

CORPORATE STATEMENT

The Group has remained



From Left to Right

AHAMAD MOHAMAD
Deputy Chairman

KAMARUZZAMAN ABU KASSIM
Chairman

JAMALUDIN MD ALI
Managing Director

~

true to its fundamentals

FELLOW SHAREHOLDERS

2010 was a stellar year for KFC Holdings (Malaysia) Bhd Group (KFCH). Record-breaking financial results were posted on the back of region-wide restaurant network expansion, far-sighted strategic initiatives, methodical cost controls and – above all – an ever-growing demand for the Group's products. A general improvement in the economies of the countries where the Group operates, added further brightness to the picture so that, today, the Group is extremely well placed for a new decade of achievements.

It therefore gives us great pleasure to present the corporate statement of KFCH for the financial year ended 31 December 2010.



REGIONAL ECONOMIC REVIEW

The year under review was very favourable for KFCH. Positive growth conditions in the ASEAN economies have served to improve consumer confidence leading to an increase in spending. Looking further afield, nations with advanced economies have also been recovering from the effects of the global financial crisis, albeit at a slower pace.

The Malaysian economy performed with gusto in 2010, with a GDP growth of 7.2% for the year, a significant achievement when compared with the economic contraction it suffered in the previous year. Attributable factors included sustained expansion in domestic demand and robust growth in external demand. Most major economic sectors reported expansion, with the services and manufacturing sectors achieving particularly strong growth of 6.8% and 11.4% respectively.

Singapore's economy was resurgent in 2010. GDP growth was an impressive 14.5% for the year. Causes include strong expansion in the manufacturing sector which grew by 28.2% compared to 2009, resilient exports and excellent performance in tourism-related sectors, bolstered by two new casino resorts.

India's economy continued to expand, achieving a 8.3% GDP growth for the year, due mostly to strong domestic demand. More importantly, growth was broad-based covering all three major sectors: agriculture, manufacturing and services. However, warning signs were present through the year in the shape of high food inflation and the country's increasing fiscal deficit.

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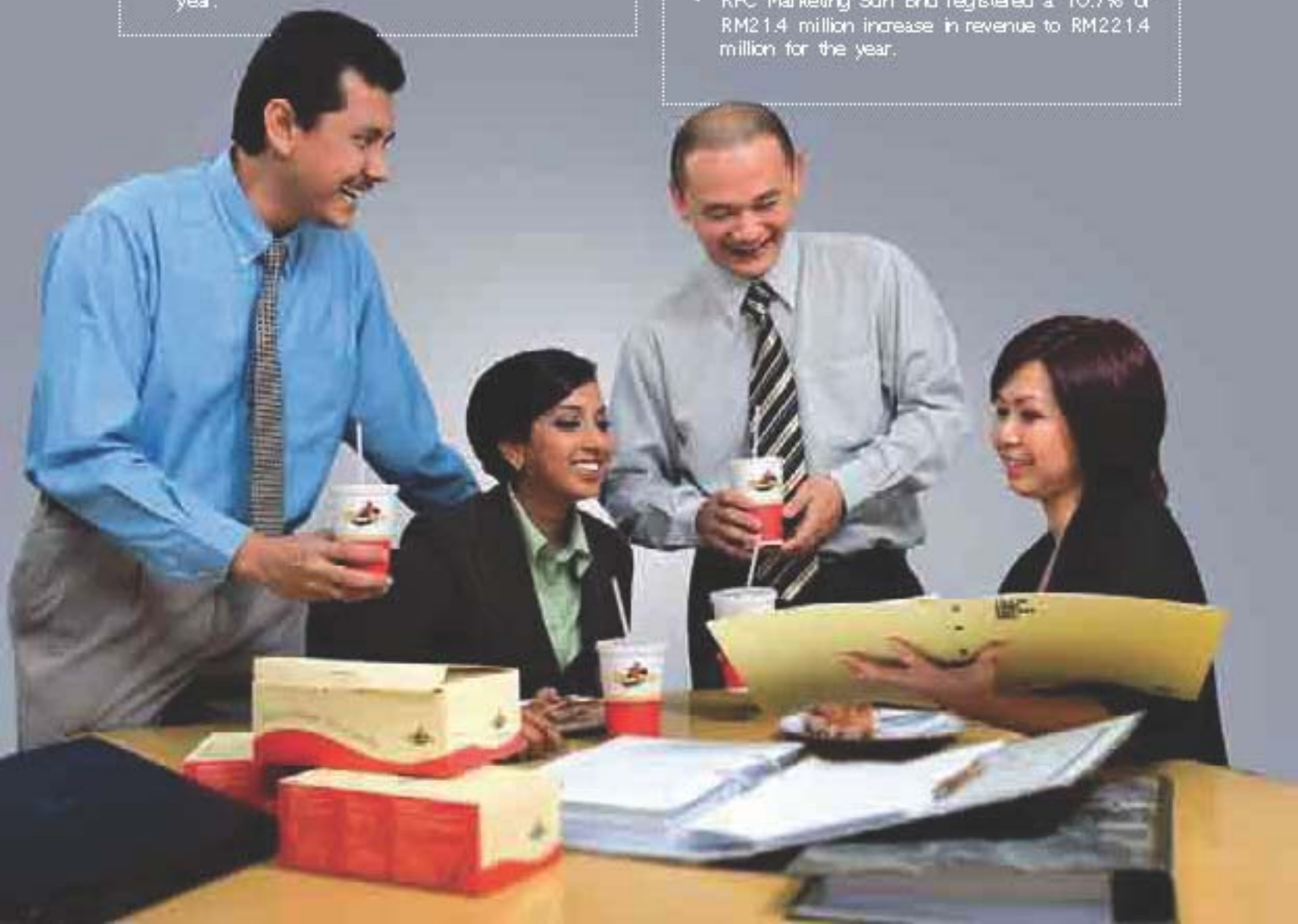
2010 FINANCIAL HIGHLIGHTS

KFCH had an impressive year culminating in a RM224.9 million increase in revenue. Total revenue for the year amounted to RM2,522.3 million, a 9.8% increase on the RM2,297.4 million achieved in 2009. Profit before tax jumped 16.7% to RM221.8 million.

The key financial highlights for 2010 include:

- Revenue at KFC Restaurants (region-wide) climbed 9.5% (RM164.4 million) to RM1,888.1 million.
- KFC Malaysia achieved a revenue of RM1,496.9 million, a 9.6% increase over the previous year.

- A 7.6% or RM25.9 million increase in revenue was recorded at KFC Singapore where revenue totalled RM368.6 million for the year.
- KFC Brunei increased its revenue to RM16.3 million, a 5.7% growth on 2009's figures.
- An encouraging first year of operations for KFC India generated RM6.2 million of revenue.
- Major corporate clients engaged KFC Events Sdn Bhd (KFC Events) for site selling and voucher marketing, contributing almost RM35 million in sales.
- Revenue at the Group's Integrated Poultry segment climbed to RM533.4 million, a 10.2% increase over the previous year.
- KFC Marketing Sdn Bhd registered a 10.7% or RM21.4 million increase in revenue to RM221.4 million for the year.





SYNOPSIS OF IMPROVEMENTS

A series of strategic initiatives were undertaken in 2010 to better improve the Group's future growth. Highlights included the following:

- KFCH expanded its network by opening 40 new restaurants in Malaysia and seven in India.
- Extended hours and breakfast were introduced in 197 stores of the KFC network leading to net incremental sales of RM6.8 million for the year.
- KFC Malaysia launched a series of promotions to capture a larger portion of the youth market. These included a new Zinger Tower, the KFC Showtime Box Meal – Iron Man and the KFC Toasted Poolletful.
- KFC Singapore generated a lot of buzz with the launch of the Ole Ole Feast campaign which ran during the FIFA World Cup.
- 47 restaurants in the KFC network underwent image enhancement works to modernise their appeal and improve customer experience.
- KFC Marketing launched six new chicken products under the Ayamias brand including Poppers (two variants), Black Pepper Crispy Fried Chicken, Premium Jumbo Drummets, Chicken Satay with Peanut Sauce and Chicken Donut.
- KFC Marketing acquired the rights to distribute sauces and dressings under the Kewpie of Japan brand. They also acquired the rights to distribute various products under the Leggo brand and frozen fish-based products under the K&J brand, both of which fall under the purview of the Simplot Company.
- 14 new Kedai Ayamias stores opened across Malaysia.
- Region Food Industries Sdn Bhd (RFI) opened a new mayonnaise plant with a production capacity of 200 MT/month in November 2010.



DIVIDENDS

The Group declared a total interim dividend of 15.5 sen less tax of 25% per ordinary share for the financial year ended 31 December 2010. No final dividend was proposed for the current financial year 2010.

CORPORATE RESTRUCTURING – IMPROVING LIQUIDITY OF KFCH SHARES

In order to enhance the liquidity and increase the marketability of KFCH shares, the Group's shareholders agreed to a share split that resulted in each ordinary share of RM1.00 being subdivided into two ordinary shares of RM0.50 each. In conjunction with this exercise, a one-for-one bonus issue was effected whereby 396,549,364 new ordinary shares of RM0.50 each were issued. In addition 31,723,949 new free warrants were issued on the basis of one free warrant for every 25 existing ordinary shares of RM0.50 each held after the share split and bonus issue.

This strategic move, which took place on 24 August 2010, will encourage a wider uptake by public shareholders in the Group. The issued and paid-up share capital of KFCH was previously RM198,274,682 comprising 198,274,682 ordinary shares of RM1.00 each, and as at 31 December 2010, the issued and paid-up share capital was RM396,615,492 comprising 793,230,984 shares of RM0.50 each.

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DEVELOPMENTS TO ENHANCE OPERATIONS

KFCH improves its performance by seeking out and embracing change. To do this the Group analyses performances to identify areas for improvement and then lays the groundwork for future developments that will strengthen operations. A comprehensive list of initiatives and improvements was instigated in 2010 that will benefit the Group now and in the years to come.

In 2009, a regionalisation programme was introduced in the Northern and East Malaysia Regions. In 2010 the regionalisation programme was rolled out to encompass the Southern Region, East Coast Region, and two Central Regions. The purpose of the regionalisation programme is to empower regional entities to drive better restaurant performance, derive cost control benefits, increase operational efficiency and offer more career enhancement opportunities.

A major thematic campaign called 'New Discoveries, Classic Taste' was unveiled by KFC Malaysia in March 2010. The objective of the campaign was to build our brand's top-of-mind and to further differentiate the KFC brand from competitors while enhancing its strong positioning. In conjunction with the new thematic campaign, the Colonel's Royal Briyani Combo tactical campaign was launched to drive transactions.

KFC Singapore ran a series of imaginative product and promotional campaigns during the year to enhance performance. The male-targeted Ole Ole Box and Ole Ole Feast were launched in conjunction with the FIFA World Cup to provide football lovers with a themed meal treat.

Similarly, KFC Brunei attracted a greater number of customers by launching products such as Black Pepper Crunch, Hot & Spicy Shrimps and the price-friendly Jimat Afternoon Cravers. Customers of KFC Brunei were also treated to new products such as the Kombo Pesta



Bola, Toasted Pocketful, Shrimp Hearties and the re-imaged Zinger Tower Crunch. A concerted effort to increase sales while promoting the KFC brand was led by site selling activities at expos, consumer fairs, sporting events and more. Although Brunei has a small population, disposable income is comparatively large against other countries in the region, making prospects for future growth very encouraging.

In line with the Group's vision of becoming the leading integrated food service group in the Asia Pacific region, KFCH has built a strong presence in India by opening seven restaurants across the cities of Mumbai, Pune and Aurangabad. Two of the restaurants in Pune were brought under KFC India through the acquisition of Kernel Foods Pvt Ltd, previously the sole KFC franchisee in the city, for a total investment of RM2.75 million. These strategic locations provide access to sizeable population bases of more than 26 million people, and a growing, affluent middle-class clientele. To appeal to the large vegetarian segment of the Indian population, KFC India developed a series of products to cater to local tastes including the Veg Zinger, Veggie Feast and Corn On The Cob, which supported ever popular staples like fries and mashed potato.

2010 was a successful year for KFC Events, the voucher, catering and site-selling arm of KFCH. Aggressive marketing by the recently incorporated company led to transactions with a number of high profile corporate customers who engaged KFC Events to supply vouchers for their sales and marketing initiatives and to cater at large events.

In tandem with the growth of KFCH's restaurant business came escalating demand for chicken products. To increase broiler supply to the Group's processing plants,





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KFCH has constructed modern broiler farms in Sedenak, Johor with a total capacity of one million birds per cycle or six million birds per year. The Group is also actively pursuing opportunities to boost production of Day Old Chicks.

In January 2010, KFCH acquired Paramount International College with plans to develop it into one of the leading private educational institutions in Asia. Now renamed KFCH International College (KFCH College), the educational seat is quickly being upgraded. At the Puchong campus, additional infrastructure is being constructed and skilled lecturers and support staff are being recruited into the faculty. An entirely new campus is being built in Johor which the Group hopes will serve as Malaysia's premier educational institution specialising in restaurant management, culinary arts, hotel management, tourism management and event management. The Group is currently awaiting approval for the new curriculum from the Malaysian Qualifications Agency (MQA).

RM25 million will be invested for the acquisition and refurbishment of the existing campus in Puchong as well as for initial renovations of the new campus in Bandar Dato' Onn. The Johor campus will be located within the new Bandar Dato' Onn township, a RM3.5 billion commercial and residential development strategically located near the heart of Johor Bahru. The campus will be built in three phases and is scheduled for completion in 2015. Once fully operational, the Johor campus will have an intake capacity of 12,000 students per year.

The Group also entered into a Memorandum of Understanding (MOU) with the Federal Land Development Authority (FELDA) and Majlis Belia Felda Malaysia that will see Felda youth undergo training and entrepreneurial development at KFCH College. These Felda students will be offered employment opportunities within the Group after their periods of study are completed. Looking further afield, the Group is actively pursuing opportunities to form similar affiliations with other governmental and private institutions to further increase the student body of the KFCH College.



Another worthy initiative is the progress of Usahawan Bistari Ayamas Sdn Bhd (UBASB). Developed to appeal to the lower income segment of Malaysia's market, the company provides operators with the equipment and training they need to sell Ayamas Pek Jimat products from their homes. This win-win initiative gives operators a portion of the proceeds from everything they sell and enables the company to reach a segment of the market previously difficult to reach on a consistent basis. UBASB's inherent Corporate Social Responsibility (CSR) characteristics has led the Ministry of International Trade & Industry (MITI) to allocate a grant worth RM260,000 for 49 of the most needy operators. As of December 2010 there were 249 operators country-wide.

This year, the Group expanded its 'Ayamaz Roti Inpit' entrepreneurial initiative, operating under the Ayamazz Sdn Bhd banner. A Roti Inpit kiosk is a hot dog push cart stocked with Ayamas products which is operated around universities, colleges and polytechnics by young entrepreneurs who show a desire to pursue a career in business. In 2010, 60 Roti Inpit stalls were opened for business in educational seats around Peninsular Malaysia. The Roti Inpit initiative also bolsters the Group's CSR efforts by offering students business training and employment opportunities.

After 22 years of brand building exclusively in Peninsular Malaysia, the Group is pushing ahead with plans to expand Kedai Ayamas' operations into Singapore and Brunei Darussalam. The strategic decision was taken after research revealed that no similar competitors exist in these markets. In Sabah, Kedai Ayamas has formed a Joint Venture (JV) with Rastamas Sdn Bhd (Rastamas), one of the state's leading poultry processors, which will see Kedai Ayamas products sold across retail outlets, hotels, restaurants and the open market in Sabah, using poultry supplied by Rastamas. The move will also pave the way for Kedai Ayamas to open more outlets throughout the state.

ACCELERATING PERFORMANCE EXCELLENCE

KFCH carries out a programme employing modern performance tools to increase the skills and efficiency of staff from all of the Group's companies. The first of these is Pedoman, Johor Corporation's (JCorp) internally-developed annual event. Pedoman brings together restaurant managers, senior management and directors for a day of discussions, presentations, strategy sessions and reviews. The event has an informal tone, and participants are encouraged to be frank and honest in their views. The spirit of Pedoman bolsters attendees' morale and equips them to identify and improve areas that fall under their purview.

KFCH has developed a framework of Key Performance Indicators (KPIs) which are used to boost Group performance. In their basic form the Group relies on KPIs to benchmark the performance of organisational units and members of staff. The Group also uses them to add value to difficult-to-measure activities such as leadership development, service, and customer satisfaction. As well as being a monitoring tool, the KPI methodology has proven to be exceptionally useful in quantifying new processes which are implemented by the Group and its subsidiaries.

In addition, management teams have adopted the Balanced Score Card methodology as a framework for strategic management and control, particularly in the restaurants segment. It also helps identify areas where performance needs to be improved and set parameters for that improvement. Other benefits derived from the Balanced Score Card methodology include the ability to better align strategic goals across the whole Group and strengthen existing management processes, ensuring it is focused on achieving performance improvements.

A highlight of the Group's calendar is Hari Mekar, a collaborative event organised by JCorp that brings staff together with the aim of improving performance. Held in December, Hari Mekar saw attendees participating in lectures, discussions and training sessions. The event has been developed into a lynchpin forum to inculcate the Group's shared values and to achieve buy-in for strategic initiatives. It also serves as a platform for staff from various divisions to socialise and build relationships.

Hari Mekar is more than just a learning tool. The event also incorporates a competition that sees JCorp and its subsidiaries battle it out to win prizes in three categories: Innovative Creative Circle (ICC), Cempaka (Suggestions & Ideas) and Poster Design. 14 teams from KFCH participated across the three categories. The overall winner of the event – for the fourth consecutive year – was KFCH's parent company, QSR.

IMPROVING GOVERNANCE

Good corporate governance and the improvement of the Group's corporate governance culture is a matter of high importance to the board of directors. In early 2011, KFCH set up a Remuneration & Nomination committee to ensure transparency to both employees and the wider stakeholder community.

KFCH's good reputation and the trust placed in it by customers, investors, workforce and the general public hinge on the proper behaviour of all the Group's employees, from every level of the organisation. KFCH rigorously upholds, and will continue to uphold, a commitment to stakeholders and the communities in which the Group operates.



COMMITTED TO CORPORATE SOCIAL RESPONSIBILITY

The Group's CSR initiatives come under the purview of Yayasan Amal Bistari (YAB), a corporate foundation which centralises all CSR programmes. Based on the Group's six CSR pillars – championing the *halal* cause, improving educational standards, encouraging entrepreneurial development, promoting a healthy lifestyle, fostering a sense of national unity, and helping the less fortunate – YAB conducted a range of initiatives to positively impact stakeholders.

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Festive occasions are always special times to engage in CSR initiatives. This year, AFCSB hosted a Majlis Berbuka Puasa (breaking of fast) to demonstrate its appreciation to the local community around the Bandar Tenggara poultry processing plant. 2,500 guests including more than 220 underprivileged children and their custodians from several homes and orphanages were treated to a wide selection of food and drinks from KFCH companies.

KFCH partnered with Yum! Brands Inc and the World Food Programme to help them in their mission to fight hunger in every part of the world. Product and marketing teams put their heads together to design a collateral that customers could purchase when they visited KFC restaurants. The result was a one-off specially designed pack containing a notepad and pen which was made available at KFC outlets throughout the country.

The fight against hunger featured in the CSR programme a second time later in the year when employees from the Group contributed over RM1.5 million to the World Hunger Relief Fund. Staff from all levels of the business plus their families and members of the public took part in the annual 'Be The Movement' charity walk, a five kilometre trek that started and finished in front of the Palace of Justice in Putrajaya.

KFC Malaysia carried out its 46th-49th Projek Penyayang events in 2010, bringing happiness, festive cheer and lots of food, drink and goodies to over 12,800 less fortunate members of society from more than 150 charity homes across the country. A special party was held that brought together over 200 people from an assortment of charity homes to commemorate the annual event. The Group also donated money from KFC's Tabung Penyayang Fund to the homes.



In 2010 the Group accepted an invitation to support the Children’s Safety Campaign initiative held as part of the International Children’s Day celebration. On that day 3,200 set meals and goodie bags were provided to the event’s young participants.

As part of the Group’s drive to promote a healthy lifestyle among the nation’s young people, KFCH returned as title sponsor for the 2nd annual KFC Lumut Open Regatta. A total of 238 sailors from 25 teams competed under sunny skies, vying for the chance to win the exciting event. Several international teams made the journey to Lumut to participate in the regatta. These included the Tamil Nadu Yacht Club, Royal Madras Yacht Club, Hebe Haven Club Hong Kong as well as Malaysia’s National Paralympics Team.

Over in Brunei the KFC Brunei team participated in a special CSR initiative in conjunction with His Majesty the Sultan of Brunei’s birthday. A visit to the Pusat Ehsan children’s centre was organised in which the team brought lots of finger lickin’ good treats for the kids as well as a charitable donation of B\$3,000 which was presented to the centre’s management team.

The playoff rounds of the annual Catur Bistari Challenge took place in various states throughout October and November. Designed in line with the Group’s CSR pillar of encouraging entrepreneurial development, the Catur Bistari board game provides a platform for youngsters to test their business skills through a challenging cycle of asset and wealth accumulation tasks. Players are rewarded for entrepreneurial flair and competition gets stiffer the further they progress through the competition. The grand finals took place on 11 January 2011 at the Putrajaya International Convention Centre.



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AWARDS & RECOGNITION
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KFCH and its subsidiaries won a number of awards for their performance during 2010.

KFC was bestowed the “Yum! Reel Advertising Excellence Award (‘New Discoveries’)” from Yum! Asia Franchise Pte Ltd (Yum! Asia) and the “Reader’s Digest Most Trusted Brands” award from Reader’s Digest. It was also honoured with the “Silver Award” at the Putra Brand Awards, an annual event organised by the Association of Accredited Advertising Agents Malaysia as well as the “Best Brands in Food and Beverage – Fried Chicken” 2009/2010 award from the BrandLaureate.

A great year for Ayamas was cemented by winning the prestigious 2009/2010 BrandLaureate award for “Best Brands Product Branding – Consumer Chicken Based Products” category. They were also the proud recipients of two awards from the Malaysia Women’s Weekly magazine’s Domestic Diva Awards 2010 Best in Home & Food. Ayamas Golden Nuggets won “Straight From The Fridge: Best Ready-To-Fry-Frozen Meat”, and Ayamas Premium Cheese Chicken Frankfurters won under the “Best Processed Meat” category.

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**2011 ENHANCEMENTS
PREVIEW**
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Continued economic recovery is being predicted for the ASEAN region by the International Monetary Fund (IMF) and the World Bank, though



at more modest rates of growth than were experienced during 2010. Further afield, advanced economies such as those in Europe and the US will also improve, albeit at a more gradual pace than emerging and developing economies. The Malaysian Institute of Economic Research (MIER) has forecasted a 5.2% rise in GDP for 2011 – assisted by strong domestic demand stimulated by supportive Government policy measures. However, growth will be somewhat tempered by structural impediments in net exports.

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KFCH's board-approved five year plan will serve to guide the Group's progress in 2011. This holistic strategy will see an increase in market share through the opening of new restaurants across the territories in which the Group operates, the aggressive marketing of new products and promotions to drive transactions and brand awareness, and the delivery of exceptional customer service at every opportunity. KFCH's adherence to the five year plan will move the Group closer to its goal of becoming the leading integrated food services group in the Asia-Pacific region.

A new approach to restaurant expansion in Malaysia will be adopted in 2011, where it is projected that a minimum of 23 stores will be opened during the year. The Group will focus on the penetration of mid-sized towns, especially in East Malaysia and the east coast of Peninsular Malaysia. Of these 23 restaurants, a larger than usual ratio will be drive-thrus, as the Group looks to provide greater convenience for our customers. In Singapore, an improving economy has provided a platform to expand the restaurant network by five new stores by the end of 2011.

The year ahead will also see Brunei's first KFC drive-thru opened, giving consumers there the same level of convenience Malaysian consumers have come to expect. KFC India is planning to open another nine restaurants during the year, bringing the total number to 16.

Innovation will be a hallmark of the coming year. New products and promotions launched in restaurants and in the frozen food market will drive revenue growth. KFC restaurants in Malaysia will launch the newly developed Krushers ice drink. Similar to the famous Slush Puppie, Krushers strongly appeals to the youth market.

Expansion of the Kedai Ayamias restaurant chain will increase in 2011. 25 new outlets will be opened in Malaysia, including a new foothold in Sabah, East Malaysia, as a result of the Kedai Ayamias-Rastamas JV. The people of Singapore and Brunei will also have access to a regular supply of Kedai Ayamias products as the Group opens new convenience outlets in these countries under the names 'Ayamias Shoppe' and 'Kedai Ayamias', respectively. The Group expects a total of 75 Kedai Ayamias operating outlets in the region by the end of 2011.



KFC Marketing will contribute more to the Group in 2011 by expanding their trading services. Up to the end of 2010 only internally-produced products were sold to the open market by KFC Marketing. Beginning 2011, a range of third party products will be distributed and traded in order to boost sales and profitability.

Increasing internal and external market demand for mayonnaise and sausage products led the Group to expand upstream operational capabilities in 2010. RFI commissioned a new mayonnaise plant with a production capacity of 200MT/month and AFCSB increased the capacity at its sausage production facility to 800MT/month. In 2011 the Group will focus on growing sales in these two areas. Innovative new products will be developed to capture attention while other ventures in the Group, such as Roti Impit, will naturally drive up sales as they become more popular.

Student intake numbers will rise at KFCH College in 2011, across both the Bandar Dato' Onn campus and the Puchong campus. By the end of 2011, 1500 students will be receiving an international-class education at the Bandar Dato' Onn campus, while capacity at the Puchong campus will rise to 800 students. The next phase of development of the Bandar Dato' Onn campus will also get under way.

In line with the Group's aim to be the leading integrated food service group in the Asia Pacific region, a proactive search for growth opportunities will be undertaken, whether they be organic or through acquisitions.

In closing, KFCH offers an optimistic assessment of performance in 2011. The Group is on track to achieve another year of positive growth. The economy is performing well and strategic initiatives instigated in 2010 are taking effect. To offset the expected rises in commodity prices caused by drought and flooding in supplier nations, the Group is launching various initiatives to develop and introduce new value-for-money products to increase customer frequency across the Group's outlets, and is confident that this will translate to another set of laudable results.



ACKNOWLEDGEMENTS

2010 has been a year of significant success for the Group and for this we would like to express our appreciation to the people who have made it possible.

On behalf of the Board, we would like to extend our heartfelt gratitude to the Group's previous Chairman, YBhg Tan Sri Dato' Muhammad Ali Hashim for his guidance and positive contribution. We wish him success in the years to come.

We would also like to take this opportunity to welcome Yang Teramat Mulia Paduka Seri Pengiran Anak Puteri Hajah Amal Jefriah Binti Almarhum Sultan Haji 'Omar' Ali Saifuddin as she takes her place as the newest member on the Board of Directors for KFC Brunei. We look forward to working with HRH and wish her every success.

We thank our customers and shareholders for their ongoing trust and support. The KFCH business has been built with them in mind and we will continue to improve and build value in the years to come.

A sincere thank you to every employee of the Group for the enthusiasm and talent they have shown in driving the business forward.

Finally, we would like to express our appreciation for the advice and assistance of our fellow members of the Board of Directors and the senior management team of KFCH.

Driven by the dedication of all its staff and stakeholders, the Group looks forward to another successful year in 2011.

KAMARUZZAMAN ABU KASSIM
Chairman

AHAMAD MOHAMAD
Deputy Chairman

JAMALUDIN MD ALI
Managing Director

