracy of Order, Maintenance, Product Quality and Speed of Services. At the Regional CHAMPS Challenge, in 2007, seven employees from Pizza Hut Malaysia, six from KFC Malaysia, and three from KFC Singapore received awards, reflecting their tremendous commitment to delivering the highest standards of customer service.

For 2007's Excellent Service Awards, Pizza Hut staff won 26 awards (one Star, 14 Gold and 11 Silver), while KFC staff achieved a total of 67 awards (13 Star, 12 Gold and 42 Silver).

In addition, both Pizza Hut and KFC Singapore achieved Workforce Skills Qualifications (WSQ) Organizational Accreditation in August 2007 under the Singapore WSQ Framework, and both were awarded Approved Training Organisation (ATO) status.

The Singapore Government continued to promote the employment of older workers and the re-employment of retirees beyond the age of 62, and a significant number of retirees were therefore offered part-time employment by QSR on a year-to-year basis subject to medical fitness and work performance.

A Training Needs Analysis was undertaken in November to examine the job competencies required by both restaurant management staff and RSC staff, and this helps to determine training plans for 2008.



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GROUP LOGISTICS

In November 2007, a new Group Logistic Division (GLD) was established to provide the Group with the best and most cost effective logistics service. This involves consolidating and centralizing the logistics of its Group warehousing and distribution divisions.

The GLD is divided into two units: Logistic Operations and Logistic Support. Logistic Operations handles, stores and distributes chilled, frozen and dry stock to Pizza Hut, KFC, Rasamas and Kedai Ayamas as well as the open market. Logistic Support covers planning, order taking, Enterprise Resource Planning (ERP), human resources, quality assurance, security, accounts etc.

In an effort to combat the rising costs of labour, fuel, repairs, and maintenance, in 2008, the GLD plans to implement the following initiatives:

- Enhance stock accuracy and integrity by implementing a fully-integrated, nationwide Warehouse Management System
- Tighten operations and improve product safety and security by installing CCTV within the warehouses
- Explore the viability of constructing a centralized distribution centre or setting up satellite warehouses

nationwide, to counter the current shortage of warehouse space

- Fulfill customer orders quickly and correctly every time, and track truck locations by installing a Global Positioning System
- Maintain the cold chain integrity of products and trucks by installing a Truck Temperature Tracking System
- Optimize resources and reduce transport costs by implementing a Truck Optimization System for transport planning and routing
- Introduce 'Cross Docking' for deliveries within the logistic supply chain

The GLD also aims to adopt best practices such as ISO and HACCP.

GROUP PROCUREMENT

The responsibility for sourcing competitive vendors and suppliers and for ensuring that only JAKIM *Halal* certified and/or approved food ingredients are used by our restaurants lies with Group Procurement.

Despite rapidly increasing global commodity and related raw material prices, in 2007 Group Procurement successfully secured an uninterrupted supply of stock for our restaurants and succeeded in capping the year's overall price increase for the Group to just 7.9% above the 2006 level. Significant Group-wide cost savings were also achieved.

HALAL COMMITMENT

To ensure *halal* compliance throughout our operations, QSR operates stringent internal controls over its raw materials, purchases, manufacturing processes and packaging. We are diligent in preventing cross-contamination during the storage, preparation, handling, packaging and transportation of our products. We also adhere to best practices to maintain the highest standards of quality and hygiene.

To verify *halal* compliance, the QSR Syariah Advisory Council oversees our internal food management. In addition, the Department of Islamic Development Malaysia (JAKIM) inspects our factory premises, ingredients and processes before permitting us to use their logo. The *halal* logo displayed on all our packaging certifies that the product has passed independent *halal* compliance tests.

All the imported products are certified *halal* by the appropriate local Islamic food and nutrition certification body. In addition, all raw materials have certifications from our suppliers to confirm that they comply with *halal* requirements.

Because of this, QSR is proud to guarantee that all the products it manufactures, imports and sells are *halal*.

