

## REVIEW OF OPERATIONS

Customers  
are the **priority**  
**in every action**  
the Group  
undertakes



2010 has been a year of strong performances across KFCH. At the end of the first year of a new decade, the Group remained the largest quick service restaurant chain in Malaysia, and our presence in India provided unrivalled opportunities for expansion. An improving economy coupled with a series of imaginative new products has attracted more customers through our doors, while enhancements to upstream infrastructure now provide the impetus for future growth.





JAMALUDIN MD ALI  
Managing Director



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## FIRM FOUNDATIONS

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The success of KFCH is built upon robust foundations. These foundations support the three key pillars of the Group's success: customer satisfaction, restaurant expansion and human capital development. In 2010 the Group strengthened all three areas, positioning KFCH to perform even better in the years ahead.

Customer satisfaction was paramount at restaurant level, where a series of new products and eye-catching promotions were launched to draw people in. These efforts were the driving force behind an increase in consumers' top-of-mind brand recall, while also serving to boost transactions. Simultaneously, there was aggressive restaurant expansion across Malaysia, the bedrock of the Group's operations, while in India new KFC restaurants performed well, making the Group's foothold secure. In addition, during the year, a series of human capital development programmes continued to nurture staff abilities, empowering them to fulfil their true potential.

# KFC





## KFC MALAYSIA

By the end of the year, KFC Malaysia had achieved its best results ever. Revenue climbed 9.6% on the previous year to reach an all time high of RM1,496.9 million. 2010 was also a landmark year, marked by the opening of the 500th KFC restaurant in Malaysia.

Brand building is something KFCH does every day. It is there in the way customers are greeted as they walk into our restaurants, it is there in the way the packaging looks, and it is there in how good the products taste. Essentially, the Group focuses on anything that can affect how a customer feels about KFC. The first step in brand building is raising brand awareness, and that is something KFC Malaysia went all out to achieve during 2010.

A thematic campaign was developed to build top-of-mind brand recall among the Malaysian public. The theme of the campaign was 'New Discoveries, Classic Taste', and it touched on 'New Discoveries' in KFC while capitalising on customers' familiarity with KFC's Colonel's 11 herbs and spices. Another benefit derived from the thematic campaign was the enhancement of the Group's brand proposition that KFC is Malaysia's premier quick service restaurant. A new meal called the Colonel's Royal Briyani Combo was introduced in conjunction with the thematic campaign to drive transactions at the restaurant level.

Attracting a new generation of consumers to KFC is an important component of the Group's annual products and promotions calendar. Three activities in this area contributed to the success in drawing in the youth segment market. At the start of the year, KFC Malaysia re-launched the Zinger Tower with a snappy new chilli lime sauce specially created to appeal to youngsters. Later in the year, a meal tie-in was created in conjunction

with Iron Man 2, the major franchise movie which was a big hit in Malaysia. The meal, KFC Showtime Box Meal – Iron Man, proved extremely popular with youngsters and had them visiting our restaurants in greater numbers. The Group also released a new product called the KFC Toasted Pocketful, a Mexican inspired treat made up of our special chicken fillet, tortilla chips, salad and a crispy piece of chicken crisp all held together in a tortilla wrap and then toasted.

A series of other promotions were launched through the year to drive transactions across the restaurant segment. A special KFC Variety Bucket was introduced during Hari Raya to capitalise on high spending patterns during this festive period. Another round of our popular Iom Limat promotion was released towards the end of the year, specially created to appeal to customers looking for a great meal at affordable prices. We also took cognisance of market conditions with strategic releases such as the Cheesy Zinger Crunch, a great tasting chicken burger to capture a bigger slice of the burger segment.

To enhance our brand image as a modern quick service restaurant chain, 47 restaurants underwent image enhancement works to improve ambiance and modernise their appeal. We also introduced sauce dispensers in 152 restaurants in the Klang Valley and major towns and cities in the states of Perak, Johor, Penang and Kuantan. Not only did this increase customer convenience, it also helped the Group to reduce operating costs.

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

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### KFC SINGAPORE

In KFC Singapore, revenue increased by 7.6%, or RM25.9 million, to a high of RM368.6 million for the year. This record achievement was due to an aggressive promotional calendar, a series of operational changes such as increased opening hours, and an economy so resurgent it took many economists by surprise. The economic recovery also saw the reduction in value of the Government's Jobs Credit Scheme cash grant and the cessation of rental rebates, worth a total of RM5 million.

A concerted effort was made throughout the year to establish KFC as a premier destination for breakfast. To help raise awareness of the Group's breakfast segment and to drive sales, popular food critic K.F. Seetoh was engaged to front a show for KFC a.m. Television crews filled our KFC Kallang restaurant where 15 contestants discovered, on camera, what made this breakfast range so special. The programme was aired on Channel 8 on 28 March as a one hour special. The use of a food connoisseur helped to influence the opinions of Singaporeans and created a much greater awareness of KFC a.m. As a result, we hit a high of 11% sales mix and on the Good Friday weekend we achieved record sales of over RM133,000 in a single day. In overall terms, our breakfast segment sales jumped 41.3%.

An island-wide favourite made a return in 2010. Hot Devil drumlets, this time with two new and exciting flavours, was re-launched to an eager public in July. This promotional product had been around before and it was well known to customers so the main thrust of the media campaign was conducted via press and coupon maildrops/newspaper inserts. The Group also tied up with Nescafe and the movie 'The Last Airbender' to extend the appeal of Hot Devil drumlets to Singapore's youth market.



A first for KFC Singapore was the October debut of the KFC Roasta Burger. The Group's first ever oven-roasted burger came with a marinated oven-roasted chicken fillet, crunchy lettuce and juicy tomatoes topped with a signature sauce in an oat-bran dusted bun. The KFC Roasta Burger was launched in 67 of our 77 stores with two promotional meals, the KFC Roasta Promo Meal and KFC Roasta Buddy Meal. An extensive media campaign was conducted to raise awareness and drive transactions for the new product, including the use of a hologram resembling a giant oven with an image of the Roasta Burger inside. The holograms were strategically placed at high traffic areas to generate buzz.

Other promotions which generated buzz during the year included the Ultimate Value Box, KFC Black Pepper Chicken, the 100-hour movie marathon and Popcorn Shake, and the Ole Ole Box and Ole Ole Feast, two types of packs that were marketed to football fans during the FIFA World Cup.

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

# Expanding the network's reach

## KFC BRUNEI

Revenue for KFC Brunei increased 5.7% to RM16.3 million for the year, up from RM15.5 million in the previous year.

2010 saw a number of brand-building initiatives designed to raise awareness of KFC and increase transactions. The KFC Brunei team engaged in site-selling at events such as consumer fairs, university expos, carnivals and forums. In-store parties also helped to raise revenue as well as raise awareness that KFC is a fun and youth-friendly place to visit. A number of promotions attracted attention this year including the Megamix Crunch, Hot & Spicy Shrimps and Iom Jimat Afternoon Crawlers.

As of 31 December 2010, nine restaurants were operating in Brunei, consistent with last year.

## KFC INDIA

The first year of operation has been positive for KFC India, with revenue reaching RM6.2 million. Revenue growth started moderately but quickened in line with new restaurant openings.

KFC restaurants have been in existence in India for more than a decade but at a much lower concentration than in Malaysia. Consumers are still somewhat sceptical about our vegetarian credentials. To get the message out to more than 40% of the Indian population who are vegetarian, a wide selection of meals and snacks was created for their consumption. Products

such as the Veggie Feast, Veg Thali, Chana Snacker, Veg Fingers, Veg Zinger and Rizo-Rizo all proved popular, and supported our traditional non-meat products such as fries and mashed potato. The Group's restaurants were also constructed with two kitchens, one specifically for the preparation of vegetarian meals.

KFCH is confident that the Group's foothold in the cities of Mumbai and Pune will provide excellent expansion opportunities. Positive progress is being made and an increasing number of customers are walking through our doors. The sheer size of the cities, Mumbai in particular, and their growing middle class, presents us with a fantastic growth opportunity.

As of 31 December 2010, KFC India had opened five new outlets; three in Mumbai, one in Aurangabad and one in Pune, with two acquired in Pune, resulting in a total of seven operating outlets.



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### RASAMAS & KEDAI AYAMAS

Revenue for RasaMas increased 7% to RM24.9 million by the end of the year. A series of new products and promotions was the driving force behind the increased transactions. Following the popularity of the TV3 Syoknya RasaMas cookery competition that aired in 2009, a number of the Roaster dishes that featured on the show were released as menu items within the RasaMas restaurant chain. These included the Warisan Roaster, the Roaster Lada and the RasaMas Muhibah Roaster.

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

Kedai Ayamias registered an impressive 36% increase in revenue, from RM40.5 million in 2009 to RM55.1 million by end of 2010.

Network expansion was a key component of Kedai Ayamias' revenue growth. The increasing demand for KFCH's products enabled the Group to expand territorially and reach out to a larger segment of Malaysian society. To drive transactions a new group of products was launched through the year including Chicken Satay with Peanut Sauce, Chicken Donut, Premium Jumbo Drummets and two types of Poppers.

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



### INTEGRATED POULTRY OPERATIONS

The Group's Integrated Poultry Operations segment grows from strength to strength. Revenue, including intercompany sales, climbed to RM1,294 million for the year. This represents a 7% increase over the previous year.

Ayamas Food Corporation Sdn Bhd (AFCSB) processing plants accounted for the bulk of the revenue increase, up by 3.5% on 2009 levels. The key reason for this revenue rise was higher order volumes from our expanding restaurant chains and stores: Pizza Hut, KFC, RasaMas and Kedai Ayamias.

Revenue at KFC Marketing grew 10.7% to reach RM221.4 million by year end. A sizeable portion of revenue was contributed by the domestic open market, which saw higher sales this year. Higher export sales totalling RM5.3 million also served to boost revenue. The first full year's operation of our 'Ayamaz Roti Impit' hot dog carts was another growth driver. This initiative sees Ayamias products sold in and around universities, colleges and polytechnics across Peninsular Malaysia.

### FEEDMILL DIVISION

Results in the Feedmill division have been positive. Turnover improved by 8.5% for the year. An increase in the Group's chicken requirements led to the manufacturing capacity being upgraded to 136,000 metric tonnes, up from 131,000 metric tonnes in the previous year. A cautionary note sounded late in the year when commodity prices rose by 15-20% due to drought and flood conditions occurring in the countries of origin.



### BREEDER FARMS & HATCHERY

The production totals of Hatchable Eggs and Day Old Chicks remained steady in comparison to last year as the division has been operating at full capacity for the past two years. On an infrastructure note, an initiative to upgrade a number of breeder houses from dip litter flooring system to 2/3 slats flooring was 60% completed during the year.

### ANCILLARY OPERATIONS

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

### SAUCE MANUFACTURING

2010 was another successful year for RFI, the division which manufactures sauces for the Group and the external market. Revenue for the year reached RM89.9 million, an increase of 15.8% over the prior year. Performance in the domestic open market was particularly strong, with a 20% rate of growth. A healthy growth of 12% was registered in the export market.

In line with the Group's vision for RFI to become one of Asia's leading sauce manufacturers, production capacity at its plant was increased to about 20,000 metric tonnes, up from the previous capacity of about 17,800 metric tonnes. RFI has also completed work on an upgraded mayonnaise plant which will allow it to compete for a larger segment of the region's growing mayonnaise market.



### BAKERY & COMMISSARY

Six new products were launched by the Bakery division during the year. Four of these were supplied to internal customers with the remaining two to external customers. Production at the bakery plant was also increased to meet demand from the Group's restaurant segment, about 72 million buns were produced in 2010.

The Bakery division's quality assurance received a boost during 2010, firstly by being recertified as Hazard Analysis Critical Control Point (HACCP) compliant. Secondly, the Bakery was certified ISO compliant through the award of an ISO9001-2008 (Quality Management System).

On the Commissary front, coleslaw production rose to 1.96 million packets, a 5% increase over the previous year. The Commissary plant also worked to improve its operations facility by upgrading the secondary stage of the pre-process floor at its Coleslaw Line.

### TEPAK MARKETING

An impressive year for Tepak Marketing Sdn Bhd led to revenue climbing 21% to RM24.9 million for the year. The lion's share of its revenue came from contract manufacturing activities in relation to Lipton tea products.

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### KFCH INTERNATIONAL COLLEGE

The Puchong campus of KFCH College currently serves approximately 200 students, attending courses across a range of disciplines. The diverse syllabus provides education in Information Technology, Business Administration, Hotel Management, Early Childhood Education and Electrical and Electronics Engineering. A number of graduating students will be offered employment opportunities within the Group.

### HUMAN CAPITAL DEVELOPMENT

KFCH employs over 22,000 staff across Malaysia, Singapore, India and Brunei, making it one of the largest food sector employers in the region. Every year the Group pursues a modern, holistic approach to human capital development to boost the skill and ability of its employees. To this end KFCH invested approximately RM5.1 million on a programme of training and development initiatives in 2010. Employees from across the Group received an average of 67 hours of training per person for the year.

Occupational Health and Safety (OSH) training occurs in most areas of the Group, though primarily at the restaurant level as well as at our farms and manufacturing sites. Besides protecting staff, adherence to OSH standards benefits the Group through the reduction of business costs associated with insurance premiums and reduced levels of business disruption due to employee absences. At the restaurant level, staff undergo the Group's Hazard Identification, Risk Assessment and Risk Control (HIRARC) programme, a training initiative which has been specifically designed to impart the importance of, and skill in, these areas. Employees who belong to Emergency Response Team (ERT) are also given in-depth training in first aid techniques and equipment use. Managers and



supervisors at the Group's farm and manufacturing levels are instructed in chemical handling, while general staff undergo safety training programmes on a regular basis.

Employees who are promoted from within the rank of the Group undergo a rigorous training initiative called Preparation & Enhancement Programme (PReP). PReP serves to

enhance competence in a range of key areas such as Business Communication, Basics on Occupational Safety & Health and Management, Supervisory Skills, Employment Law and Finance & Basic Accounting. PReP training is given in line with Career Progression Training Needs, another initiative the Group uses to prepare employees for greater responsibility. Every employee in the 2010 PReP intake successfully completed the programme.

Advanced training is imparted through the Group's Education Sponsorship Programme, for which an allocation of RM1 million per year is made available. The programme is available to selected employees based on performance and Group requirements. Selected candidates are provided with opportunities to pursue various types of external certification, such as diplomas and university degrees. From the 16 employees in the 2010 intake, one is taking an Executive Masters in Business Administration while the remaining 15 are pursuing Diplomas in various studies, including short certification courses such as Safety and Health Officer programmes. From the RM1 million allocation, approximately RM128,000 was invested in the Education Sponsorship Programme during the year.

Every year KFCH employees attend Hari Mekar, an annual quality convention organised by JCorp. The event is organised along two lines. The first drives performance among employees through training and open discussions. The second aspect of Hari Mekar provides a competitive platform in which teams from across the Group are challenged in the disciplines of Innovative Creative Circle, Cempaka (Suggestions and Ideas), and Poster Design.

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

#### HALAL COMMITMENT

Strict *halal* compliance is a guarantee KFCH makes in all its Group's markets. To help KFCH 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 KFCH'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.

Reporting directly to the Shariah Advisory Council is the internal Shariah & Halal Department. The department creates awareness and a deeper understanding of *halal* among stakeholders, including from within the Group. A myriad of activities are undertaken to this end, including *halal* auditing of all existing and prospective suppliers, *halal* awareness training given to all staff, and the strengthening of media and NGO relationships among others. The Shariah & Halal Department operates as the first response unit for the Shariah Advisory Council, and as such is a vital part of the Group's *halal* commitment.



#### LOOKING FORWARD

Year upon year, the popular appeal of the Group's products increase. Year upon year, the Group's restaurant network expands. Year upon year, the growth story continues, underpinned by strong financial resources and a sound business philosophy that combines strategic intelligence with a profound sense of corporate responsibility. As we look ahead, the Group is confident that the next chapter of the Group's story will be as replete with achievements and successes as anything that has gone before, and that KFCH will continue, year upon year, to grow from strength to strength.