

REVIEW OF OPERATIONS

OUR RESTAURANT BUSINESS CONTINUED TO FLOURISH IN 2008 AND OUR RESTAURANT CHAINS EXPANDED THEIR REACH, FURTHER STRENGTHENING OUR DOMINANCE OF THE RESTAURANT CHAIN INDUSTRY MARKET IN THE PROCESS. INNOVATION AND CREATIVITY REMAINED KEY MOMENTUM DRIVERS, LEADING THE WAY TOWARDS NEW MARKET SAVVY PRODUCTS AND PROMOTIONS. AND BY MOTIVATING AND ENHANCING OUR PEOPLE'S KNOWLEDGE AND SKILLS, OUR PEOPLE REMAIN ONE OF OUR MAJOR ASSET DIFFERENTIATORS.

JAMALUDIN BIN MD ALI
Managing Director





STRATEGIC PLANS

As market leaders in the restaurant industry, at QSR Brands Bhd (QSR) we remain resolute in our commitment towards all our stakeholders. Through QSR's Strategic Business Plan 2008-2012, as approved by the Board of Directors, we continued to execute a series of strategic initiatives that we believe will continually enhance stakeholders' value in the long term.

Being part of a Group that believes strongly in maintaining a growing, sustainable business, QSR persistently enhances our operations to deliver reliable, profitable returns to all our stakeholders whilst aiming to constantly create the means to improve our financial results, especially so when it comes to our earnings per share and dividend payouts. We also place the utmost emphasis on transparency and good governance in all our reporting and information sharing with stakeholders of the Group.

At the top of our list is the satisfaction of our customers. The delivery of quality products combined with the fast, efficient and friendly service continues to be our claim to fame. And to satisfy the ever growing discerning palates of our vast customer base, we have launched exciting, innovative products and promotions at affordable prices

and expanded our network of restaurants to improve customers' access to our tantalising delights.

We strive to ensure that each and every one involved in running our businesses has the opportunity to reach their fullest potential, no matter what level they may be. Programmes and initiatives are run regularly to help motivate and create a workforce to be reckoned with. We always reward and recognise the high achievers among us, and in turn reinforce a corporate work culture that is founded on trust, positive energy and the most important factor of all, hospitality.

QSR Brands Bhd

2008 was yet another stellar year for QSR, the franchise holder of Pizza Hut Malaysia and Singapore as well as KFC Cambodia. Revenue soared 14.2% to RM532.8 million from RM466.4 million in 2007. Operating profit also surged (before adding our share of the results of our associate KFCH) by 20.5% to RM40.6 million from RM33.7million recorded in the previous financial year.

Pizza Hut Malaysia

The year showcased yet another solid year for Pizza Hut Malaysia. Revenue was up by a robust 16.8% to RM351.7 million compared to RM301.0 million in 2007. This gain was largely due to the continuing expansion of our restaurant network.

Nineteen new outlets were opened in 2008 while a further 12 stores were improved and beautified under the Enhanced Dine-In concept.

Pizza Hut Malaysia continued to innovate product launches that tap consumers' curiosity. Exciting launches of new products plus a few re-launches of old favourites helped pepper the year with increased sales opportunities. We realise that product innovation is a main business differentiator for the Group. As such, we will continue to explore tasty ways to reach our customers' appetites and hearts for many years to come.

We opened the year with a sensational bang. Our Sensasi Delight line extension made for cheese lovers was warmly received by our customers. We appealed to Cheese Lovers via our dine-in Sensasi Delight line extension. This is the first time we introduced a Personal (6") SCP Pizza in the system. Strategically launched to increase ticket average, the results were very encouraging. Our Chinese New Year promotion followed soon after and was celebrated with much festivity via our Golden Happiness Cheesy Crown pizza promotion.





Other successful appetizing launches throughout the year included the Variety Box Value Pizzas, the popular Italiano Paradiso & Paradiso 2 promotions, and Sensasi Delight (Wave 4) which introduced two new pizza varieties.

The delightfully pleasing StarzBites Sausage Carnival (Phase 1) and Cheesy Xtreme (Phase 2) campaigns that were celebrated with a 5 STAR press launch were an extension of the popular Cheesy Bites pizza launched in 2007. Phase 1 was supported with Sausage while Phase 2 had Sausage and a two-color String Cheese with Relish (sweet/sour) that came as a dip or add-on to the pizza. Both phases were heavily publicised with constant television and radio commercials, press advertisements and collaterals on display.

Pizza Hut Malaysia also re-launched our HOT & Oven Fresh reliable delivery campaign using the new logo and pneumatic that was created by Yum! Dallas. The whole platform relies very heavily on our guarantee of Hot pizzas delivered fresh to customers. The Hot campaign was supported by television and radio commercials, press advertisements and other delivery collaterals – new uniforms, new bike stickers, and even a new packaging box design.

As at 31 December 2008, Pizza Hut Malaysia was running 187 restaurants nationwide.

Pizza Hut Singapore

Amidst the challenging economic environment, Pizza Hut Singapore achieved net sales of RM176.2 million, which comprised RM169.4 million of Pizza Hut sales and RM6.8 million of Multi-brand sales. This represents an increase of RM10.8 million or 6.5% higher than 2007.

Excluding Multi-brand stores which have ceased operations, Pizza Hut Singapore recorded a sales increase of RM16.4 million or 10.7% higher than 2007. This improvement over the previous year was driven by better received marketing programmes plus higher ticket average.

During the year under review, Pizza Hut Singapore recorded an operating net profit of RM7.6 million, a reduction of RM1.0 million (or 11.7%) from the previous year. Excluding Multi-brand stores, the decrease in operating profit was RM0.78 million (or 10.0%). Despite surpassing top-line sales, margin flow through was eroded by higher operating costs associated with higher store count.

2008 was a year of mixed performances. The year started well for Pizza Hut

Singapore as we saw strong sales growth in the first 10 months for both business channels. The last two months of the year however became very challenging for the brand as the global economy deteriorated.

The first product to be launched in the year was the Double Stuffed Crust Prosperity Pizza – a unique coin shaped pizza with two rings of crust stuffed with a tri-flavoured cheese and topped with traditional sweet BBQ chicken slices, pineapple and crispy crackers. This product was launched in conjunction with Chinese New Year to coincide with the festive celebrations and promised consumers good fortune with every bite.

Other successful promotions throughout the year included products such as the Amore Italian appetizers, pasta and pizza promotion; Portobello Chic and Ocean Splendour; Pasta Perfetto II, Viva Crust Pizza; Starzbites Cheesy Xtreme pizza (created as an extension of the successful Cheesy Bites Fondue and Cheesy Bites campaigns in 2007 and 2006 respectively), Tom Yam Pizza; Triple Chicken Starzbites (an extension of the Starzbites Cheesy Xtreme campaign) and the Tropical Chicken Viva Pizza in the holy month of Ramadhan.





One of the brand challenges for Pizza Hut during the year was to present our entrenched QSR imagery in a fresher image. As part of our brand strategy, significant efforts had been put into the re-modification works of our restaurants to improve the dining ambience. And since late 2006, several rounds of menu enhancement exercises have also been carried out to improve the food variety offered. With such significant milestones in place, a thematic campaign bearing a new brand tagline – “Sharing A Slice of Life” was aptly launched in April 2008 to re-position Pizza Hut Singapore as a leader in the casual dining restaurant business. This campaign was supported with strong advertising in various mediums covering television, press, outdoor media and the Internet.

Moving forward, Pizza Hut Singapore will definitely have to look into the weaker consumer market. Although the nation's inflation has reduced from its peak of 7.5%, the retail market continues to see decline as consumers became more cautious with their spending. The increase in unemployment rate and the news of job losses in various organizations has triggered fears over job security amongst many Singaporeans. In view of the weak consumer sentiment, it is evident that 2009 will be very challenging for the Pizza Hut business.

While consumers will still choose to dine out under this tough climate, at Pizza Hut we will need to shift our focus from not only providing a good quality food and atmosphere but also value for the restaurant segment. In terms of delivery, it will also be very critical that Pizza Hut re-invents itself, offers relevant food products and great value deals to entice customers as well as presents itself as an added convenience which consumers are willing to trade off.

Pizza Hut Singapore ended the year with 45 stores which included nine new openings offset by four closures.

KFC Cambodia

Our entry into Cambodia was a promising, exciting milestone for the Group. KFC Cambodia showcased promising sales of RM4.9 million in 2008. Start-up costs and the rising costs of raw materials however, affected profitability for the year.

As at yearend 2008, KFC Cambodia operates two restaurants in the country with both stores located in Phnom Penh. The grand opening of the first KFC restaurant in Cambodia, KFC Asia Hotel was part of our strategic business move into this still young fast food market. Moving forward, more KFC restaurants will be opened in the country, and we are hopeful that this will create more career opportunities and forge Cambodia's economy forward.

KFC Holdings (Malaysia) Bhd

Our associate, KFC Holdings (Malaysia) Bhd (KFCH), the franchise holder of the KFC brands in Malaysia, Singapore and Brunei, achieved yet another record high in 2008. Turnover shot up 26.0% to RM2,179.8 million from RM1,730.4 million in 2007, with an impressive profit before tax increase of 11.2%. Operating profit also increased to RM167.5 million compared to RM150.6 million posted in 2007.

KFC Malaysia

2008 proved to be yet another stellar year for KFC Malaysia. Revenue growth was up by an impressive 23.1% to RM1,284.4 million from RM1,043.4 million recorded in 2007. Profit before tax rose by 12.7% to RM149.4 million as compared to RM132.6 million during the previous year. Operating costs however, were yet again affected by higher commodity prices, which reduced profit margin to 11.6% in 2008 from 12.7% in 2007.

The year saw KFC Malaysia expanding its business operations by adding 37 new restaurants in Malaysia. With 436 restaurants as at 31 December 2008, we retained our clear dominance as Malaysia's largest and best selling restaurant chain company in the country. During the year, we experienced one store closure in Sabah and three store relocations in Johor and Selangor.





We also aggressively drove restaurant image enhancements, a means to continuously build a better KFC dining experience for all our valued consumers.

As a leader in innovative product development the Group continued to churn out various crowd favourites, such as the Triple XL Burger, 35th Anniversary Chicken Rice, and Chicken Chop with Colonel Gravy, Toasted Twister and Hot Rods. For added zing, numerous variety meals for our discerning consumers were also continued and expanded throughout the year.

2009 will see more initiatives in place, such as marketing activities, disciplined operations, heightened customer experience and continual product development as a means to further increase Group sales as well as total profitability. Further restaurant plans are in place, with more outlets expected, especially in the Peninsular region. As per plan, 25 restaurants will undergo image enhancements works, aimed for completion by year end 2009. Expected costs increase due the enhancement measures notwithstanding, the Group remains optimistic that targeted results for 2009 would still be achievable.

As at year end, KFC was operating 363 restaurants in Peninsular Malaysia, 42 in Sabah and 31 in Sarawak.

KFC Singapore

It was yet another stellar year for KFC Singapore. Notwithstanding the economic slowdown and the impact of the global financial crisis from midyear onwards, KFC Singapore registered strong sales of RM330.8 million, higher by RM50.6 million or 18% over 2007.

Both our Dine-in and Home Delivery segments enjoyed healthy sales growth of 16.3% and 9% respectively. Higher growth was primarily attributed to higher store count due to its network expansion which drove more transactions at its restaurants.

KFC Singapore achieved record sales for the year. We were however not spared from the effects of the economic slowdown in the fourth quarter. We continued to pepper the year with numerous exciting, innovative promotions in 2008. To cater to the curious, hungry appetites of our customers, we ushered the new year with Golden Fiesta, a specially designed Chinese New Year themed bucket filled with golden chicken, signature whipped potato and coleslaw as well as a Prosperity Treats snack platter with a new limited time offer product, Pasta Shrimp Cheez in the platter. A 'Scratch and Win' card was also given with each Golden Fiesta meal with attractive prizes like airline tickets and movie cards up for grabs.

As part of our drive to establish our brand essence which is Taste, we launched the 'Give in to the Real Taste' integrated campaign. Done after ensuring that the Original Recipe initiatives involving new cooking procedures and marination were in place, sales were driven further with the 'Real Deal Meal' launch from 20 February to 25 March during the year and 'Give In' coupons launch on 18 March 2008.

To increase taste appeal in the store, mood shots were taken of the menuboard combos and these were completed on time and received good feedback.

To drive sales even further, we also initiated a consumer interactive 'Give In and Win' photo contest where a total of 1,082 entries were received and 20 winners and three grand prize winners were duly rewarded. The three grand prize winners were determined from votes cast by Singaporeans. A total of 14,372 votes were received via website and SMS.

March also witnessed a tie in with Service with the launch of the Gold Service award on 26 March 2008.

Since 2005, we have had either a fish or seafood item on the menu as part of our drive to provide protein meals other than chicken to our customers. This year, KFC Singapore launched Fish Zinger, a whole fish fillet marinated with unique Zinger spices in an Oatmeal bun.





With good feedback, Fish Zinger was made permanent fixture on our menu from August 2008, replacing Fish Ole.

After establishing Cheesy BBQ Meltz in 2007, KFC Singapore added another product to the Toasted range, the Toasted Twister on 11 June 2008. Both Toasted Twister and Cheesy BBQ Meltz are now made available on the menu.

KFC Singapore launched a box meal, Variety Value Meal, to cater to the value conscious who crave variety in their meals. This consist of a piece of chicken, a Shrooms Burger, two pieces Shrimp Nugget, regular Whipped Potato and regular Pepsi at S\$5.95. This was launched following the success of the Ultimate Chicken Meal boxed meals promoted in 2004 and 2006.

Zinger's popularity was given a new wave of light with the launch of the Zinger Taste Campaign in August. The aim of the campaign is to increase top of mind recall for Zinger and build the Zinger equity.

KFC Delivery successfully spun off from Pizza Hut Delivery with a brand new number 6222-6111 in June 2007. Top of mind for KFC Delivery was sustained in 2008 and KFC continued to grow tactically via promotions and a 'Give In and Win' contest in August where consumers stood a chance to win S\$1,000 daily over a period of five weeks.

Two exciting promotions were also launched from September till December 2008. Two new variants of the ever popular Hot Devil Drumlets, Fiery BBQ and Spicy Thai were introduced to loyal followers of the chicken delight. During the year end season of giving and sharing, KFC Singapore introduced the Christmas Buddy Meal Bucket, which was a value meal in a bucket designed by a hearing impaired child. KFC Singapore has been the Ambassador for the Deaf since 2004.

Selected by Yum! to spearhead the breakfast project, our breakfast offer, has a fully differentiated menu. Having done breakfast two times previously, this systematic entry was researched, store tested and supported by Yum's input prior to launch.

It was also the year for the young with KFC continuing the 'Chicky Goes to School' programme, visiting 40 schools in the fifth year of its run. Chicky meal continued to attract the kids with attractive giveaway toys like Barbie and Hot Wheels. Young students were also enticed with our Student Specials, which are burger meals attractively priced at S\$4.50 made available daily.

By the end of the year, KFC Singapore has in place 73 restaurants, which include five new openings (including the conversion from three former Multi-brand restaurants) and three relocations offset by four closures.



KFC Brunei

It was a year of steady growth for the Group at the Brunei front. Despite various climatic conditions that have affected the nation, KFC Brunei continued to grow exponentially, with a revenue growth increase to RM13.7 million in 2008 from RM11.7 million in 2007. Our progressive performance will stimulate us as we continue to expand the business with initiatives in place to continually heighten customer experience.

During the year, we continued to introduce delicious fare to customers. Products launched during the year included Triple XL Burger, Family Feast, Colonel Chicken Rice Combo, Vary Bucket, Chicken Chop with Gravy & Mixed Vegetables, Spice Crunch Chicken, Ramadhan Combo, and the famous Hot Rods.

As of year end, KFC Brunei was running eight restaurants including one new opening in 2008.

INTEGRATED POULTRY & ANCILLARY OPERATIONS

KFCH's Integrated Poultry Business jumped to a stellar high yet again this year, with a total revenue of 40.4% to RM445.0 million from RM317.0 million in 2007. The year indeed posed quite a challenge for the business, namely due to the rise in feed commodity prices.





The ongoing growth in sales at our KFC restaurants and increase in demand in both the local and export markets resulted in a better performance.

Commodity price hikes globally increased costs for internally produced poultry products. High market prices paid to local suppliers for poultry products to meet the increasing demand of the Group's chain of restaurants affected the Group's profitability. As a result, profits for the year was RM7.1 million as against RM6.8 million recorded in the previous year.

As a means to address the profit margin decline and as a boost to our frozen food sector business, we have established a new strategic marketing arm, KFC Marketing Sdn Bhd which is set to enhance our chicken as well as frozen food business segment. With a strong focus on the sales and marketing of Ayamas and LIFE products, the new company is expected to further boost as well as explore untapped marketing possibilities for our two popular consumer brands.

HUMAN CAPITAL DEVELOPMENT

QSR believes strongly in the development of a strong, people focused corporate culture. Human capital development continues to be a mainstay in our business processes.

We want our people to reach their true potential as we know the best way to move forward is for our people to forge ahead with us, carrying the same corporate drive and vision that makes us leaders in the QSR industry.

Supported by a 26,000 strong workforce, we are constantly looking for ways to retain, recruit and reward capable employees who join us on our corporate journey.

In 2008, QSR invested close to RM1 million in training over 2,125 staff – including managers, executives and non-executives. Numerous restaurant operational training modules were conducted and on average, restaurant and RSC employees received one and two days of training each respectively.

QSR has been registered as a Certified Food Handler Training Provider since 2004. Partnering with the Ministry of Health, we have been conducting training for KFC, Pizza Hut and Ayamas restaurants crew on Food Handlers Courses. Currently, working closely with Akademi Latihan Kebersihan dan Keselamatan Makanan (ALKEM), the number of Certified Trainers for Food Handlers Course has seen a marked increase from 14 in 2006 to 58 this year.

A total of 17,285 new recruits were trained on Food Handlers Course in 2008.

Through the new Safety and Health Committee setup, as part of our belief in enhancing our Safety and Health education throughout the Group, the first Fire Drill in 2008 recorded a total of ten sessions of safety courses conducted from July 2008 onwards. The fire drills involved a total of 470 employees and building tenants at Wisma KFC. The training courses organised in support of the company's focus on Safety & Health activities have resulted in us exceeding our targeted KPI from three man-days training opportunities to 4.1 man-days for each employee.

The year also saw more active participation in Johor Corporation organised training activities. Training programmes attended include the Program Penerapan Budaya, for better cultural appreciation; Intrapreneurship for RasaMas Intrapreneurs certification training modules; and Kursus Peningkatan Perkeranian Profesional, aimed at developing more adept clerical professionals.





The Group also initiated the first Management Associates Programme (MAP) as part of our talent management and succession planning initiative. Targeted at fresh graduates with CGPA of 3.0 and above, the end of the programme saw 10 successful candidates being absorbed as permanent employees of the Group.

November 2008 saw the introduction of yet another skills and managerial enhancement programme. Program Pembangunan Bina Insan Cemerlang was exclusively created for Muslim Restaurant Managers and Support Executives. Seventeen sessions have been lined up for both 2009 and 2010 with the first batch organised for 25 of our Senior Management on 26 and 27 November at AKLI, Kota Tinggi Johor.

The Group also provided industrial training opportunities and platform to 50 students from various educational institutions as part of our corporate social responsibility exercise. The training is part of their graduation requirements and is meant to prepare them for the external work environment.

CHAMPS, the acronym for Cleanliness, Hospitality, Accuracy of Order, Maintenance, Product Quality and Speed of Service remained a corporate mainstay in the training department.

Aimed at dedicated managers and team members, CHAMPS Challenge which is held yearly, helps our committed staff showcase their pride in being the best in their field. From being lauded as the leading Area or District team, teams can then proceed to reach top honours at National Levels and ultimately represent QSR at the Regional CHAMPS Challenge against teams from other Asia Pacific markets. CHAMPS Challenge 2008 which was held in Penang from 8-10 July recognised both National and Regional winners alike.

HALAL COMMITMENT

To ensure *halal* compliance throughout QSR's operations, we administer stringent internal *halal* audit controls over all raw material, purchases, manufacturing processes and packaging within the Group. We conscientiously do our utmost best to prevent 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.

QSR's Shariah Advisory Council, consists of knowledgeable Islamic scholars from reputable institutions in the country, is an impartial body that oversees the adherence to *halal* compliance across the businesses in the Group.

Its main functions include overseeing our internal food management and periodically inspecting factory premises, ingredients and processes before permitting usage of the Halal Development Corporation Malaysia *halal* logo which certifies that the product has passed strict independent *halal* compliance tests. In addition, all imported products as well as raw materials provided by our suppliers also need to be certified *halal* by the appropriate local Islamic food and nutrition certification bodies before they are used in our processing and manufacturing activities.

Due to the strict adherence ascertained by the Shariah Advisory Council at every processing stage, KFCH, our wholly owned subsidiary, is capable of providing the 100% *halal* guarantee. From our poultry farms and hatcheries to the slaughtering, processing, packaging and distribution stages, we strictly observe *halal* compliance in all our relevant business activities.

Because of the due diligence and strict *halal* measures that are put in place, QSR is proud to guarantee that all products under the QSR Group that are manufactured, imported and sold by us are 100% *halal*.

