



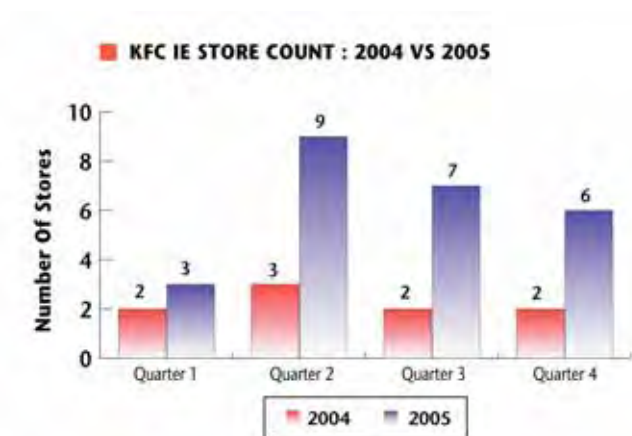
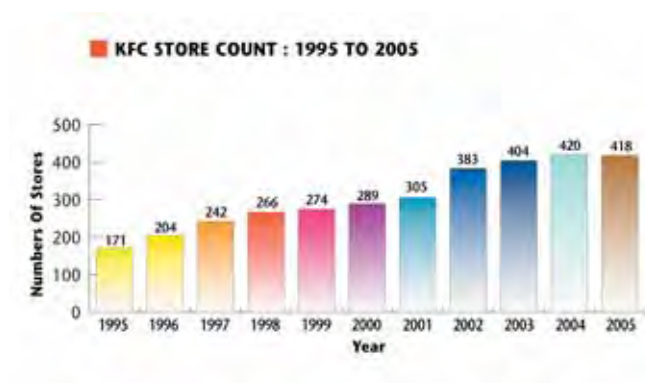
# OUR BRAND PROMISE OF A REAL KFC MOMENT

## KFC RESTAURANTS

When Malaysians think chicken, they think KFC; a testament to the good value proposition, great service and reliable product we have all come to know and love. All in all it has been a stellar year at KFC Malaysia, Brunei and Singapore with operating profits up 151% to RM102.6m.

New stores, IE efforts, successful marketing campaigns like the “What’s Your KFC Moment?” brand thematic campaign and new products fused synergistically contributed to KFC Malaysia and Brunei’s impressive same store sales and at the same time bagged KFC the YUM! Beat Year Ago award.

With such a strong brand and great products there is opportunity for further growth in the coming years. The target for 2006 is to open even more new restaurants and an aggressive remodelling exercise.







C W Toh  
Group Executive Director/  
Group Chief Operating Officer

**EMPLOYEE PRODUCTIVITY DATA :  
KFC RESTAURANTS IN MALAYSIA, BRUNEI & SINGAPORE**



### KFC MALAYSIA AND BRUNEI

Against the odds KFC Malaysia and Brunei turned in results above and beyond expectations with operating profits up 135% to RM99.3m.

The contributory factors were several, but the return to a “Back to Basics” approach of running great restaurants with improved financial management beyond doubt shaped the stellar results.

Cost cutting and streamlining efforts under the Strategic Roadmap have paved the way for numbers to shine through. By trimming the low lying fruit, supply agreements were renegotiated, procurement initiatives like improved process efficiencies and the rightsizing of birds were put in place, G&A expenses were brought under greater scrutiny and the early redemption of RM85m bonds resulted in substantial savings for KFCH in the second half of the year.

Five new restaurants were opened in 2005 bringing the nationwide total to 350 cementing KFC’s position as the largest and best selling fast food in the country with a commanding market share. Improved throughput at existing restaurants was also seen in 2005 benefiting from an aggressive Image Enhancement (IE) effort. The fiscal year’s IE programme, with a total of 12 stores remodelled, was a contributing factor towards achieving record peak sales in the second half of 2005.

Revenue was up 10% to an impressive RM826.5 million driven in part by highly effective marketing campaigns. Winning the YUM! award for Overall Marketing Excellence served to underscore KFC Malaysia’s successful efforts. In 2005 an

independent research agency Synovate found KFC leading every brand in the market in terms of awareness. Leveraging on this, August 2005 saw the launch of the “What’s Your KFC Moment” brand thematic campaign which reached out to our customers on an emotional level for the first time. Cementing our bond with customers, the campaign also incorporated the new look and feel of KFC’s remodelled stores giving it added impetus.

Marketing campaigns coupled with the launch of bestsellers like O.R. Fillet Burger, Curry Chicken Crunch, Criss Cut Fries, Bandito Pockets with Salsa and the re-launch of eternal favourite Hot & Spicy have helped maintain excitement whilst increasing ticket average for KFC in 2005. Permanent value offerings like the O.R. Fillet Burger launched as part of the KFC X-Meal package offering teens a premium burger at an affordable price and higher value items like the Variety Bucket Combos targeted at the family segment made up the complement of layered products on offer in 2005.

Operating margins improved from 5.6% in 2004 to 12.0% in 2005 mainly due to:

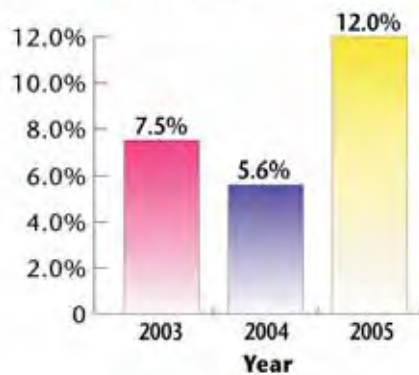
- Effective marketing campaigns
- Additional sales and profits from new stores in 2004 and 2005
- Image enhancement efforts
- Reduction in costs due to savings from renegotiated beverage supply agreement and procurement initiatives

# HAPPINESS IS A KFC MOMENT





**KFC MALAYSIA AND BRUNEI  
OPERATING MARGIN: 2003 TO 2005**



**KFC MALAYSIA AND BRUNEI  
REVENUE & OPERATING PROFIT : 2003 TO 2005**







# LOVIN' MOMENT WITH KFC

## KFC SINGAPORE

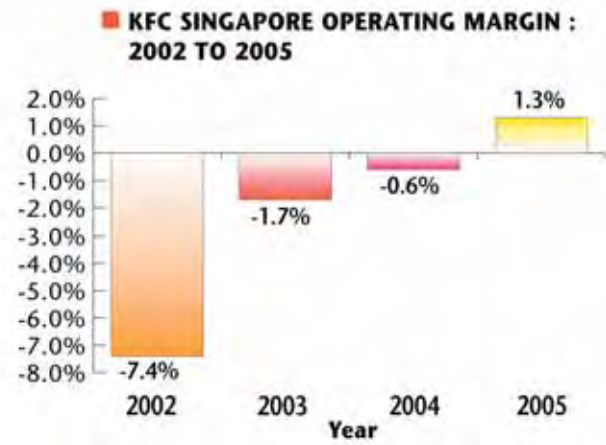
Across the causeway it was all good news as KFC Singapore turned around in 2005, contributing RM3.3m in operating profits. Improvement came as a result of a reduction in promotional costs, the streamlining of operating expenses and the closure of 2 unprofitable restaurants. The year ended with 68 restaurants in total. Despite the closures, increased throughput was seen as a result of an aggressive IE programme. Same store performance also improved in 2005 partly due to successful marketing programmes such as the brand thematic "What's Your KFC Moment?".

The year's marketing programme was also accompanied by great new products which contributed towards sustaining revenue at RM 246.9m. Product launches in Singapore led to spectacular numbers by addressing two key areas - namely value for money and health. With value in mind the team started the year with the O.R. Fillet Burger. Launched as part of the KFC X-Meal package the O.R. Fillet Burger was KFC's assurance of better value designed to capture the younger teen market by offering a premium burger at an affordable

price. Other products with fantastic deals were WOW! Meals and the Double Chicken Deals. These new offerings were part of KFC's bold initiative to serve up a permanent value layer which promised consumers great savings all year round. The meals, available for under S\$3 were a resounding success and attracted a huge following contributing to a significant 20% sales mix on launch.

The new look menu board which KFC Singapore revamped in line with WOW! Meals was cited as Best Practice by YUM!. 2005 also saw the launch of an alternative protein, introduced into the permanent menu in the shape of the Fish Ole in November.





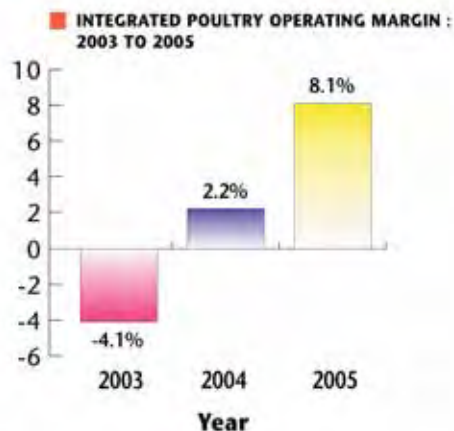
## INTEGRATED POULTRY

Poultry consumption currently stands at about 26kg per person per annum. As such, the poultry industry represents a major proportion of the livestock industry in terms of output value in Malaysia. With over 10% share in this market KFCH's unique integrated poultry model has plenty to crow about.

Increased process efficiencies and efficient supply chain management, as well as rationalisation of store portfolio at Ayamas, as outlined under the Strategic Roadmap, led to a significant improvement in profitability of this segment. Helped also by lower commodity costs, operating profits from the Integrated Poultry segment grew 309% to RM25.7m with operating margins expanded almost fourfold to 8.1% in 2005.

Improved processes and better co-ordination within divisions have led to the trimming of wastages, benefiting the entire Integrated Poultry segment. Moving forward we will be looking at optimising the supply chain further as well as building on the Ayamas brand. Plans are already in the pipeline to increase Ayamas' product range to include ready-to-eat, frozen snacks and shelf stable products.

As the custodian for downstream and the group's chain of restaurants, trust and integrity for Integrated Poultry are key. With the streamlining and increased process efficiencies as well as the repositioning of Ayamas retail, this division is now on an extremely strong footing for the upcoming year, supplying quality safe food at reasonable prices.



## Feedmill Division

Fully automated and computerised, KFCH's feedmill remains one of the largest feedmills in Malaysia. It plays a critical role within KFCH's integrated business model. The cheaper commodity prices and bulk buying has meant lower overall raw material prices, helping stem losses from this division in 2005.

## Breeder Farms and Hatchery

Benefiting from the Strategic Roadmap's plans of streamlining procurement and increasing process efficiencies, both Breeder Farms and Hatchery saw a significant increase in productivity in 2005. Operating profits for 2005 more than doubled to RM2.63m as compared to RM1.04m in 2004, with the profit increase partially due to the much improved broiler performance by our Mantin farm and better hatchability of day-old chicks for the year.

## Poultry Processing

With strict bio-security measures enforced at every stage, our integrated model helps us deliver safe products from farm to plate. KFCH is also endorsed by the authorities as a role model for a Halal compliant food producer, restaurant operator and retailer. With money spent on upgrading facilities, chicken production for the division was at full capacity with 36 million chicks. Similarly the Strategic Roadmap's focus on increasing process efficiencies has saved an estimated RM7.7m, of this, an estimated RM4.0m comes from the rightsizing of birds. All this has translated into a surge in operating profits up 309% from last year to RM25.7m.

In the face of worldwide bird flu occurrences, 2005 saw enhanced bio-security measures being put in place with further stringent quality controls keeping risks to a minimum for the division. Our risk management is further strengthened by the good spread of contract farmers all across the Peninsula. A close monitoring system as well as regular flu vaccines provided by the Group help ensure the integrity of the supply chain.



## Ayamas Retail

2005 has been a year of consolidation as the bulk of management's rationalisation was focused on Ayamas. Retail trends have shifted away from the Kedai Ayamas concept with the mushrooming of hypermarkets and supermarkets in urban and semi urban areas. As a result, management decided to reposition the concept and cut overheads by closing down 24 Kedai Ayamas outlets. We refocused instead on continuing to strengthen urban distribution channels. Currently we have presence in over 630 hypermarkets and supermarkets nationwide and that number is set to grow.



With our refocused distribution channels now in place, Ayamas is poised to grow this local brand further with new products and more aggressive marketing. Ayamas' stellar stable of premium brands such as the best selling Drummets and Crispy Fried Chicken all carry halal certification by JAKIM and the trusted Ayamas brand assurance of premium chicken meat. These products have ensured that Ayamas remained market leader in processed food.

Moving forward the division is capitalising on its trusted brand by paving the way for new innovative products. Plans are underway to extend products into ready to eat, frozen snacks and shelf stable goods.

Ayamas' restaurant division, Rasa Ayamas, is set to develop a new fast casual dining concept. With 8 stores overhauled in 2005 the new look Rasa Ayamas has also expanded its menu to include healthier options such as the Ayamas Dondang Sayang Nyonya Roaster and more exotic selections like the Tejano BBQ and Khandarr Maharaja Roasters.

ONCE IS  
NOT ENOUGH





## REVIEW OF OPERATIONS

### ANCILLARY

#### Bakery and Commissary

The Bakery and Commissary division saw a strong 33% growth in turnover to RM19.2m in 2005. Improved performance was due to the successful supply of buns used in KFC restaurants such as the Zinger burger bun, the O.R. Burger bun and the signature butter bun which comes with all chicken meals.

#### Region Food

2005 has been a momentous year for Region Food which saw a turnaround in operating profits to RM1.5m from a RM1.6m loss in 2004. The improved performance comes from an increase in efficiency and throughput and improved processes put in place as part of the Strategic Roadmap.

The better 2005 performance was also helped by innovation of chilli sauce products. Available widely, the division's Jumbo Size Chilli Sauce and Thai Chilli have even beaten market leaders Maggi and Kimball in this segment.

### PUTTING PEOPLE FIRST

Putting customers first is imperative in running any great restaurant. Levels of service go a long way towards enhancing the whole dining experience. With customers first as an underlying motto at KFC we do not just place great emphasis on our food but also on our service to customers. KFCH is one of the country's largest employers in the food sector with over 13,000 employees.

In Singapore, KFC continues to work with the Singapore Co-operation of Rehabilitative Enterprises for suitable candidates. We have also benefited from Singapore Government regulations that allow skilled foreign workers at the middle level into the country as well as the ADVANTAGE Scheme which promotes the recruitment of workers aged 40 and above.

With the majority of our staff involved in the front line serving and making customers happy, KFCH is dedicated to building an operating culture via ongoing training and team building exercises. Under the YUM! umbrella, we have access to the most comprehensive training tools and mechanisms in the fast food industry and our people undergo knowledge and skills tests at every level.

CHAMPS, the acronym for Cleanliness, Hospitality, Accuracy of Order, Maintenance, Product Quality and Speed of Service stands for superior standards in customer services and sits at the core of our Group-wide training programmes. Our CHAMPS scores are averaging 96% up on 94% from the previous year and all our restaurants undergo CHAMPS Checks and Excellence Reviews on a regular basis.

Training Needs Analysis is incorporated into our Performance Appraisal System. In Malaysia we have taken it a step further by investing in the technology that enables data from the







extensive evaluations to be turned around immediately. This allows us to move quickly, identifying weaknesses and remedying them. This has had a positive effect on customer satisfaction as a survey conducted in the second half of 2005 showed a surge in all areas including brand awareness where KFC solidified its lead.

A People First formula for success recognizes the importance of not just training but also staff development. In view of this, a Balanced Scorecard Reward System at the restaurant level was rolled out in 2005 which for the first time rewards our managers for consistently achieving and surpassing targets set.

Consistent execution of our brand experience is the cornerstone to customer trust which is critical to sales growth. We work very hard to maintain that consistency. For example, over 50 "Cool Catz" staff work in dining areas to allow for interaction with customers beyond the purchase counter. They can step in and in addition take orders if queues are long and help in a myriad of ways. Customer Mania celebrations are held on a quarterly basis to recognise staff who have gone the extra mile for customers.

At KFCH we pride ourselves on the integrity and trust placed in us by our customers in running great restaurants. Ultimately the detailed evaluation tests, extensive training and rewards are all executed with our People First mentality in mind.

#### CHICKY CLUB MALAYSIA AND SINGAPORE

An important part of KFC's marketing efforts towards top of mind brand awareness is our mascot Chicky and the Chicky Club. Aimed at creating brand awareness and customer loyalty amongst the young, the Chicky Club programme is marketed to children below the age of 12 in conjunction with the Chicky Meal packages available at KFC restaurants.

Now in its 11th year, member numbers have soared close to 300,000 in Malaysia and Singapore with an attractive array of privileges on offer to children who join. New affiliations in Malaysia included Poney Garments, Pet Century, Petrosains, Speedy and the World of Cartoons.

Alongside Chicky Hour which ranks amongst the top five most popular children's programmes and airs on TV3 every Saturday morning, we run on-ground activities. The Chicky and Friends 5-star campaign provided a 40 minute out of the classroom fun learning programme for 48 schools in Malaysia and 40 schools in Singapore.

The Milo Chicky Meal Madagascar Contest netted 9,500 entries and a boost in school holiday sales in a merchandising tie-up with the hit film Madagascar and the annual Chicky Carnival saw record numbers of more than 40,000 children and parents participate in the two-day event held in Kuala Lumpur.



## CORPORATE SOCIAL RESPONSIBILITY

With over 418 KFC restaurants spread out across Malaysia, Brunei and Singapore, KFCH's vast network means that we are able to reach out and play an active role in the community. Community efforts for the group have been focused on children.

2005 heralded the 10th anniversary of our community outreach programme "Projek Penyayang", a community outreach drive that targets delivery of finger lickin' meals to over 7,000 children at over 80 charitable institutions once a quarter. In addition to food delivery efforts, our mascot Chicky makes special appearances throughout the year spreading cheer, goodies and Chicky Meals. A group of orphans were also treated in 2005 to a KFC charity screening of the animated movie Madagascar.

With children's welfare in mind, a playground for Hospital Tunku Fauziah in Kangar Perlis was donated by KFCH, its 3rd effort in helping hospitals around the country. Occupying 3,500 sq ft, the playground incorporates see-saws, spring rides, park benches and other facilities for children.

Across the causeway, KFC Singapore championed the deaf cause for the second year running as the Ambassador for the Deaf. A second deaf-operated restaurant, KFC Fuchun, was opened this year. Other efforts in support of the deaf included coverage in our internal quarterly Chit Chat magazine, quarterly Chicky Club magazine, the KFC website, in-store communications and participation in a mass signing during National Day.



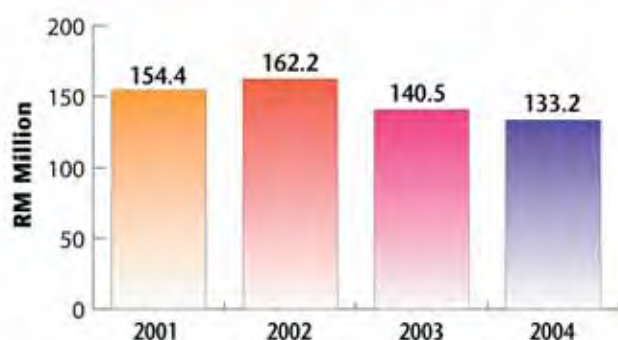
## SYARIAH ADVISORY COUNCIL

The Syariah Advisory Council (SAC) is made up of distinguished and prominent Islamic scholars who advise KFCH on religious matters pertaining to its food business in particular and operations in general. The SAC maintains a close rapport with the various religious departments, councils and bodies. It also conducts regular inspections of KFCH plants and outlets to ensure they comply with the halal requirements of Islamic Law in general and of Malaysian Government requirements in particular.



KFCH Group has always been known for its strong underlying business potential and cash generative business. However, in recent years, the Group has suffered from declining profitability and cashflow, as illustrated in the charts below:

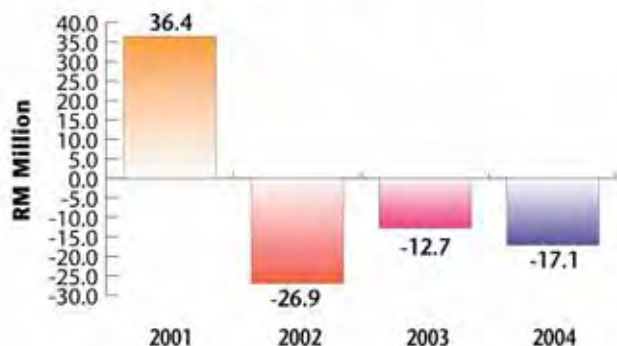
**PROFITABILITY (EBITDA) : 2001 TO 2004**



**Nurolamin Abas**  
*Group Executive Director*

In addition to the poor financial performance of the Group, the High Level Business Review by PricewaterhouseCoopers also highlighted other problems and issues. The key findings are tabulated below:

**FREE CASHFLOW : 2001 TO 2004**

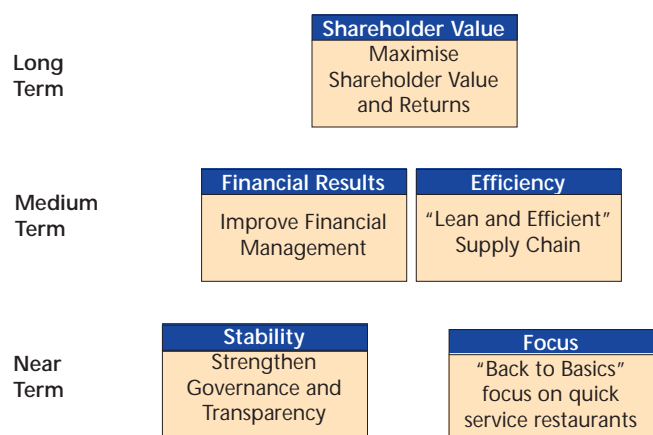


Governance	Financial	Operational
Non-compliance with procurement policies and procedures	Although sales were resilient, continuous erosion of EBITDA margins since 2003	Overlooking 12 KFC outlets which had been underperforming outlets since November 2003 and 26 Rasa Ayamas and Kedai Ayamas outlets which had been underperforming since 2004
Instances where approvals were made by beneficiaries	Overall earnings affected by poor performance of upstream business	Revised pricing with beverage supplier cost KFCH approximately RM17m in extra payments since 2002
Related party transactions	Costly investments resulting in poor returns and impairment losses	



The Board under the leadership of Tan Sri Dato' Nik Ibrahim Kamil and the new management team decided to arrest this decline by embarking on the Strategic Roadmap.

The Strategic Roadmap involves a broad outline plan from 2005 to 2008 with a mix of near term, medium term and long term objectives.



During the initial phase of the Strategic Roadmap, the Board set out to achieve quick results over the 1st 100 days. Despite the aggressive deadline, employees and management rose to the challenge and produced impressive results.

#### 1st 100 days' achievements

- Governance and Transparency
  - Various board committees were activated
  - Group authority limits and procedures were reviewed for the first time to ensure the necessary checks and balances were put in place within the Company
  - Board approval is now required for any investment worth RM5m and above compared to more than RM20m previously
- Improved Financial Management
  - Renegotiated beverage supply agreement resulted in savings of about RM3m per year across the Group
  - Early redemption of bonds worth RM85 million in early August 2005 resulting in reduction in financial charges of over RM6 million per year
  - Increased process efficiencies led to annual savings of RM7.7m
  - Procurement initiatives were also streamlined and centralised
  - More than 200 un-utilised properties with a net book value of RM142.0m as at 31 December 2005 were put up for sale. The Group suffered an impairment loss of RM65.8m due to the write-down of the un-utilised properties to their fair values which resulted from the revaluation exercise of the Group's land and buildings

- Current Executive Directors have functional management roles and the total monthly salary of Executive Directors is about 30% less than the previous Executive Directors

- **Back to Basics: Focus on Running Great Restaurants**
  - 24 existing KFC outlets were remodelled in order to increase system sales
  - Non-performing Ayamas outlets were closed resulting in an estimated savings of RM3 million per year
  - Review of upstream business currently underway to recommend strategy options
  - Ongoing brand building to sustain presence and awareness
  - Increase in throughput with ticket average up by 7.3%
  - Excellence in service management - KFCH won 7 awards at the YUM! Asia Pacific CHAMPS Challenge 2005

#### After 100 days - Exceeding Expectations

The Strategic Roadmap paved the way for the results. The Group achieved higher profitability and free cashflow turned positive.

The numbers shone through the tumultuous period principally led by a breakthrough in operating profits which improved by 186% compared to prior year. Despite the net loss due to other expenses of RM112.1m (arising mainly from impairment losses of properties held for sale which were un-utilised), EBITDA margins jumped from 9.4% in 2004 to 14.1% in 2005. Improved financial management made it possible for free cashflow to turn positive to RM113.9m compared to negative cashflows of RM17.1m previously.

	2001	2002	2003	2004	2005
Turnover (RM'm)	1,071.3	1,247.9	1,380.6	1,410.9	1,456.6
EBITDA (RM'm)	154.4	162.2	140.5	133.2	205.3
EBITDA Margin (%)	14.4%	13.0%	10.2%	9.4%	14.1%
Net Profit excluding other expenses (RM'm)	52.0	63.2	43.9	66.6	80.6
EPS excluding other expenses (sen)	26.2	31.9	22.1	33.6	40.6
Free Cashflow (RM'm)	36.4	(26.9)	(12.7)	(17.1)	113.9
NTA per share (RM)	1.67	1.76	1.87	2.07	1.89

Profitability significantly improved in the second half of 2005; net profit excluding other expenses was up 66% from the first half of 2005 as a result of cost efficiencies and streamlining efforts outlined under the Strategic Roadmap. There has also been an increase in shareholder payouts, for 2005 KFCH has proposed 16 sen gross dividend versus 14 sen paid out in 2004

(RM million)	1st half	2nd half	% increase
Net profit excluding exceptional items	30.3	50.3	66%
Operating profit	46.3	77.5	67%
Operating profit margin	6.4%	10.6%	

## What to expect

The 2006-2008 Business Plan is geared towards transforming KFCH into a blue chip investment. With this in mind four key areas are being focused on:

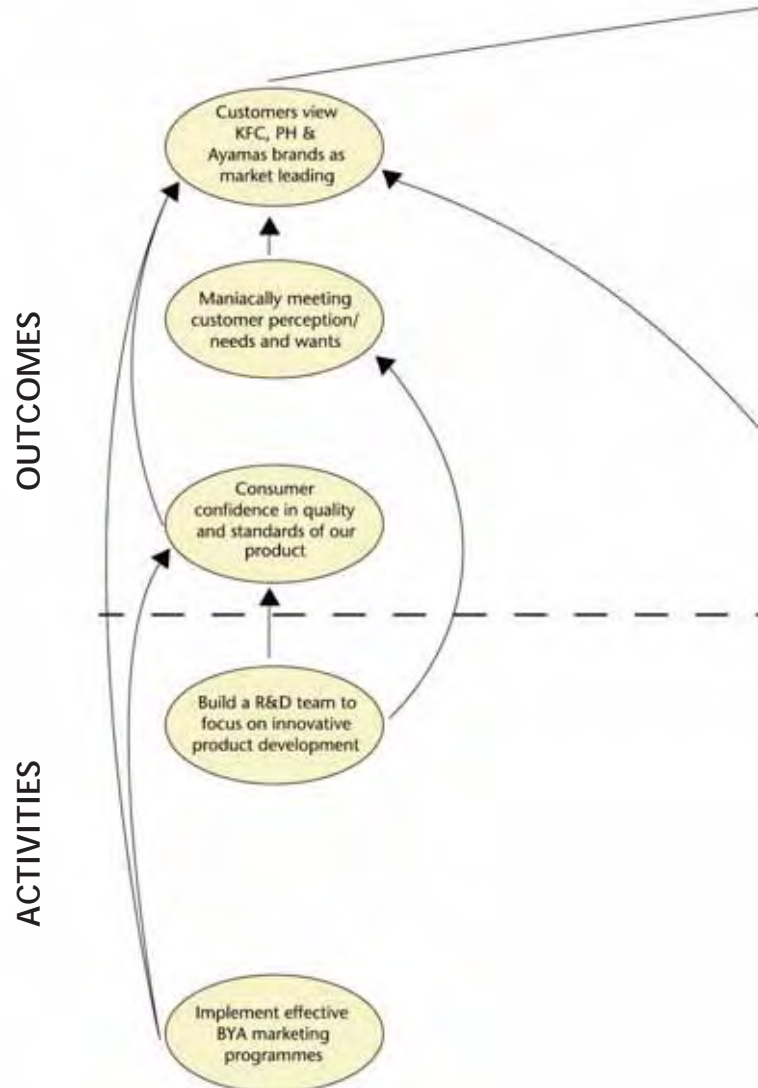
- Stakeholder Expectations and Financials -Delivering sustainable growth
- External Relationships - Trust and integrity
- Organisation and Culture - Running great restaurants
- Process and Capability - People capability first

To ensure stakeholder expectations and financials are being met, the Board of Directors and Management are working hard to deliver sustainable growth. Focus has now snapped back to building on the trust and integrity of our brand-name whilst investing in people capability to help us run great restaurants.

Key targets for 2006 - 2008 are as follows:

- Revenue growth year on year
- New store openings to drive profitable expansion
- Remodelling of existing restaurants to increase system sales
- Increasing process efficiencies
- Product innovation and value layering
- Exploring new markets and opportunities
- EPS to grow year on year
- Extract value in unused and un-utilised assets
- Consistent dividend payout ratio

## Strategic Objective Initiatives

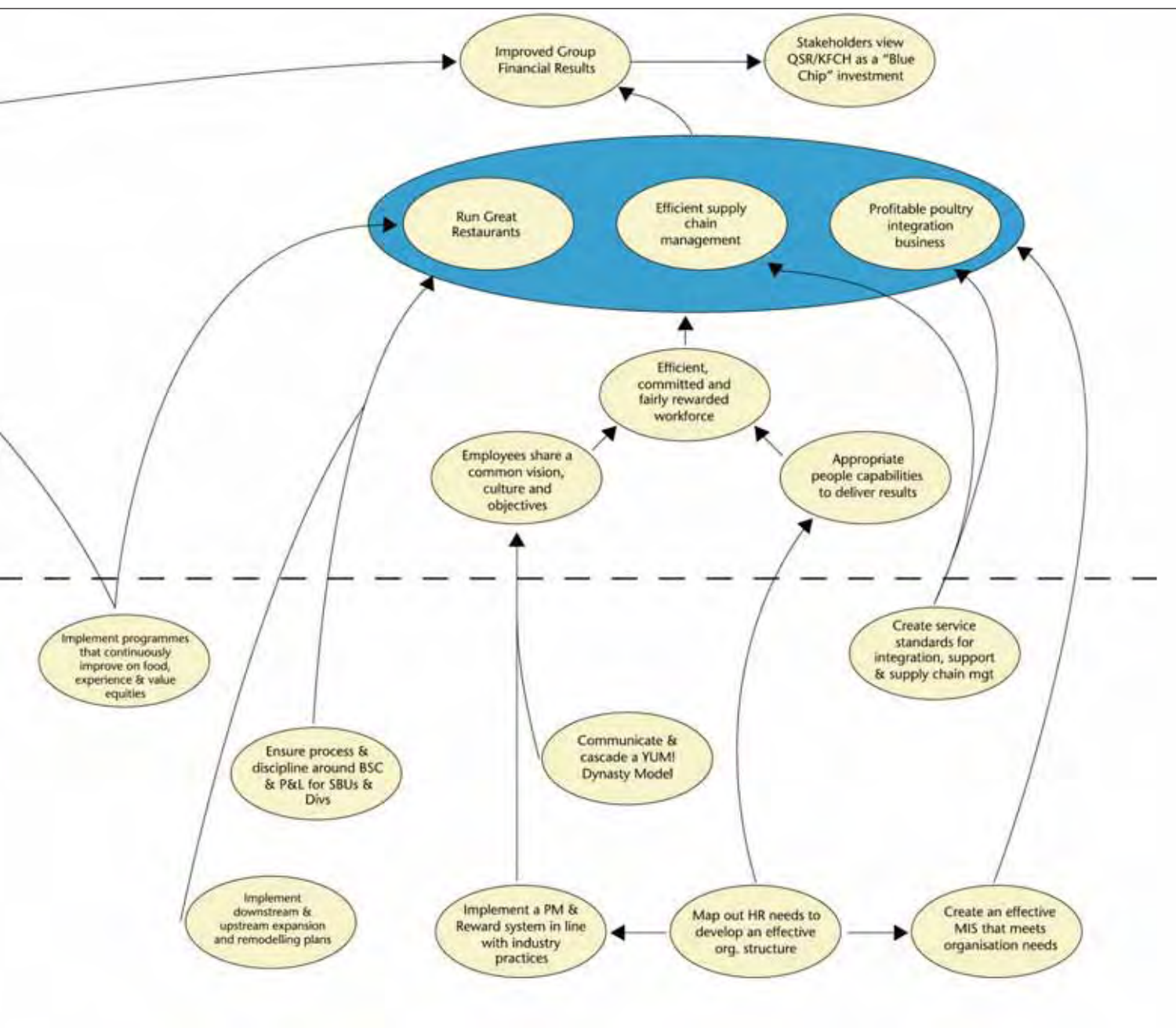


KFCH has recently developed a Group Balanced Scorecard as a tool for strategic management and corporate governance. The Group Balanced Scorecard will also introduce a performance linked compensation to our senior management staff in 2006.

This Group Balanced Scorecard is a significant part of KFCH's strategy to deliver sustainable competitive advantage, offering a number of benefits. Firstly, it provides KFCH with a clear set of realistic goals on which to focus during the next 2 years. Secondly, the Balanced Scorecard provides improved process disciplines that will ensure management decisions are based on relevant performance information.

The Group Balanced Scorecard outlines KFCH's goals in two stages. Long-term goals are set out in a strategic plan that





KFCH terms a Destination Statement. This Destination Statement describes in full the consensus-based view of what the senior management team believe KFCH needs to look like at the end of 2008 in order to be successful. It provides the company with a device to communicate key long-term goals and help in the organisation of departments, teams and employees. Key strategies contained in this long-term plan include stakeholder expectation and financial strategies, relationships with customers and business partners, building and strengthening the organisation and culture and also looking to improve the processes and capabilities of KFCH Group.

The medium and near term goals that KFCH will implement in order to reach its destination are described using a strategy map as shown above. This strategy map outlines the key,

actionable "activity" objectives that KFCH will be implementing in the next 0-18 months and the "outcome" objectives that it will expect to see by completing these activities. The key medium and near term objectives are to run great restaurants, ensure efficient supply chain management and profitable poultry integration business.

Finally, to ensure that progress is made towards achieving these objectives, KFCH has also introduced a set of measures and targets that it will use to make management decisions on a regular basis. By instilling more collaborative management practices, KFCH is confident that it will be able to swiftly respond to changing circumstances, redirect resources where necessary and eventually guide the organisations to strategic success.

### Board of Directors

**YBhg Tan Sri Dato' Nik Ibrahim Kamil  
bin Tan Sri Nik Ahmad Kamil**  
Chairman  
Non Independent Non Executive Director

**C W Toh**  
Group Executive Director/Group Chief Operating Officer

**Nurolamin bin Abas**  
Group Executive Director

**Ahmad Aznan bin Mohd Nawawi**  
Executive Director

**Lim Kuan Yew**  
Executive Director

**YBhg Datuk Johari bin Abdul Ghani**  
Non Independent Non Executive Director

**YBhg Dato' Abdullah bin Ngah**  
Independent Non Executive Director

**YBhg Dato' Mohd Salleh bin Haji Hashim**  
Independent Non Executive Director

**YBhg Dato' Seri Abdul Ghani bin Abdul Aziz**  
Independent Non Executive Director

**Rita a/p Benoy Bushon**  
Non Independent Non Executive Director

**Hassim bin Baba**  
Independent Non Executive Director

**Yoong Nim Chor**  
Independent Non Executive Director

**Umar bin Abdul Hamid**  
Non Independent Non Executive Director

**YBhg Dato' Subahan bin Kamal**  
Non Independent Non Executive Director

**Michael Tang Vee Mun**  
Non Independent Non Executive Director

### Executive Committee

**C W Toh**  
Group Executive Director/Group Chief Operating Officer

**Ahmad Aznan bin Mohd Nawawi**  
Executive Director

**Nurolamin bin Abas**  
Group Executive Director

**Lim Kuan Yew**  
Executive Director

**Umar bin Abdul Hamid**  
Non Independent Non Executive Director

**Yoong Nim Chor**  
Independent Non Executive Director

### Syariah Advisory Council

**YBhg Tan Sri Dato' Nik Ibrahim Kamil  
bin Tan Sri Nik Ahmad Kamil**

**Ahmad Aznan Nawawi**

**YBhg Tan Sri Dato' Abdul Kader bin Talip**

**YBhg Datuk Dr Abdul Monir Yaacob**

**YBhg Dato' Dr. Abdul Shukor Haji Husin**

**YBhg Dato' Haji Abdul Majid bin Omar**

**YBhg Dato' Haji Md Hashim bin Yahaya**

**YBhg Dato' Haji Hassan Haji Ahmad**

**Prof. Dr. Yaakob Che Man**

**Haji Hishamuddin Mon**

**Encik Azami Mustapha**

**Encik Halim Anuar**

**Haji Mohammad Haji Shafie**



#### Audit Committee

**YBhg Dato' Mohd Salleh bin Haji Hashim**  
Chairman

**YBhg Dato' Abdullah bin Ngah**  
Member

**C W Toh**  
Member

**Yoong Nim Chor**  
Member

**Umar bin Abdul Hamid**  
Member

#### Registered Office

Level 17, Wisma KFC  
No. 17 Jalan Sultan Ismail  
50250 Kuala Lumpur  
Tel: 603 2026 3388  
Fax: 603 2072 8600

#### Registrar & Transfer Office

Tenaga Koperat Sdn Bhd  
20th Floor, Plaza Permata  
Jalan Kampar, Off Jalan Tun Razak  
50400 Kuala Lumpur  
Tel: 603 4041 2188  
Fax: 603 4043 9233

#### Group Company Secretary

Ronald Menon (R270)

#### Stock Exchange Listing

Bursa Malaysia Securities Berhad, Main Board

#### Auditors

Ernst & Young, Chartered Accountants  
Level 23A Menara Milenium, Jalan Damanlela  
Pusat Bandar Damansara, 50490 Kuala Lumpur

#### Principal Bankers

Alliance Bank Malaysia Berhad

Bumiputra Commerce Bank Berhad

Citibank Berhad

HSBC Bank Malaysia Berhad

Malayan Banking Berhad

Southern Bank Berhad

#### Solicitors

Messrs Ranjit Ooi & Robert Low

Messrs Kadir Andri & Partners

Messrs Thomas Philip

Messrs Azmi & Associates



**YBhg Tan Sri Dato' Nik Ibrahim Kamil  
bin Tan Sri Nik Ahmad Kamil**  
*Chairman*  
*Non Independent Non Executive Director*

- Malaysian, aged 64
- Appointed as a Director of KFC Holdings (Malaysia) Bhd on 27 June 2005
- Re-designated as Chairman of the Company on 7 July 2005
- Remuneration Committee Member of KFC Holdings (Malaysia) Bhd
- Bachelor of Science Degree in Economics & Business Administration, Georgetown University, Washington DC, USA
- Currently Chairman of Westport Holdings Sdn Bhd
- Formerly held positions as -
  - Assistant Company Secretary of Associated Mines Sdn Bhd
  - Shell Malaysia Sdn Bhd's Head of Market Development for West Malaysia, East Malaysia and Brunei
  - Managing Director of The New Straits Times Press (M) Berhad
  - Chairman of Southern Investment Bank Sdn Bhd
- Directorships in Fututech Berhad, Camerlin Group Berhad, Octagon Consolidated Berhad and Palm Resort Berhad
- A substantial shareholder of QSR Brands Bhd, via his interest in Eagle Option Sdn Bhd. QSR Brands Bhd is a substantial shareholder of KFC Holdings (Malaysia) Bhd
- Save as disclosed above and in the Directors' Shareholding, is not related to any Director of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended all seven (7) Board Meetings convened subsequent to his appointment as a Director on 27 June 2005 out of a total of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.

## A COMMITMENT TO DELIVER





**C W Toh**

*Group Executive Director / Group Chief Operating Officer*

- Malaysian, aged 49
- Appointed as an Executive Director of KFC Holdings (Malaysia) Bhd on 2 June 2005
- Re-designated as Group Executive Director/Group Chief Operating Officer on 21 June 2005
- Executive Committee and Audit Committee Member of KFC Holdings (Malaysia) Bhd
- Group Executive Director/Group Chief Operating Officer of QSR Brands Bhd
- Bachelor of Science (Economics) Honours degree; a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW); a Chartered Accountant of the Malaysian Institute of Accountants; and a Fellow of the Malaysian Institute of Taxation
- He had assumed various Senior Management positions, including that of Deputy President in the QSR Group and KFCH Group, prior to his appointment as the Group Executive Director / Group Chief Operating Officer.
- Save as disclosed in the Directors' Shareholding, is not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended all nine (9) Board Meetings convened subsequent to his appointment as an Executive Director on 2 June 2005 out of a total of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.



**Nurolamin bin Abas**

*Group Executive Director*

- Malaysian, aged 35
- Appointed as a Director of KFC Holdings (Malaysia) Bhd on 2 June 2005
- Re-designated as Group Executive Director on 22 July 2005
- Executive Committee Member of KFC Holdings (Malaysia) Bhd
- Graduate of the University of Bristol, United Kingdom with a Bachelor of Science degree in Economics and Accounting (Honours)
- Job experience includes Strategic Management, Process Management and Project Management for MNCs as well as listed Malaysian companies
- He represented 2GC, a UK based performance management specialist in the Asian Markets
- Formerly CEO / Project Director of Sysionet Technologies; Vice President at Xybase Technologies, Head of Corporate Planning in Malaysia Airports, Consultant in ISS Consulting and Andersen Consulting in Melbourne, Australia.
- Not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended all nine (9) Board Meetings convened subsequent to his appointment as a Director on 2 June 2005 out of a total of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.



**Ahmad Aznan bin Mohd Nawawi**  
*Executive Director*



**Lim Kuan Yew**  
*Executive Director*

- Malaysian, aged 46
- Appointed as an Executive Director of KFC Holdings (Malaysia) Bhd on 2 June 2005
- Executive Committee Member of KFC Holdings (Malaysia) Bhd
- Executive Director of QSR Brands Bhd
- Prior appointments - Group Company Secretary and Vice President - Legal and Secretarial Affairs.
- Bachelor of Laws (Hons) Degree, University Technology Mara
- Formerly Senior Vice President of Corporate and Legal Affairs Department, Bursa Malaysia Securities Berhad
- Not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended all the nine (9) Board Meetings convened subsequent to his appointment as an Executive Director on 2 June 2005 out of a total of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.

- Malaysian, aged 47
- Appointed as Director of KFC Holdings (Malaysia) Bhd on 29 April 2005
- Re-designated as Executive Director of Ayamas Food Corporation Sdn Bhd (formerly known as Ayamas Food Corporation Bhd) and its group of subsidiaries on 15 September 2005.
- Further re-designated as Executive Director of KFC Holdings (Malaysia) Bhd on 21 February 2006.
- Executive Committee Member of KFC Holdings (Malaysia) Bhd
- Executive Director of QSR Brands Bhd
- Job experience includes auditing and marketing of financial services.
- Extensive experience and held senior positions in general management and strategic planning in a number of private and public listed companies in Malaysia.
- Founding director of a company which provides management and corporate services to clients in the fields of corporate restructuring, mergers and acquisitions, operations review and strategic planning.
- Not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended all ten (10) Board Meetings convened subsequent to his appointment as a Director on 29 April 2005 out of a total of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.





**YBhg Datuk Johari bin Abdul Ghani**  
*Non Independent Non Executive Director*

- Malaysian, aged 42
- Formerly Group Managing Director of KFC Holdings (Malaysia) Bhd (appointed on 20 December 2002)
- Re-designated as Director of the Company on 2 August 2005.
- Group Managing Director of CI Holdings Berhad, a public-listed company.
- Diploma in Accountancy, Institute Teknologi MARA
- Fellow of the Chartered Association of Certified Accountants in England
- Started career with an international accounting firm and has held senior positions in various listed and unlisted companies including that of Chief Executive of an insurance company.
- Save as disclosed in the Directors' Shareholding, is not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended ten (10) out of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.



**YBhg Dato' Abdullah bin Ngah**  
*Independent Non Executive Director*

- Malaysian, aged 78
- Appointed to the Board of KFC Holdings (Malaysia) Bhd on 8 December 1995.
- Audit Committee and Nomination Committee Member of KFC Holdings (Malaysia) Bhd
- Degree of an Utter Barrister, Lincolns Inn, London and was called to the English Bar
- A partner in Abdullah, Ooi & Chan, a law firm
- Joined the judicial and legal service and was appointed to various posts in the service
- Commenced career serving in the Terengganu State Civil Service (1951-1959), until which time became a Lay Magistrate in Muar and Batu Pahat
- Not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended nine (9) out of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.

## ENSURING VALUE-ADDED KPIs TO SHAREHOLDERS



**YBhg Dato' Mohd Salleh bin Haji Hashim**  
*Independent Non Executive Director*

- Malaysian, aged 59
- Appointed to the Board of KFC Holdings (Malaysia) Bhd on 14 October 1998
- Chairman of the Audit Committee of KFC Holdings (Malaysia) Bhd
- Bachelor of Economics (Analytical) degree, University of Malaya
- Executive Chairman of Gopeng Berhad, a public-listed company
- Director of Perak-Hanjoong Simen Sdn Bhd
- Prior to joining Gopeng Berhad, was with the Perak State Development Corporation and its subsidiaries
- Not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended seven (7) out of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.



**Rita a/p Benoy Bushon**  
*Non Independent Non Executive Director*

- Malaysian, aged 45
- Appointed as Director of KFC Holdings (Malaysia) Bhd on 7 February 2003
- Honours Degree in Economics Statistics from University Kebangsaan Malaysia
- Master of Business Administration, Brunel University, West London, England
- General Manager of Equity Research, Employees Provident Fund
- Board member of Badan Pengawas Pemegang Saham Minoriti Berhad and Land & General Berhad.
- Board representative of Employees Provident Fund, a major Shareholder of the Company
- Not related to any Director of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended ten (10) out of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.





**YBhg Dato' Seri Abdul Ghani bin Abdul Aziz**  
*Independent Non Executive Director*

- Malaysian, aged 62
- Appointed as a Director of KFC Holdings (Malaysia) Bhd on 25 November 1999
- Remuneration Committee Member of KFC Holdings (Malaysia) Bhd
- Masters of Arts degree in International Relations and Strategic Studies from Lancaster University, United Kingdom.
- Formerly Chief of Royal Malaysian Air Force
- Director of CI Holdings Berhad and several private limited companies.
- Not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended eight (8) out of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.



**Hassim bin Baba**  
*Independent Non Executive Director*

- Malaysian, aged 60
- Appointed as Director of KFC Holdings (Malaysia) Bhd on 29 April 2005.
- Associate Member, Securities Institute of Australia
- Associate Member, Australia Securities Analyst
- London Chartered Institute of Secretaries.
- A businessman
- Formerly MARA officer
- Save as disclosed in the Directors' Shareholding, is not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended all ten (10) Board Meetings convened subsequent to his appointment as a Director on 29 April 2005 out of a total of twelve (12) Board Meetings held during the financial year ended 31 December 2005.

A PASSION TO  
**MANAGE BY RESULTS**



**Yoong Nim Chor**  
*Independent Non Executive Director*

- Malaysian, aged 48
- Appointed as a Director of KFC Holdings (Malaysia) Bhd on 29 April 2005
- Executive Committee, Audit Committee, Nomination Committee and Remuneration Committee Member of KFC Holdings (Malaysia) Bhd
- Advocate and solicitor of the High Court of Malaya and Singapore and has been admitted as Solicitor in England and Wales
- Senior Partner in the law firm of Messrs Yoong & Partners, specializing in corporate and securities laws, mergers and acquisitions, corporate finance, corporate restructurings and financing laws
- Graduated with a Bachelor of Laws, Honours (Second Class, Upper Division) L.L.B. (Hons) degree from National University of Singapore
- Not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended nine (9) out of ten (10) Board Meetings convened subsequent to his appointment as a Director on 29 April 2005. The total Board Meetings of the Company held during the financial year ended 31 December 2005 was twelve (12).



**Umar bin Abdul Hamid**  
*Non Independent Non Executive Director*

- Singaporean, aged 46
- Appointed as a Director of KFC Holdings (Malaysia) Bhd on 2 June 2005
- Group Chairman and Chief Executive Officer of China Entertainment Sports Limited (formerly known as Reed Group Holdings Limited)
- Executive Committee, Audit Committee and Nomination Committee Member of KFC Holdings (Malaysia) Bhd
- Board member of several public and private companies in Singapore
- Fulbright scholar; Master of Business Administration (MBA) from the University of Chicago Graduate School of Business; Master of Education (MEd) specializing in Administration, Planning and Social Policy from Harvard University; Bachelor of Science (BSc) in Electrical Engineering from the University of Arizona; Participant in the 3-year Owner/President Management Program at Harvard Business School
- Over 20 years working experience in the areas of corporate and business development and project management in Asia, Europe and the Middle East
- Conducted several corporate acquisitions and divestments of public and private companies dealing in engineering, construction and technology
- Vice-Chairman of the Singapore Business Federation (SBF), Honorary President of Singapore Malay Chamber of Commerce and Industry, Chairman of Middle East Business Advisory Committee of SBF, Member of National Wage Council (NWC), Member of the Turnaround Management Association (TMA), USA
- Formerly elected Member of Parliament of Singapore (1991-97), during which time was Member of the Government Parliamentary Committee for Education, and Asean Inter-Parliamentary Organisation
- Not related to any Director and/or major shareholder of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended eight (8) out of nine (9) Board Meetings convened subsequent to his appointment as a Director on 2 June 2005. The total Board Meetings of the Company held during the financial year ended 31 December 2005 was twelve (12).





**YBhg Dato' Subahan bin Kamal**  
*Non Independent Non Executive Director*



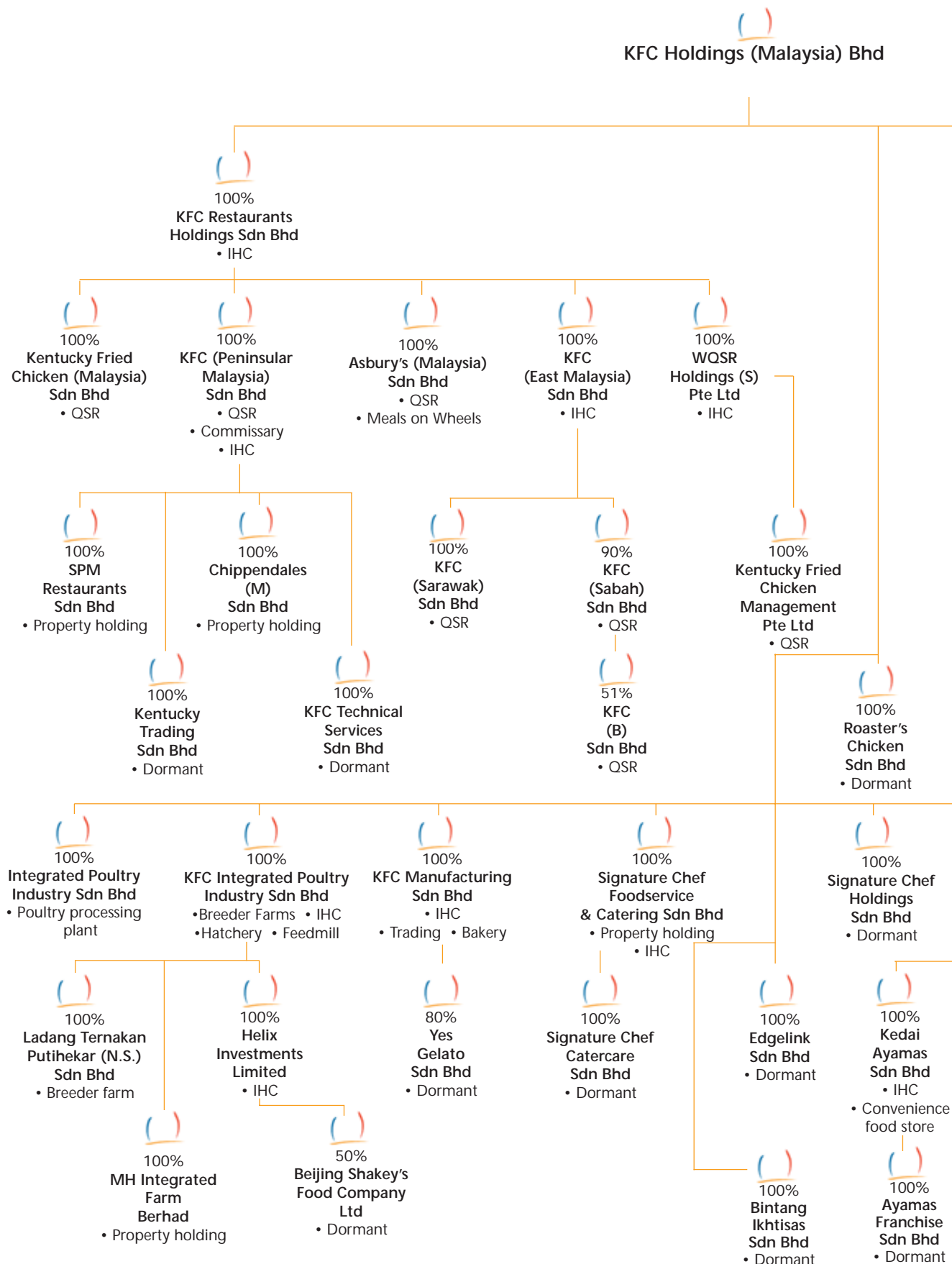
**Michael Tang Vee Mun**  
*Non Independent Non Executive Director*

- Malaysian, aged 41
- Appointed as a Director of KFC Holdings (Malaysia) Bhd on 17 June 2005
- Remuneration Committee Member of KFC Holdings (Malaysia) Bhd
- Bachelor of Science (Hons.) Accounting degree, Southern Illinois University, Carbondale, Illinois, USA
- Executive Committee Member, UMNO Youth, Malaysia
- Chairman of UMNO Public Complaints Bureau, Malaysia
- Member of Malaysian Insurance Institute, Kuala Lumpur.
- Formerly Senior Private Secretary to Deputy Minister of Human Resources
- Formerly Senior Private Secretary to Deputy Minister of Finance
- Formerly Bank Rakyat (M) Berhad
- Chairman of OCB Berhad
- Board representative of Enigma Sinar Sdn Bhd, a major shareholder of QSR Brands Bhd. QSR Brands Bhd is a major shareholder of KFC Holdings (Malaysia) Bhd
- Not related to any Director of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- Attended all eight (8) Board Meetings convened subsequent to his appointment as a Director on 17 June 2005 out of a total of twelve (12) Board Meetings of the Company held during the financial year ended 31 December 2005.

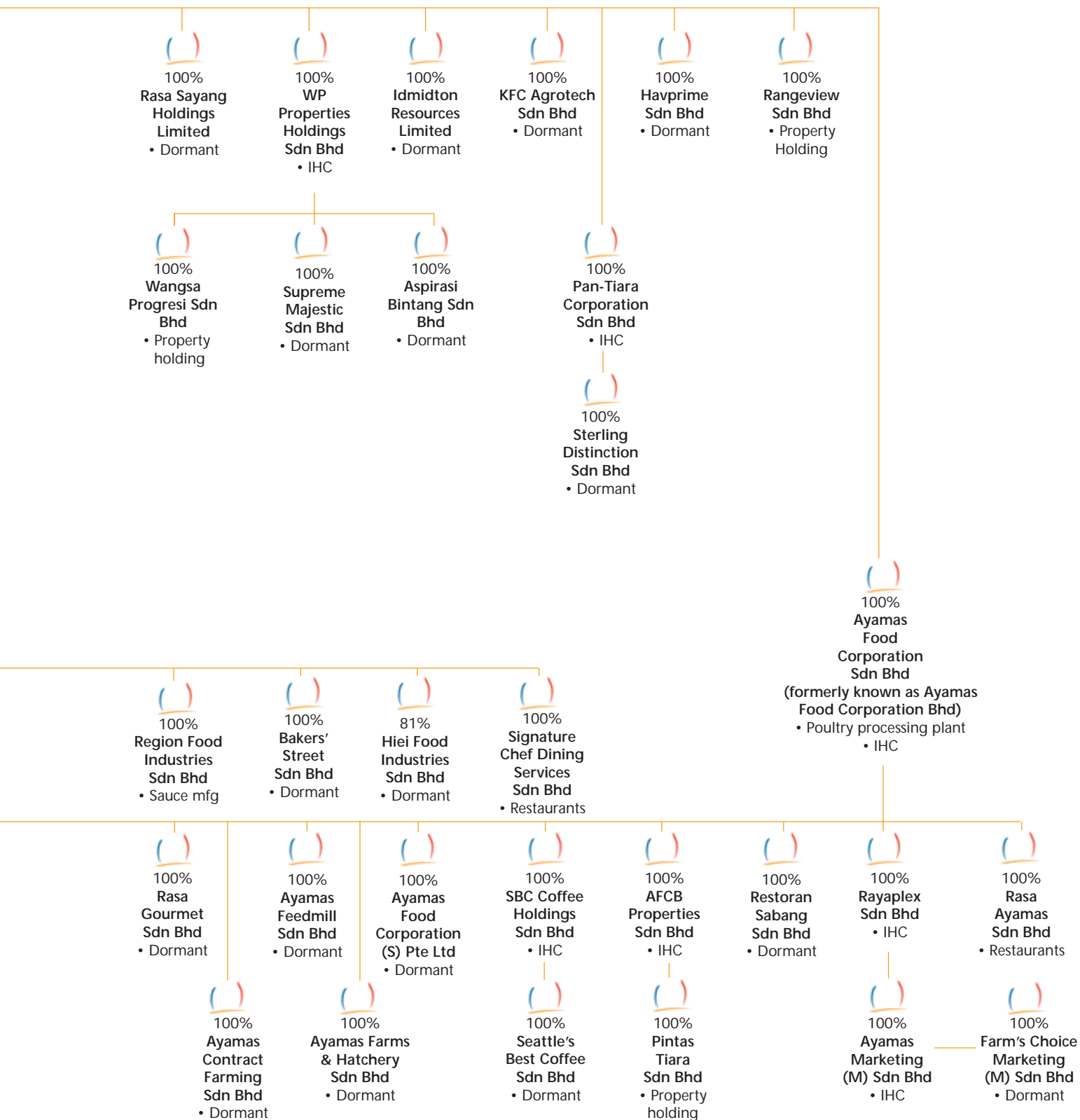
- Malaysian, aged 33
- Appointed as a Director of KFC Holdings (Malaysia) Bhd on 24 April 2006.
- Bachelor of Laws (Honours) degree from the London School of Economics and Political Science, University of London
- Barrister-at-Law of the Honourable Society of Lincoln's Inn, London.
- Currently sits on the board of directors of several public and private companies and is the chairman of a listed company on the Main Board of the Singapore Stock Exchange
- Also serves on the Constitution Committee of the Malaysian Chinese Association, a political party and member of the Malaysian Government
- Board representative of Giganite Limited, a major shareholder of QSR Brands Bhd. QSR Brands Bhd is a major shareholder of KFC Holdings (Malaysia) Bhd
- Not related to any Director of the Company; has no conflict of interest with the Company; has no convictions for offences within the past ten (10) years
- As Mr Tang was appointed as a Director on 24 April 2006, he did not attend any of the Board Meetings for the financial year ended 31 December 2005.

# DRIVING SUCCESS IS WHAT MATTERS

## GROUP STRUCTURE







The Board of Directors (the “Board”) has appointed an Executive Committee (“EXCO”), which comprises a balance of executive and non-executive directors.

The following are the members of the EXCO:

**C W Toh**

Group Executive Director/Group Chief Operating Officer

**Ahmad Aznan Mohd Nawawi**

Executive Director

**Nurolamin Abas**

Group Executive Director

**Lim Kuan Yew**

Executive Director

**Umar Abdul Hamid**

Non Independent Non Executive Director

**Yoong Nim Chor**

Independent Non Executive Director

The functions of the EXCO include the following:

- a) Policy formulation and planning
- b) Performance of strategic and corporate planning
- c) Review and recommendation of authority levels or limits
- d) Investment decisions up to certain pre-defined limits
- e) Capital expenditure approvals up to defined limits
- f) Approval of detailed operational budgets
- g) Quarterly review of accounts and budgets
- h) Selection of panel of contractors and consultants for future tenders for project commitments
- i) Selection and recruitment of Senior Executives under Grade 17 (SE1) positions

# INTENSIFYING THE PURSUIT OF EXCELLENCE





IT'S ALWAYS  
**SERVICE WITH A SMILE**

# CORPORATE GOVERNANCE STATEMENT

## INTRODUCTION

The Board of Directors (the “Board”) of the Company recognizes that the practice of good corporate governance in conducting the business and affairs of the Group with integrity, transparency and professionalism is a key component for the Group’s continued growth and success. This will not only safeguard and enhance shareholders’ value but will at the same time ensure that the interests of other stakeholders are protected. The Board is pleased to disclose that the Company has adopted the Company Disclosure Policies and Procedures as recommended by the Task Force on Corporate Disclosure Best Practices.

The Company has complied with the Best Practices in Corporate Governance embodied in Part 2 of the Malaysian Code on Corporate Governance (the “Code”) and the statement below narrates how the Company has throughout the financial year ended 31 December 2005 applied the principles set out in Part 1 of the Code.

## COMPOSITION OF THE BOARD OF DIRECTORS

The Company is led and managed by an experienced Board with a wide range of expertise. The Board is primarily responsible for charting the strategic direction of the Group. The Board meets at least four (4) times a year with additional meetings convened as and when necessary.

The Board currently has 15 members comprising the Chairman (Non Independent Non Executive Director), 4 Executive Directors (comprising the Group Executive Director/Group Chief Operating Officer, 2 Executive Directors and Group Executive Director), 5 Non-Independent Non-Executive Directors and 5 Independent Non-Executive Directors. The Company is in compliance with the Bursa Securities Listing Requirements which require at least two directors or one-third of the total number of Directors, whichever is higher, to be Independent Directors. The Board retains full and effective control of the Company. Executive Directors have direct responsibilities for business operations whilst non-executive directors have the necessary skill and experience to bring independent judgments to bear on the issues relating to strategy, performance and resources. Key matters, such as approval of annual and interim results, acquisitions and disposals, material agreements, major capital expenditures, budgets and long term plans would require Board approval.

To ensure that there is balance of power and authority, the roles of the Chairman and the Executive Directors are separated and clearly defined. The Chairman is primarily responsible for the orderly conduct and effectiveness of the Board whilst the Executive Directors are responsible for the operating units, organizational effectiveness and implementation of Board policies and decisions.

The Group has established an Executive Committee of Board (“EXCO”) comprising the Executive Directors, 1 Non Independent Director and 1 Independent Director to manage the overall operations of the Group. The EXCO operates under clearly defined terms of reference. The EXCO deals with a wide range of matters which include, inter-alia, review of financial results and forecasts, proposals for capital expenditure and operating issues. The EXCO also reviews acquisitions, disposals and major investments before submitting the same to the Board for approval.

In accordance with the requirements of the Code, YBhg Dato’ Mohd Salleh Haji Hashim as the Chairman of the Audit Committee has been appointed as the senior Independent Non-Executive Director to deal with issues regarding the Company where the same could not be appropriately dealt with by the EXCO Members.

## SUPPLY OF INFORMATION

Operations Meetings are held once a month during which the Executive Directors will be briefed by Management on all operational aspects of the Group. During the meetings, the Executive Directors will be furnished with information on the progress of the operating units i.e. activities, performance, planned projects and problems arising so as to enable the former to participate in problem-solving and decision-making processes.

Board Meetings are scheduled 4 times a year and additional meetings are held as and when required. The total number of Board Meetings held during the financial year was 12. The Directors are provided with adequate Board Papers together with the agenda and minutes of the previous meeting on a timely manner prior to the Board Meeting so as to give the Directors time to deliberate on the issues to be raised at the meeting.

Directors have access to information within the Company and to the advice and services of the Group Company Secretary. The Directors may also obtain independent professional advice, in the furtherance of their duties.



**APPOINTMENT AND RE-ELECTION OF DIRECTORS**

The appointment of Directors is the responsibility of the whole Board.

The Board has established a Nomination Committee consisting exclusively of non-executive directors, the majority of whom are independent.

The following are the members of the Committee: -

YBhg Dato' Abdullah Ngah	-	<i>Independent Non-Executive Director</i>
Mr. Yoong Nim Chor	-	<i>Independent Non-Executive Director</i>
Encik Umar Abdul Hamid	-	<i>Non-Independent Non-Executive Director</i>

The function of the said Committee shall be as follows: -

- To identify and recommend to the Board, candidates for directorships of the Company
- To recommend to the Board, directors to fill the seats on Board Committees
- To review regularly and periodically the required mix of skills and experience and other qualities, including core competencies and conducts/behaviours, which non-executive directors shall bring to the Board

In accordance with the Company's Articles of Association, one-third of the Directors shall retire at each Annual General Meeting and the retiring directors are eligible for re-election. Any Directors appointed during the year are subject to retirement and re-election at the next Annual General Meeting following their appointments. Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

Newly appointed Directors are furnished with the necessary information to enable them to carry out their duties, which includes, inter-alia, information on the Group, the Board's role, powers delegated to various committees and financial information. This is supplemented by visits to key locations and meetings with key senior executives.

All Board members have attended and completed the Mandatory Accreditation Programme ("MAP") as required by the Bursa Malaysia Securities Berhad for the year ended 31 December 2005. Directors are encouraged to attend seminars and/or conferences organized by relevant authorities and professional bodies to keep abreast with development in the market place. For the financial year ended 31 December 2005, the Company has conducted trainings on the following which form part of the MAP and the same was attended by YBhg Tan Sri Dato' Nik Ibrahim Kamil, Mr C W Toh, En Ahmad Aznan Mohd Nawawi, En Nurolamin Abas, Mr Lim Kuan Yew, En Hassim Baba, Mr Yoong Nim Chor and En Umar Abdul Hamid, all who were appointed in the year 2005: -

1. The Fiduciary Role, Statutory Duties & Obligations of Company Directors
2. Regulatory Framework Governing Public Listed Companies including the Roles and Functions of Securities Commission and Bursa Malaysia Securities Berhad
3. An Overview of the Listing Requirements of Bursa Malaysia Securities Berhad and Key Obligations of Public Listed Companies
4. Law, Procedure and Proper Governance of General Meetings and Rights, Duties, Powers of Shareholders
5. Regulation of the Securities Market – Insider trading, False Trading and Market Rigging
6. Expectations on directors of public listed companies: A re-emphasis
7. Understanding the Concept of Corporate Governance and the Malaysian Code of Corporate Governance
8. The Audit Committee
9. Risk Management, Internal Control and Internal Audit Functions

*YBhg Datuk Johari Abdul Ghani, YBhg Dato' Abdullah Ngah, YBhg Dato' Mohd Salleh Hj Hashim, YBhg Dato' Seri Abdul Ghani Abdul Aziz and Pn Rita a/p Benoy Bushon did not attend the abovementioned trainings due to their heavy commitments and prior engagements. As Mr Michael Tang Vee Mun was appointed as a Director on 24 April 2006, Mr Tang did not attend the abovementioned trainings.*

## CORPORATE GOVERNANCE STATEMENT

### DIRECTORS' REMUNERATION

The remuneration framework for executive directors has an underlying objective of attracting and retaining directors needed to run the Company successfully. Remuneration packages of executive directors are structured to commensurate with corporate and individual performance. The Non-Executive Directors are remunerated based on fixed annual fees approved by the shareholders of the Company.

The Board has established a Remuneration Committee consisting mainly of non-executive directors.

The following are the members of the Committee: -

YBhg Dato' Seri Abdul Ghani bin Abdul Aziz	-	<i>Independent Non-Executive Director</i>
YBhg Tan Sri Dato' Nik Ibrahim Kamil bin Tan Sri Nik Ahmad Kamil	-	<i>Chairman of the Board</i>
Mr. Yoong Nim Chor	-	<i>Independent Non-Executive Director</i>
YBhg Dato' Subahan Kamal	-	<i>Non-Independent Non-Executive Director</i>

The Committee's primary responsibility is to recommend to the Board, the remuneration of Directors (executive and non-executive) in all its forms. The determination of remuneration packages of Directors is a matter for the Board as a whole and individuals are required to abstain from discussion of their own remuneration.

The details on the remuneration of the directors are as follows:

	Executive Directors RM'000	Non-Executive Directors RM'000	Total RM'000
Fees	136	370	506
Salaries & other emoluments	2,700	53	2,753
Bonus	603	-	603
Retirement benefits	69	-	69
Benefits-in-kind	717	-	717
<b>Total</b>	<b>4,225</b>	<b>423</b>	<b>4,648</b>
Range (RM)	Executive Directors	Non-Executive Directors	Total
Up to 50,000	-	8	8
50,001 - 100,000	-	3	3
200,001 - 250,000	1	-	1
250,001 - 300,000	1	-	1
300,001 - 350,000	1	-	1
800,001 - 850,000	1	-	1
900,001 - 950,000	1	-	1
1,600,001 - 1,650,000	1	-	1

The above disclosure is in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad. Nevertheless, it represents a departure from the Principles of Corporate Governance of the Code which prescribes individual disclosure of directors' remuneration packages.

The Board is of the view that the transparency and accountability aspects of corporate governance in respect of the Directors' Remuneration are appropriately served by the "band disclosure" presented.



## SHAREHOLDER RELATIONSHIP

The Group recognizes the importance of keeping shareholders and investors informed of the Group's business and corporate developments. Such information is disseminated via annual reports, quarterly financial results, circulars to shareholders and the various announcements released from time to time.

The management holds discussions and dialogues with analysts and investors on a regular basis. During the discussions and dialogues, presentations based on permissible disclosures are made to the analysts and investors to provide details on the Group i.e. financial performance, any major developments and future plans. Apart from the mandatory requirement to make public announcements via the Bursa Malaysia Securities Berhad, the Group also disseminates information through press releases on corporate events, product launches and any significant developments of the Group.

In addition to the above, the Group has an interactive web-site available at <http://www.kfcholdings.com.my> to communicate with investors and the investing public. The web-site is being used as a forum to answer inquiries and provide information on the activities of the Group.

The Annual General Meeting is the principal forum for dialogue and interaction with the shareholders of the Company. Besides the usual agenda of the Annual General Meeting, the Board presents the progress and performance of the business. Thereafter, the shareholders are presented with the opportunity to participate in question and answer sessions with the Directors.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

In presenting the annual financial statements and quarterly announcements of results to the shareholders, the Board aims to present a balanced and understandable assessment of the Group's position and prospects. Before the financial statements were drawn up, the Directors had taken the necessary steps to ensure that the Group had used all the applicable accounting policies consistently, and that the policies are supported by reasonable and prudent judgement and estimates. The Audit Committee assists the Board in ensuring the accuracy, adequacy and completeness of the information to be disclosed. The Statement by Directors pursuant to Section 169 of the Companies Act 1965 is set out on page 6 (Financial Section) of the Annual Report.

The quarterly reports, prior to tabling to the Board of Directors for approval, will be reviewed and approved by the Audit Committee and EXCO Members.

### Internal Control

The Group's Statement on Internal Control is set out on page 57 of this Annual Report.

### Relationship with the Auditors

The Board via the establishment of an Audit Committee, maintains a formal and transparent relationship with the Company's auditors. The external auditors meet and report their findings to the Audit Committee pursuant to their audit for each financial year.

The Group's internal audit department, reporting to the Audit Committee performs regular reviews of business processes to assess the effectiveness of internal controls and highlight significant risks impacting the Group. The Audit Committee conducts annual reviews on the adequacy of the internal audit department's scope of work and resources.

The Report of the Audit Committee is set out on page 54 of the Annual Report.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The provisions of the Companies Act, 1965 requires the directors to be responsible in preparing the financial statements for each financial year which gives a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of their results and cash flows for the financial year then ended. In complying with these requirements, the directors are responsible for ensuring that proper accounting records are maintained and suitable accounting policies are adopted and applied consistently. In cases whereby judgement and estimates were required, the directors have ensured that these were made prudently and reasonably.

The Directors have also ensured that all applicable accounting standards have been followed and confirm that the financial statements have been prepared on a going concern basis.

In addition, the Directors are also responsible for safeguarding the assets of the Company by taking reasonable steps to prevent and detect fraud and other irregularities.

# BOARD AUDIT COMMITTEE REPORT

## AUDIT COMMITTEE REPORT

The Board is pleased to present the report of the Audit Committee and its activities during the financial year ended 31 December 2005.

## COMPOSITION AND MEETINGS

The Audit Committee was established by the Board and comprises five directors, the majority of whom are independent. During the financial year there were four Audit Committee meetings held and details of attendance are as follows :-

Audit Committee Members	No. of meetings attended
YBhg Dato' Mohd Salleh bin Hj Hashim - Chairman ( Independent and Non-Executive Director )	3/4
YBhg Dato' Abdullah bin Ngah ( Independent and Non-Executive Director )	4/4
Umar bin Abdul Hamid ( appointed on 8 June 2005 ) ( Non Independent and Non-Executive Director )	2/2
C W Toh ( appointed on 16 August 2005 ) ( Group Executive Director / Group Chief Operating Officer )	2/2
Yoong Nim Chor ( appointed on 25 August 2005 ) ( Independent and Non-Executive Director )	1/1
Hassim bin Baba ( appointed on 8 June 2005; redesignated on 25 August 2005 ) ( Independent and Non-Executive Director )	1/1
YBhg Dato' Hj Johari bin Abdul Ghani ( redesignated on 16 August 2005 ) ( Non-Independent and Non-Executive Director )	2/2

## TERMS OF REFERENCE

The Audit Committee is governed by the following terms of reference :-

### Membership

1. The Committee members shall be appointed by the Board from among its numbers and their period of appointment shall be concurrent with their tenure on the Board.
2. The Committee shall comprise not less than three members, the majority of whom are independent non-executive directors.
3. The Committee members shall elect a Chairman from amongst themselves who shall be an independent non-executive director.
4. At least one member of the Audit Committee must be a member of the Malaysian Institute of Accountants or if he/she is not a member of the Malaysian Institute of Accountants, he/she must have at least three years' working experience and:
  - he/she must have passed the examinations specified in Part I of the 1<sup>st</sup> Schedule of the Accountants Act 1967, or
  - he/she must be a member of one of the associations of accountants specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act 1967.
5. No alternate director shall be appointed as a Committee member.
6. The term of office and performance of the Committee and each of its members shall be reviewed by the Board at least once every three years to determine whether the Committee and its members have carried out their duties in accordance with their terms of reference.

7. If a Committee member retires or resigns or for any reason ceases to be a member with the result that the number of members is reduced to below three, the Board shall within three months of that event appoint such number of new members as may be required to make up the minimum number of three members.

***Duties and Responsibilities***

1. To consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal including recommending the nomination of person or persons as external auditors.
2. To discuss with the external auditor prior to the commencement of audit, the nature and scope of the audit, the audit plan and ensure co-ordination where more than one audit firm is involved.
3. To review the assistance extended by the employees to the external auditor.
4. To review the quarterly, half-yearly and year-end financial statements prior to the approval of the board, focusing on:
  - the going concern assumption
  - compliance with accounting standards and other legal and regulatory requirements.
  - any changes in the accounting policies and practices
  - significant issues arising from the audit
5. To discuss problems and reservations arising from the interim and final audits, and any significant matter the external auditor may wish to discuss, where necessary, in the absence of management or any executive board member.
6. To review the external auditor's management letter, response from the Management and the audit report.
7. To do the following with the internal audit function:
  - Review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work.
  - Review the internal audit program and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function.
  - Review and evaluate the effectiveness of the system of internal controls jointly with the external auditors.
  - Review any appraisal or assessment of the performance of members of the internal audit function.
  - Approve any appointment or termination of senior staff members of the internal audit function
  - Keep itself informed of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his/her reasons for resigning.
8. To review any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.
9. To consider the major findings of internal investigations and Management's response.
10. In compliance with paragraph 15.17 of the Bursa Malaysia Securities Berhad (BMSB) Listing Requirements, where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Committee shall promptly report such matter to the BMSB.
11. To perform any other functions as authorised by the Board.
12. The Committee reports its findings and makes appropriate recommendations for the Board's consideration and approval.



# BOARD AUDIT COMMITTEE REPORT

## *Authority*

The Committee shall have the following authority as empowered by the Board:

1. Explicit authority to investigate any matter within its terms of reference.
2. The resources that are required to perform its duties.
3. Full and unrestricted access to all records, information, properties and personnel.
4. Direct communication channels with the external auditors and persons carrying out the internal audit function.
5. Ability to obtain independent professional advice at the company's expense and to invite outsiders with the relevant experience and expertise to attend the Committee's meetings if it considers this necessary.
6. Ability to convene meetings with the external auditors excluding the attendance of the executive members of the Committee whenever deemed necessary.

## *Meetings*

1. The Committee shall meet not less than four times a year although additional meetings may be called at any time at the discretion of the Chairman of the Committee.
2. The quorum for Committee meetings shall be two members and the majority of the members present shall be independent non-executive directors.
3. The Head of Group Internal Audit shall be the Secretary of the Committee and shall be in attendance at meetings of the Committee. Other board members, management and employees, external auditors may attend meetings upon the invitation of the Committee.
4. The Secretary shall send out notices of meetings, record the proceedings of meetings and circulate minutes among members of the Committee.

## ACTIVITIES DURING THE YEAR

The Audit Committee carried out the following activities during the year :-

- Reviewed the quarterly financial result prior to announcement to BMSB and recommended to the Board for approval.
- Reviewed the annual audited financial statements and recommended to the Board for approval.
- Reviewed and approved the external auditors' scope of work and audit plan prior to the commencement of audit.
- Discussed with the external auditors on significant matters arising from their examination of the annual financial statements, including compliance with applicable accounting standards issued by the Malaysian Accounting Standard Board.
- Reviewed and approved the Group internal audit plan for the year
- Deliberated on the internal audit reports that were tabled and appraised Management's response to the key audit observations and recommendations.

## INTERNAL AUDIT FUNCTION

The internal audit function is undertaken by the Group Internal Audit Department (GIAD) which reports to and assists the Audit Committee in discharging its duties and responsibilities.

The GIAD's scope of work covers all the operating divisions of the Group and they performed their duties in accordance with the annual audit plan that was approved by the Audit Committee. As part of its audit strategies, the GIAD conducted risk evaluations, reviewed the adequacy and effectiveness of the system of internal controls, reviewed the extent of compliance with the Group's policies and procedures and regulatory requirements and also reviewed the business processes with the aim of improving the Group's operations.

GIAD issued twenty audit reports during the financial year

## INTRODUCTION

This Statement on Internal Control is made in accordance with the Malaysian Code on Corporate Governance and paragraph 15.27 (b) of the Bursa Malaysia Securities Berhad Listing Requirements, which requires Malaysian public-listed companies to make a statement about their state of internal control, as a Group, in their annual report.

## BOARD RESPONSIBILITY

The Board acknowledges its responsibility for maintaining a sound system of internal control and for reviewing its adequacy and integrity. This system of internal control is meant to safeguard shareholders' investments and the Group's assets and it covers financial, operational, compliance and regulatory controls.

However, as in any system of internal control, it is designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore, it can only provide reasonable and not absolute assurance against material misstatement or loss.

## THE GROUP'S SYSTEM OF INTERNAL CONTROL

The Group's internal control system encompasses the Board and its various Board Committees with its specific terms of reference, executive management that is empowered and accountable for its actions and performance and supported by various monitoring and review procedures that are embedded in the Group's processes.

The Board believes that the Group should have a sound and adequate control environment for it to accomplish its business objectives and that these control processes should be reviewed regularly.

Towards this end and in line with its objective of raising the level of corporate governance and transparency, the Board and Management implemented certain changes in the Group's system of internal controls during the year.

### Reporting Structure

There is a formal organizational structure with delineated lines of authority, responsibility and accountability within the Group. During the year, the Board increased the composition of the various Board Committees including its Executive Committee ("EXCO") and Audit Committee.

### Authorization limits

The Group Authority Limits established for revenue and capital expenditure were revised during the year. The revised Group Authority Limits now provide the Board with greater authority in the approval of major investments, acquisitions and disposals that have been appraised by its Management and EXCO.

### Performance monitoring

The Group's performance is monitored by Group Finance which prepares monthly management accounts that compares against the approved budget. The monthly management accounts are extended to EXCO members and are reviewed and deliberated by Management in its Monthly Operations Meeting.

Quarterly results are presented to the Board and Audit Committee to monitor the Group's progress towards achieving its objectives.

### Human resource

There are policies and procedures for recruitment, performance appraisals and promotions to ensure that suitably qualified and competent personnel are hired and retained. Some of these policies are presently being reviewed by Management. Group Human Resource and Training Department also takes on the task of equipping employees with the relevant and appropriate skills.

## STATEMENT ON INTERNAL CONTROL

### Procurement and Disbursement

There is a centralized and coordinated Procurement function for major purchases, projects and maintenance expenditures that ensures adherence to approval procedures as well as to leverage on economies of scale. The Accounting and Disbursement functions are also centralized to ensure compliance with the established procedures and authorization limits.

Procedures relating to Group Procurement and Disbursement functions have been strengthened in concurrence with the revision of the Group Authority Limits.

### Legal and regulatory

The Group adheres strictly to health, safety, environmental and halal standards as enforced by the various authorities. Product safety and quality audits are conducted by the Quality Assurance function on an ongoing basis while the Syariah Council oversees halal related matters.

### Risk Management

The Risk Management Committee ("RMC") assists the Board in ensuring that the Group has an adequate and effective risk management practice. The composition of the RMC was changed during the year.

The RMC plays an active role in reviewing the principal risks of the Group that were brought to its attention. The RMC reviewed the risks register and scorecard and also followed-up on Management's response on the status of implementation of action plans that were highlighted. The risk register and scorecard are updated on an ongoing basis and it is under the purview of the Internal Audit Department.

### Audit Committee and Internal Audit

The Audit Committee performs an oversight role in maintaining the integrity of the Group's system of internal control and it is assisted by the internal auditors. The activities of the Audit committee and internal audit are reported in the Audit committee report on pages 54 to 56.

## CONCLUSION

The Board is of the view that the present system of internal control is adequate for the Group to manage its risks and to achieve its business objectives. The Board is also committed to ensuring that the Group continuously reviews its internal control system so that it is effective in safeguarding shareholders' investments and the Group's assets.



## NON-AUDIT FEES

The amount of non-audit fees paid and payable to the external auditors and their affiliated company by the Group for the financial year ended 31 December 2005 is as follows: -

	RM'000
Ernst & Young	122
Ernst & Young Tax Consultants Sdn Bhd	85
<b>Total</b>	<b>207</b>

## RECURRENT RELATED PARTY TRANSACTIONS OF REVENUE NATURE ("RRPT")

Details of transactions with related parties undertaken by the Group during the financial year are disclosed on page 55 of the financial statements.

## MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts (being contracts outside the ordinary course of business) entered by the Company or its subsidiaries involving directors and substantial shareholders in the past 2 years preceding 22 May 2006:

- (i) Conditional Sale and Purchase Agreement dated 31 May 2004 between KFC Holdings (Malaysia) Bhd and Employees Provident Fund ("EPF") in respect of the proposed disposal of Wisma KFC for a cash consideration of RM90 million wherein KFCH also undertook, inter alia, to lease Wisma KFC from EPF for a fixed monthly rental of RM525,000 per month for a tenure of 10 years upon the endorsement of EPF's name unto the Issue Document of Title to Wisma KFC.
- (ii) Share Sale Agreement dated 8 September 2004 between KFCH and Region Food Sendirian Berhad for the acquisition of the remaining 274,923 ordinary shares of RM1.00 each representing 30% of the entire issued and paid up share capital of Region Food Industries Sdn Bhd for a cash consideration of RM2.2 million.
- (iii) Share Sale Agreement dated 25 January 2005 between KFCH and Lai Theng Khan Holdings Sdn Bhd for the acquisition of the remaining 732,900 ordinary shares of RM1.00 each representing 15% of the entire issued and paid-up share capital of Integrated Poultry Industry Sdn Bhd for a cash consideration of RM1.0 million.

## DISCLOSURE OF THE RESTRICTIVE COVENANT CLAUSE IN THE INTERNATIONAL FRANCHISE AGREEMENTS GOVERNING THE KFC FRANCHISE

The operation of the KFC restaurants are governed by the International Franchise Agreements (IFAs) entered into by the Company ("Franchisee") with the franchisor, namely Yum! Restaurants Asia Pte Ltd ("Franchisor").

The IFAs contain a restrictive clause which provides that the Franchisor may terminate the IFAs by notice to the Franchisee effective upon receipt by the Franchisee of the notice and/or adopt any of the remedies specified in the IFAs in the event the following occurs:

"...any direct or indirect acquisition by any person or entity acting in concert with others of more than fifteen per cent (15%) of the voting shares of Franchisee and/or QSR, whether by itself or with or through its affiliated companies or another person or entity or taken together with any previous transaction; and/or the ability of such person and persons acting in concert with him by virtue of their shareholding to amend any provisions of the Memorandum and Articles of Association of Franchisee and/or QSR or to have any ability to direct in the management or board of the Franchisee and/or QSR; and/or such person(s) or entity does not (i) execute such shareholders' deed(s) and such other documentation in the form as Franchisor requires; or (ii) undertake that it will not sell, transfer, gift, charge or pledge any interest or share to any party; or (iii) comply with the terms of the IFA(s); and/or in the opinion of Franchisor, such acquisition is likely to be detrimental to the business..."