

REVIEW OF OPERATIONS

All the Group's brands were strengthened in 2010. Restaurant chains were expanded. More customers were served with an even wider range of products. Further initiatives were undertaken to boost revenue and generate cost savings. And behind everything the Group achieved was a motivated and highly-skilled workforce, ready and eager to rise to the challenges of a new decade.

JAMALUDIN BIN MD ALI
MANAGING DIRECTOR



FIRM FOUNDATIONS

QSR's success is built on the foundations of restaurant expansion, customer satisfaction and human capital development. Every year, these foundations are reinforced, strengthening them as our Group grows in size.

A more cautious approach to restaurant expansion was taken in 2010 due to the relative fragility of the region's economic recovery. However, this trend was bucked in Malaysia where Pizza Hut announced the opening of its' 200th restaurant while the KFC Malaysia team proudly reached and moved past the milestone of 500 restaurants nationwide. This is a fantastic achievement and one that the Group hopes to replicate in other countries. In India, the Group was operating seven restaurants by the end of 2010. These were spread across the cities of Pune, Mumbai and Aurangabad. The total included two acquired KFC restaurants in Pune.

Improvements to customer satisfaction are made through friendly service, new products and promotions, better in-store ambience and greater convenience through more stores. This year the Group worked hard to improve all these areas. To keep on growing, the Group must remain relevant to our customers, and our brands must connect with and stimulate them. The Group's reward is their continued patronage.

The most essential resource of any company is its people. And that is why human capital development, the practice of training and empowering the Group's staff with knowledge, continued apace. As investments are made in this area we see a growing number of skilled and talented people rising through the ranks of the Group.



PIZZA HUT MALAYSIA

2010 was a positive year for Pizza Hut Malaysia. Revenue grew by 11.3% to RM411.6 million from RM369.8 million in 2009. Growth can be attributed to an improving economy, the introduction of new products and effective promotional campaigns.

The Group's product and marketing teams were faced with a conundrum in 2010: how to improve upon the previous year's promotional calendar? They answered with a really successful collection of products that drove customer numbers upwards and created a lot of buzz in the media. The year started with a whole new Dine-In menu that offered a new set of delicious appetisers, pastas, desserts and drinks. To get the word out, a series of TV commercials and press adverts were run, supported by in-store POS materials.

Celebrating Chinese New Year has always been a tradition at Pizza Hut Malaysia so the Group turned to a crowd-pleasing favourite – the Golden Fortune Cheesy Crown Pizza – to commemorate this auspicious time of year. The pizza was generously topped with eight tempura prawns, 32 golden crowns of cheese and juicy pineapples. Needless to say it was a big hit. Customer numbers grew and the merits of the pizza became a favourite topic for food bloggers.

Fresh onto restaurant tables in March and April was the Chunky Loaded Pizza. This gigantic feast was made up of savoury sauces, cheese, tortilla strips, nutritious vegetables, juicy meat and a double crust in a 10 layer 'masterpiece of taste'. From May to June the Group launched the Fish King Pizza with its tagline of 'Big on fish! Bigger on value!' The thick pan pizza was topped with eight Alaskan Pollack fish fingers, big juicy pineapple slices and succulent crabsticks.

REVIEW OF OPERATIONS

Malaysian meat lovers had a treat between July and September with the Meaty Deluxe Pizza. Customers could choose from either chicken or beef meatballs which adorned the crust of this carnivores' favourite. All meat was premium grade and had been marinated in aromatic Italian herbs. Other successful promotions that were held during the year included the Cheesy Lava Crust Pizza, Extreme Cheesy 6 and Citarasa Ramadhan.

The promotional calendar was interspersed with two new Sensasi Delight waves (Wave 10 and 11). Sensasi Delight is a range of value meals that typically target lower to lower-middle income groups. Wave 10 was 'Inspired by Mum's Cooking' and introduced four new flavours, namely Ayam Masak Merah Pizza, Garlic Butter Chicken Pizza, Chicken Carbonara Spaghetti and Ayam Masak Merah Rice. During Wave 11 the Group offered pizzas and pastas with 25% extra cheese at no additional cost.

12 new outlets were added to the chain's store portfolio in 2010 bringing the total number of Pizza Hut restaurants operating nationwide to 220.



PIZZA HUT SINGAPORE

Pizza Hut Singapore achieved revenue growth of 8.4% to RM179.9 million from RM166 million from the previous financial year. This favourable performance was evidenced by an upswing in both the Dine-In and Delivery business segments. Success factors included the recovering economy, which led to higher discretionary spending among consumers, coupled with highly successful promotion strategies.

The Group's product and marketing teams had a great year. Their creativity led to a promotional calendar that was a big hit with Singapore's residents and visitors. The year's first promotion was arguably the most important: the Cherry Blossoms Pizza. Chinese New Year (CNY) is one of the most widely celebrated festivals of the year and Singapore's residents love to dine out during the festivities so there is a lot of pressure to get our CNY promotion right. The Cherry Blossom Pizza was lovingly created to bring joy and prosperity to our customers. Six petals formed the pizza, each with its own golden crust stuffed with three flavours of cheese and covered with crispy breadcrumbs topped with diced BBQ chicken, chicken floss and juicy pineapples. It was a great success.

Another highlight was the June launch of the Goooa! Splitzza to coincide with the FIFA World Cup. The male-oriented creation had two different topping flavours on a rectangular field-like deep pan pizza base. The Group also extended its delivery hours so that football fans could enjoy the pizza past midnight.

Other great promotions during the year included the Soft Shell Crabbiatta Pasta which combined Singapore's unofficial national dish, chilli crab, with authentic Italian pasta. From September to November the Group launched the Cheesy 7 Pizza, the successor to the hugely popular Cheesy 6 Pizza. The Cheesy 7 came with a unique blend of Mozzarella, Cheddar, Parmesan, Romano, Monterey Jack, Provolone and Cream Cheese.

Since its launch in 2009, the Hot Dot delivery mechanism has performed well. So much so that the Group put its money where its mouth was to raise awareness of our Hot Dot delivery by offering customers an entire year's worth of free pizza, instead of the usual one, if the pizza they ordered was not hot on arrival. The HOT Guarantee Challenge also served to strengthen consumer confidence in the Group's promise of always-hot-on-delivery pizzas. In addition to external advertising to promote the campaign, internal rallies were held to excite and motivate team members to KEEP IT HOT.

As of 31 December 2010, Pizza Hut Singapore opened two new stores with three closures, bringing the total to 49 operating restaurants.

KFC CAMBODIA

The Group is particularly proud of KFC Cambodia's performance as it took in revenues of RM11.4 million, a 26.7% increase over the previous financial year. This was despite a still uncertain economy and heavy flooding that affected a number of KFC restaurants.



Performance was driven by a concerted effort to increase awareness of KFC among the public. In-store games and colouring contests were held to drive traffic; activity stalls were built in malls to attract attention; and KFC-branded concerts were organised to get the message out that KFC was an 'in' place for youth to hang out.

In terms of product marketing and promotions, Combos were a big hit in 2010. The Pop Combo, Waikiki Combo and Value Meal Combo all proved popular among the general public. The big winner was the Khmer New Year Combo, which achieved a total sales mix of 23% and sales of USD\$114,000.

As of 31 December 2010, KFC Cambodia had opened three new stores for the year, bringing the total store count to 10 nationwide.

KFC HOLDINGS (MALAYSIA) BHD (KFCH)

The economic stability enjoyed by KFCH during the year has resulted in a 9.8% rise in revenue to RM2,522 million, up from RM2,297.4 million in 2009. The KFC Restaurants segment registered growth of 9.5% to RM1,888.1 million, attributable to a wider store network, effective marketing and promotion activities. The Integrated Poultry segment achieved a revenue of RM533.4 million, a 10.2% increase on the previous year.

REVIEW OF OPERATIONS

KFC MALAYSIA

KFC Malaysia reported record amounts of revenue in 2010 at RM1,496.9 million, a 9.6% increase from 2009. The revenue would have been slightly higher had it not been for 47 outlets being temporarily closed for image enhancements.

The Group's product and marketing teams launched some great new promotions during the year. The first three activities were designed to capture a larger segment of Malaysia's youth market (teens and young adults). It began with the re-launch of the Zinger Tower on 4 January. Already a popular meal choice, the Zinger Tower was given a special twist by adding a new chilli lime sauce to appeal to a younger market. A second quarter promotion called KFC Showtime Box Meal – Iron Man also boosted our brand with the younger segment, which identified with the major Hollywood movie that was a big hit in Malaysia. In July the Group launched the KFC Toasted Pocketful, another winner with the youth segment. The Toasted Pocketful was an attractive innovation that contained a chicken fillet, tortilla chips, salad and a crispy piece of chicken crisp all bundled up in a toasted tortilla wrap.

In March a major thematic campaign was launched to further build top-of-mind brand recall. The new theme, "New Discoveries, Classic Taste" touched on the "New Discoveries" in KFC while customers were still familiar with the Colonel's 11 herbs and spices. Secondary benefits of the campaign were the differentiation of KFC from competitor brands and the enhancement of KFC's brand position as Malaysia's premier quick service restaurant. The Group introduced Colonel's Royal Briyani Combo in conjunction with the thematic campaign as a tactical initiative to drive transactions.



Other promotions through the year included KFC Hot & Spicy Shrimp, a tasty alternative source of protein that was introduced to drive transactions during the usually quiet period of Ramadhan; the Cheesy Zinger Crunch, released to capture a larger share of the burger market segment; and the ever popular Jom Jimat – Low Price Point – Snack Box targeted at consumers looking for affordable, value-for-money meals.

To better serve the Group's bottom line, sauce dispensers were introduced across 152 restaurants in the Klang Valley as well as major towns and cities in the states of Penang, Johor Bahru, Kuantan and Perak. The cost-controlling initiative was rolled out in Q4 2010 and has resulted in a noticeable reduction in cost. Plans for a nationwide rollout are being devised.

The Group's ongoing restaurant image-enhancement programme continued with 47 restaurants being upgraded to improve ambience. The programme is in line with the Group's commitment to provide the best possible brand experience for the Group's customers.

As of 31 December 2010, KFC Malaysia had opened 40 new outlets bringing the total to 515 restaurants nationwide.

KFC SINGAPORE

Singapore's improving economy and increased levels of consumer spending helped KFC Singapore to achieve a record high revenue of RM368.6 million, a 7.6% or RM25.9 million increase on the previous year. However, the economic recovery also resulted in a reduction in the Government's Jobs Credit Scheme cash grant and the cessation of rental rebates, worth a total of RM15 million.

This year's strong performance was helped by rising consumer awareness and uptake of our breakfast segment, where sales jumped 41.3%. Our delivery service also picked up markedly with a RM5.5 million increase in sales, about 11.5% rise from 2009. Day part segment achieved sales figures of RM13.7 million during the year, helped by the promotion of oven baked products (Egg Tarts and Roasta Burger).

At the beginning of the year, when economic recovery was still uncertain, the KFC Singapore team launched a three week campaign to promote the Ultimate Value Box. Each box meal came with a combination of a piece of chicken, a choice of one of KFC's signature burgers (Zinger, Shrooms Burger and O.R. Fillet Burger), a regular Mashed Potato and a refreshing Pepsi. This value proposition also helped consumers as it fell between the Christmas and Chinese New Year festive seasons when discretionary spending is limited.

During Chinese New Year, KFC Singapore launched the KFC Egg Tart, freshly baked Portuguese egg tarts that proved to be a big hit with customers. It was also a landmark for KFC Singapore as it marked the first step into the non-fried arena. Each box of six egg tarts was decorated with traditional Chinese New Year motifs and was often given out by consumers as gifts for families, friends and office mates. So popular was the promotion that the KFC Egg Tart has since become a permanent menu item.

Another one for the history books was the October launch of the KFC Roasta Burger, a tender chicken burger that came with a specially-marinated oven-roasted chicken fillet topped with a signature sauce, crunchy lettuce, and tangy tomatoes in an oat-bran dusted bun. KFC's first ever oven-roasted burger was launched to address the issue of declining visit frequency to KFC and was launched in 67 of our 77 stores. Supporting the launch was a multipronged media campaign involving TVCs, press ads, truck displays, social media and even holograms.



Other product and promotional highlights included a "Win a pair of return Air tickets to Bangkok daily" competition used to promote the breakfast and delivery segments; the Ole Ole Box and Ole Ole Feast, two types of packs that were marketed to football fans during the FIFA World Cup; and later in the year the return of an old favourite: KFC Black Pepper Chicken.

As of 31 December 2010, KFC Singapore had opened 3 new restaurants with three closures, bringing the total number of stores across the island at 77.

KFC BRUNEI

In line with Brunei's improving economy KFC Brunei's year-end revenue increased to RM16.3 million, a 5.7% growth on 2009's figure.

A successful year of promotions including Hot & Spicy Shrimps, Jom Jimat Afternoon Cravers and the Megamix Crunch helped to draw in additional revenue in 2010. KFC Brunei also worked hard to drive sales through site selling at a variety of events and in-store parties. Sales from parties and catering had improved while voucher sales dipped slightly after the Brunei Government's new credit card regulations were introduced.

As of 31 December 2010, the store count in Brunei remained consistent with previous year at 9 restaurants nationwide.

REVIEW OF OPERATIONS

KFC INDIA

The Group is encouraged by the results of the first year of operations of KFC India. A total of RM6.2 million in revenue was generated from KFC restaurants operating in the cities of Mumbai, Pune and Aurangabad.

Expanding the Group's restaurant chain in India presents the Group with an opportunity to capitalise on a lucrative revenue stream. The country's sizeable population density, especially within cities, coupled with a growing middle class eager to frequent Western restaurants, makes the Group venture into India particularly relevant to the Group's future growth.

One of the challenges the Group met during the year was to provide a wide selection of choices for vegetarians, who make up more than 40% of the population. The products the Group offered for this market segment included the Veggie Feast, Veg Thali, Chana Snacker, Veg Fingers, Veg Zinger and Rizo-Rice. Moreover, all the Group's vegetarian products are prepared in separate kitchens to assure customers that meals will contain no traces of meat. These efforts were well received and the perception of KFC is shifting towards a more vegetarian-friendly restaurant chain.

As of 31 December 2010, KFC India had opened 5 new outlets; 3 in Mumbai and one each in Pune and Aurangabad, with another 2 acquired outlets in Pune, resulting in a total of 7 operating restaurants.

RASAMAS & KEDAI AYAMAS

Reversing the trend of the previous year, revenue at RasaMas grew to RM24.9 million in 2010 a 7% increase on the previous year.



RasaMas launched a range of new products and promotions during the year including the Roaster Lada, the Warisan Roaster and the RasaMas Muhibah Roaster. These three popular roasters all featured on the Syoknya RasaMas competition held on TV3 in the previous year.

As of 31 December 2010, a total of 42 RasaMas stores were operating across Malaysia and Brunei.

Kedai Ayamias also had a positive year in terms of revenue, resulting in a 36% increase to RM55.1 million, up from RM40.5 million in previous year.

The increase in revenue was driven by network expansion and an aggressive programme of product releases. Many new offerings were launched onto the market including Poppers, Chicken Donut, Premium Jumbo Drumsticks and Chicken Satay with Peanut Sauce. The new releases were in line with the Ayamias strategy for their products to become ubiquitous in fridges and freezers across the country.

As of 31 December 2010, 14 new Kedai Ayamias stores were opened bringing the total to 49 across Malaysia.

INTEGRATED POULTRY OPERATIONS

An impressive year for the Group's integrated poultry segment led to a revenue increase of 7% to RM1,294 million, including inter-company sales.

Revenue from AFCSB processing plants totalled RM710.5 million, a 3.5% increase from 2009. The rise was primarily due to higher volumes of orders from its expanding restaurant networks.

Turnover for the Feedmill division increased by 8.5% for the year. Manufacturing capacity tonnage also increased to 136,000 metric tonnes against 131,000 metric tonnes in the previous year, due to an increase in the Group's chicken requirements. The positive results were somewhat tampered by a 15%-20% jump in commodity prices in Q4, a development that the Group predicts will continue in 2011 due to unfavourable weather conditions in commodity-producing countries.

At the Farm & Hatchery level, production of Day Old Chicks and Hatchable Eggs remained relatively consistent with 2009 levels due to both operating at full capacity. An initiative to upgrade a number of breeder houses from deep litter flooring systems to 2/3 slats flooring was 60% completed during the year, with the balance expected to be completed in 2011. The upgrade will enhance productivity at the breeder houses.

KFC Marketing increased its revenue by 10.7% to RM221.4 million for the year. The revenue growth was attributable to higher domestic open market sales of RM16.1 million and higher export sales of RM5.3 million, a 25.9% rise mainly due to increasing demand from Singapore and Brunei. KFC Marketing's "Ayamaz Roti Impit" hot dog kiosk business also contributed positively to the Group, both in revenue and CSR. 60 Roti Impit stalls were opened for business in universities, colleges and polytechnics around Peninsular Malaysia.



The year also saw KFC Marketing diversifying its range of products to supermarkets and shops. The right to distribute frozen potato products, frozen vegetables, pasta and tomato-based products under Leggo's brand and frozen fish-based products under I&J brand were acquired from the Simplot Company (USA). In addition, KFC Marketing acquired the rights to distribute the popular Pokka of Japan room temperature beverages within the Klang Valley. Four new Bakers' Street products were also launched, namely Premium Chicken Pie, Premium Curry Chicken Pie, Kasturi and Donat.

ANCILLARY

The Group's ancillary operations continued to register turnover growth in the year.

SAUCE-MANUFACTURING

Region Food Industries Sdn Bhd (RFI), the sauces-manufacturing arm of the Group, reported revenue of RM89.9 million for the year, an increase of 15.8% over the previous year. 20% growth in domestic open market sales accounted for 34.8% of the turnover while the export market grew by 12%.

The Group's long term plans for RFI to become one of Asia's leading sauce manufacturers came a step closer to fruition with the production capacity of its plant rising to approximately 20,000 metric tonnes, up from about 17,800 metric tonnes in 2009. A newly-upgraded mayonnaise plant was also completed which will allow RFI to capture a larger share of the growing mayo market.

REVIEW OF OPERATIONS

BAKERY & COMMISSARY

Production capacity in the Bakery division was increased to meet demand from the Group's restaurant segment. About 72 million buns were produced in 2010 while 6 new products were launched over the year, with 4 supplied to internal divisions and 2 ordered by external customers.

The Bakery's operations were also recertified as Hazard Analysis Critical Control Point (HACCP) compliant. In addition, the Bakery division was awarded the ISO9001-2008 (Quality Management System) certification.

At the Commissary division, production of coleslaw saw a slight increase in 2010 to 1.96 million packets, a 5% increase over the previous year. Operational improvements were made at the production plant in November 2010 when the secondary stage of the pre-process floor at the Coleslaw Line was upgraded.

KFCH INTERNATIONAL COLLEGE

Currently, approximately 200 students are undertaking studies at the Puchong campus of KFCH College. The college's syllabus covers Hotel Management, Business Administration, Early Childhood Education, Information Technology and Electrical and Electronics Engineering. A number of graduating students will be offered employment within the Group. Upgrading works are underway at the campus which will result in sweeping infrastructural improvements, while a new syllabus more closely tied into the Group's core business is under review from the Malaysian Qualifications Agency (MQA).



HUMAN CAPITAL DEVELOPMENT

The Group attaches great importance to developing the abilities of its employees. Human Resources teams across the Group and its subsidiaries run a range of programmes to achieve this, and the programmes cover every level of the workforce, from senior management to crew members. In 2010 the Group invested approximately RM7.3 million in training and development. Employees received an average of 54 hours of training per person. As of 31 December 2010 the Group employed about 31,000 staff.

To help employees transition upwards within the Group, the Human Resources Department of QSR created the Preparation & Enhancement Programme (PREP). The programme serves to complement an existing initiative, namely Career Progression Training Needs. Employees are trained in Finance & Basic Accounting, Employment Law, Business Communication, Basics on Occupational Safety & Health and Management & Supervisory Skills. Every employee in the 2010 intake successfully completed the programme.

Our Group's ongoing Education Sponsorship Programme is designed as a springboard for educational achievement. 17 employees were selected for the programme in 2010, of whom one is pursuing Executive Masters in Business Administration. The other 16 are pursuing Diplomas and Executives in various studies, including short certification courses such as Safety & Health Officer programmes. QSR invested about RM134,000 on the Education Sponsorship Programme over the year, from an annual allocation of RM1 million.

Adherence to Occupational Health and Safety (OSH) standards is of paramount concern to the Group. Besides the obvious reason of ensuring workers' safety, OSH reduces business costs, including insurance premiums and business disruption; increases motivation and the commitment of employees to the business; reduces absenteeism and increases the productivity of workers; and enhances our "brand image" and "brand value" as a socially responsible business.

To boost the Group's OSH credentials we carried out a range of training programmes. At the restaurant level, employees underwent our Hazard Identification, Risk Assessment and Risk Control (HIRARC) programme which imparts knowledge in these three areas. Emergency Response Teams (ERT) were drilled on first aid techniques and equipment usage. At the farm and manufacturing level, managers and supervisors underwent stringent chemical handling training. Employees were also trained to identify and react to issues of excessive sound and noise that can seriously damage the hearing of those exposed for prolonged periods.

The fourth annual quality convention of JCorp's Hari Mekar 2010, proved as popular as ever with contestants. Hari Mekar is designed to drive performance and efficiency.

In order to promote and inculcate a quality culture in the Group, QSR has introduced an incentive scheme for employees in which monetary rewards are given out for identifying possible cost-saving projects. A total of 16 of these projects have been implemented, resulting in cost savings of about RM1.56 million for 12 consecutive months calculated from the date of implementation.

HALAL COMMITMENT

QSR and its subsidiary companies provide strict *halal*-compliance guarantees in all our markets. To help the Group achieve compliance, we adhere to a stringent set of controls across the entire chain of our food manufacturing processes, from raw materials procurement and manufacturing to packaging, storage, transportation and utensils. Imported products must be *halal*-certified within their source country, and foreign suppliers are regularly inspected by officials from the Group's Shariah Advisory Council.



Membership of our Shariah Advisory Council is confined to prominent scholars from Islamic institutions. The council verifies QSR's *halal* compliance after scrutinising every part of the food chain. Ingredients are checked, equipment inspected, restaurants and factories are toured and processes are reviewed. Only after the council is satisfied will the Department of Islamic Development Malaysia (JAKIM) be called in to repeat the process. Our products are then branded by JAKIM as being fully *halal*-compliant.

Assisting the Shariah Advisory Council at ground level is the Group's internal Shariah & Halal Department. The department is responsible for monitoring all *halal* operations in accordance with JAKIM's *halal* certification. Other activities performed by the team include the management of *halal* certifications, the *halal* awareness training of internal staff and the monitoring of external suppliers. The Shariah & Halal Department reports all its findings and activities directly to the Shariah Advisory Council.

LOOKING FORWARD

At the end of a year of exceptional operational performance across the board, Group morale is high as we look forward with excitement and determination to achieving renewed progress in the year ahead. Given the Group's strong fundamentals and proven track record the Group expects to see further growth throughout our operations and throughout the Group's markets.