

Corporate Statement



Tan Sri Dato' Muhammad Ali Bin Hashim
Chairman



Ahamad bin Mohamad
Deputy Chairman
Non Independent Non Executive Director



Jamaludin bin Md Ali
Managing Director



Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the Corporate Statement of QSR Brands Bhd (QSR) for the financial year ended 31 December 2005.

First of all, we are pleased to report that the long standing Boardroom infighting that has been haunting QSR for a considerable period of time had finally come to a definite end, much to the relief of shareholders and all stakeholders of the Company. At an Extraordinary General Meeting (EGM) requisitioned by inter alios, Kulim (Malaysia) Berhad (Kulim) held on 7 June, 2006, the full weight of shareholders' power and ultimate authority was exercised whereby new Directors nominated by Kulim were elected in replacement of eleven incumbents whose continued presence were rejected by shareholders.

The following are the eight new Directors appointed at the EGM:

Tan Sri Dato' Muhammad bin Ali Hashim
Ahamad bin Mohamad
Jamaludin bin Md Ali
Wong Seng Lee
Kua Hwe Sim
Sheik Sharufuddin bin Sheik Mohd
Mohammad bin Alwi
Idham Jihadi bin Abu Bakar



Delivering Innovation

Innovation is the difference between intermittent progress and sustained success, between just coasting along and getting to where you're going fast. At QSR we pride ourselves in providing a fertile environment for innovation and initiative to thrive.



Corporate Statement (contd.)

Apart from the eight new Directors above there are three existing directors namely Toh Chun Wah, Dato' Dr Ridzuan bin Mohd Akil and YAM Dato' Seri Syed Amir Abidin Jamalullail Ibni Almarhum Tuanku Syed Putra Jamalullail.

The Directors' Report dated 28 April 2006 which appears on pages 46 to 50 of this Annual Report contains some information that requires clarification. Various legal suits filed in the Kuala Lumpur High Court between certain directors, led to the announcement on 3 January 2006 that the following directors had vacated their office by reason of Article 100(g) of the Company's Articles of Association:-

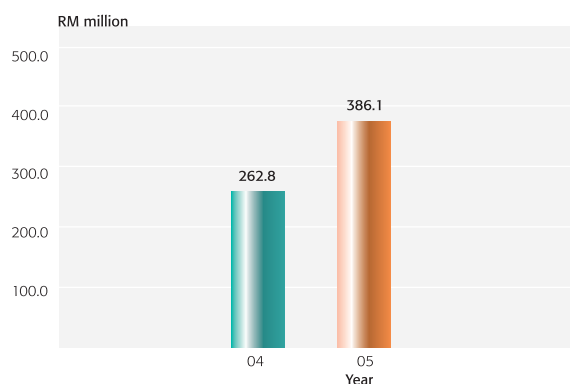
- (i) Datuk Johari bin Abdul Ghani;
- (ii) Dato' Hilmi bin Haji Abdul Rashid;
- (iii) Dato' Haji Karim bin Marzuki; and
- (iv) YAM Dato' Seri Syed Amir Abidin Jamalullail Ibni Almarhum Tuanku Syed Putra Jamalullail.

Subsequently on 4 May 2006 the Court of Appeal made interim orders in Civil Appeals W-02-1070-2005 and W-02-1095-2005 which had the effect of restraining the following directors from acting as directors and declaring these four directors (together with Toh Chun Wah who was not a party) as the directors of your Company with authority to act:-

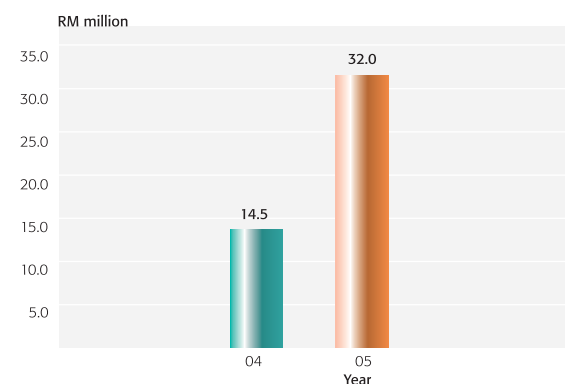
- (i) Tan Sri Dato' Nik Ibrahim Kamil bin Tan Sri Nik Ahmad Kamil;
- (ii) Sarbjit Singh a/l Sarban Singh;
- (iii) Yoong Nim Chor;
- (iv) Choong Show Tong;
- (v) Mohd Harris bin Pardi;
- (vi) Nurolamin bin Abas;
- (vii) Umar bin Abdul Hamid;
- (viii) Y Bhg Datuk Haji Izhar bin Sulaiman; and
- (ix) YAM Dato' Seri DiRaja Syed Razlan ibni Almarhum Tuanku Syed Putra Jamalullail.

After the EGM requisitioned by Kulim the position of the directors who had allegedly vacated their office, other than YAM Dato' Seri Syed Amir Abidin Jamalullail Ibni Almarhum Tuanku Syed Putra Jamalullail's, is entirely academic, as they had either resigned or were removed at the EGM. The present Board has received legal opinion that YAM Dato' Seri Syed Amir Abidin Jamalullail Ibni Almarhum Tuanku Syed Putra Jamalullail remains a director of the Company.

Group Revenue: 2004 vs 2005



Group Operating Profit: 2004 vs 2005



Kulim who, at the date of the EGM, beneficially held 51.86% shares in QSR, secured a majority of 55.90% of total votes cast at the EGM which ensured the successful passage of all resolutions. It is apparent that Kulim was successful in garnering the support of other minority shareholders of the Company, who obviously wanted to see an end to all squabbles, conflicts and litigation and get on with the Company's business. With the presence of a clear, single majority shareholder in Kulim, who is able, committed and willing to provide the leadership needed by the Company, QSR can now once and for all overcome the debilitating, distractive as well as meaningless Boardroom infighting and tussles that had been so much a negative feature of its corporate identity over the recent years.

With the mandate given by shareholders, all three of the undersigned, namely Tan Sri Dato' Muhammad Ali Hashim, Ahamad Mohamad and Jamaludin Md Ali, who respectively were appointed by your Board to the offices of the Chairman, Deputy Chairman and Managing Director of the Company, are pleased to present this Corporate Statement for the Company's Annual Report for Financial Year 2005.

This 'Corporate Statement', is obviously a departure from the previously familiar 'Chairman's Statement'. This is in line with the established corporate practice of Kulim as well as that of Johor Corporation, the Group's ultimate holding corporation.

This change is deliberate and it is also timely, in the context of the need to renew public perception of the Company that was badly damaged by the past conflicts. It is also done for a very good corporate reason. It obviously signals a much needed shift in top level corporate attitude, outlook and perception that should, over time, similarly permeate all levels of management structure.

More significant, it is intended to institute change involving a deliberate shift to a corporate and institutional management approach from previously personality-focused leadership style.

This 'Corporate Statement' therefore symbolizes that shift. It is a move towards a corporate leadership style at the very top that takes a very serious, long term view of the Company's future interests and wellbeing. More so now that the majority shareholders and ultimate holding corporation are themselves highly reputable and responsible corporations with very substantial public interests and ownership stakes involved.

Clearly, a new dynamic in QSR's very top corporate leadership is now in place, determined to 'create' a corporate climate fully conducive to its fundamental raison d'etre in business. QSR can now refocus all its energies, time and resources to fully address the challenges of growing the Company's business and sustaining effort to add long term value and maximize benefits and returns to all shareholders.

The newly elected directors have not had the benefit of reviewing the accounts and financial performance of QSR and, therefore, the ensuing paragraphs should not be construed as an endorsement by the newly elected directors of the same. In this connection, the Board has received notification from a new majority shareholder of their reserved position in respect of the accounts.

BUSINESS ENVIRONMENT

2005 has been a year to remember, beginning on a tumultuous note against an uncertain economic backdrop. Increasingly high crude oil prices had a knock on effect with slower growth rates in many countries. However, on the Malaysian front the economy remained stable and enjoyed GDP growth of 5.3%. A similar situation was seen across the causeway in Singapore with GDP at 6.4% and a decrease in unemployment on the back of strong economic growth. The positive mood translated into an increased number of customers visiting Pizza Hut Casual Dining Restaurants and increased purchasing power of customers resulting in increased uptake of big ticket items in KFC restaurants.

Corporate Statement (contd.)

AGAINST THE ODDS

Despite the threat of Avian Flu and the unnecessarily distractive and disruptive effects emanating from a fractious Board, QSR delivered a good performance in 2005.

Financial highlights include:

- Pizza Hut restaurants and associate KFC Holdings (Malaysia) Bhd (KFCH) performed better with margin expansion from increased throughput and cost cutting measures.
- Group revenue increased 47% to RM386.1 million from RM262.8 million in 2004.
- Total FY2005 dividends of 7 sen consisting of 3 sen interim dividend and proposed 4 sen final dividend.

ROADMAP

A Roadmap was implemented in August 2005 with 3 strategic thrusts aimed at institutionalizing governance, improving financial results and focus on running great restaurants. With the intent of enhancing overall governance, Group Authority Limits and Procedures (GALP) were reviewed and activated.

The execution of the “Beat Year Ago” marketing programmes and re-imaging of our restaurants has led to higher sales. Furthermore, savings made by leveraging on Group purchase to buy in bulk and avoid cost escalation added to better flow through from sales and pushed operating margins for QSR up 8.3% in 2005 from 5.5% a year ago. The renegotiation of a beverage supply agreement resulted in savings of about RM3 million across KFCH Group. Additionally, increase in process efficiencies and the rationalisation of non-performing KFC and Ayamias led to an estimated annual savings of RM3 million.

GROWTH STRATEGY

To create greater shareholder value, a “Back to basics” strategic thrust was put in place to drive the restaurant business towards profitable expansion. Pizza Hut expanded its market dominance by increasing its restaurant count and re-imaging exercise in 2005 helping grow revenue by 47% to RM386.10 million.

In Malaysia, 17 new restaurants were opened in the year and 6 others underwent major remodeling to encompass the Pizza Hut Enhanced Dine-In (EDI) concept. The EDI experience offers customers enhanced service levels, improved ambiance and wider variety at affordable prices. It has helped maintain our 80% share of the Pizza Hut market and our third place in the fast food industry in both Malaysia and Singapore.



Numerous innovative and successful products like Cheesy Lava 3 and the Mystical Moroccan Pizza combined with the introduction of value for money combo meals delivered strong sales growth and margin expansion.

Pizza Hut Singapore mirrored Pizza Hut Malaysia's performance by achieving an improvement in operating profit to RM5 million in second half 2005 from a loss of RM1.70 million in first half 2005. Margin flow improvements came from an overall improvement in cost. Investments in call centre capabilities and heated pizza pouch deliveries have led to an increase in business. All this underlines Pizza Hut's growth potential and puts QSR in a position to create greater value in 2006.

KFC Malaysia, Brunei and Singapore experienced an increase in total revenue by 8% in 2005 to over the RM1 billion mark. In Singapore, a continuous effort to reduce promotional food cost and keeping a tight watch on the operating expenses saw the delivery of turnaround results with revenue and operating profits up 0.5% and 340% respectively from the previous year. Likewise, total operating profit for KFC Malaysia, Brunei and Singapore grew from RM40.90 million in 2004 to RM102.60 million in 2005.

Effort in marketing campaigns further improved KFC's number 1 brand position. The innovative "What's your KFC Moment?" brand thematic launched in August 2005, cemented the emotional bond KFC continues to enjoy with customers by conveying the message that KFC is not just the recipe for good food, but also for good times with loved ones.

Well received new products like Curry Chicken Crunch, Criss Cut Fries and Bandito Pocket and value layering strategies to offer affordable products to all wallets as well as the successful launch of higher ticket products like the bucket combo achieved consistent sales which reached a record peak in second half of 2005. The combined force of the brand thematic campaign with Image Enhancement efforts, new store openings, a wider value product offering all helped drive same store average sales in 2005 for KFC Malaysia and Brunei.

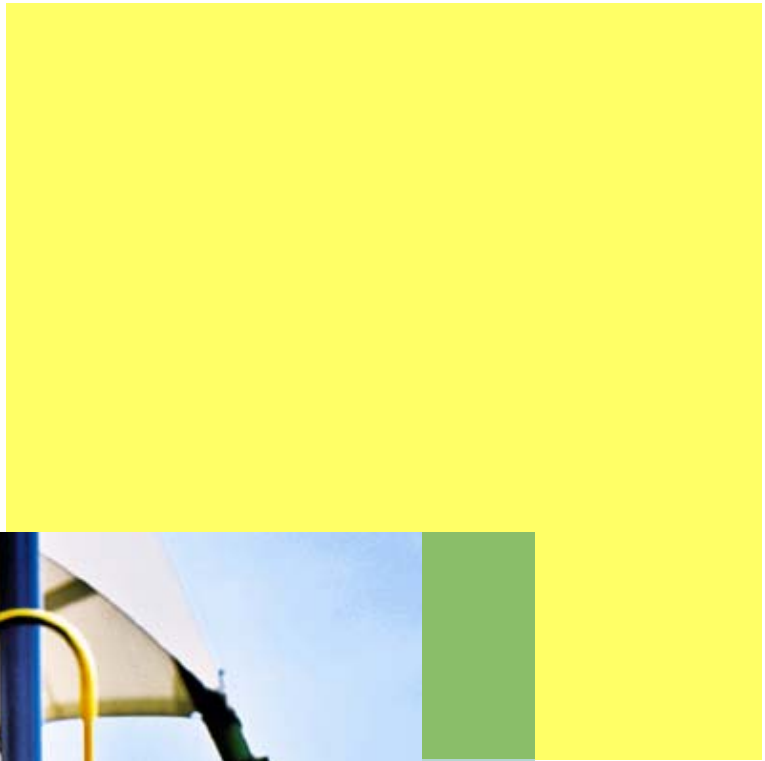
Improvements were also achieved across the KFCH Group as integrated poultry saw operating profit up to RM25.70 million in 2005. The repositioning of Ayamas retail division does not affect Ayamas' position as the market leader on chicken meat products such as the bestsellers Crispy Fried Chicken, Drummets and Premium Sausages. The growth in hypermarkets and supermarkets allowed management the opportunity to significantly trim overheads by closing 24 Kedai Ayamas outlets and refocus on a strategy to develop distribution networks. In line with management's store portfolio strategy aimed at driving profitable restaurants, the remaining Rasa Ayamas portfolio will be remodeled to complement our portfolio of great restaurants along the fast casual dining concept.



Reaching High in Brand Loyalty

QSR has not only satisfied millions of customers, but more importantly earned their trust and loyalty. Our products are also strongly identified among consumers as brands they love and trust, as names that they grew up with, and which they in turn pass on to their children.





Corporate Statement (contd.)

DIVIDENDS

The Company declared and proposed a dividend of 7 sen per share in 2005 as compared to 4 sen in the previous year.

HUMAN RESOURCES

We are dedicated to building an operating culture with a daily focus on execution in our business units with passion, urgency and excellence to drive performance. Throughout our journey we have become increasingly adept at embedding or inculcating our unique operating culture deep into our people to ensure service and performance improves from the ground up.

We are proud of our Pizza Hut and KFC teams who have bagged 14 awards at the YUM! Asia Pacific CHAMPS Challenge 2005 hosted here in Malaysia.

CORPORATE SOCIAL RESPONSIBILITY

In line with our brand and people focus, we continue to direct the Group's community efforts on children. Pizza Hut's annual Best Schools Newspaper Award was conducted in conjunction with The Star and The Ministry of Education. 56,000 students participated for an opportunity to win a study tour to the University of Melbourne and digital cameras to help the budding journalists along on their journey. This year's highlights were the tenth anniversary of KFC's Projek Penyayang, a community outreach drive that targets delivery of *finger lickin' good* meals to 7,000 children at over 80 charitable institutions once a quarter.

MOVING FORWARD

We are acutely aware of the need to manage costs and operate lean and efficient business units. We will continue to improve operational efficiencies and streamline costs where possible. Following efforts made in 2005, QSR is well placed to grow the Group's dominant market share of the quick service restaurants and embark on a clear growth path towards profitability and value creation.

The business plans include the introduction of more product innovations, improvement in process efficiencies and exploration of new markets and opportunities.

ACKNOWLEDGEMENTS

We would like to commend and thank everyone from the management team through to our staff on the ground who remained focused on the day-to-day running of operations. Our thanks also go to our shareholders, bankers, financiers, suppliers and governmental and regulatory authorities for their continuing support.


Now that the Boardroom conflicts are over and buried in the Company's past, so should we do away with the unnecessary and unproductive squabbles that had resulted in so much uncertainty, confusion and dissipated energy. Corporate assets, resources, time and energy will now be focused and fully dedicated towards sustaining value added and growing the Company.



High on the priority list would be the need, this time around, together as a solid team at all levels, to recharge and re-empower human resources and managerial capabilities and release total energies for higher performance and greater achievements. At the Board level, we are determined, at all times, to dedicate the power and authority vested in us responsibly and responsively.

Our first task will be to 'create' a corporate climate within which all productive members of the Company team will be given the space, encouragement and means, as well as full access to assets and corporate resources, to enable them to release energies and express their full potential and talent. The same climate should, in the end, ensure the expansion and enrichment of careers of all productive members of the team involved. For we are firm in the belief that, in the final analysis, it is only through 'growing' our people that we can grow the Company.

Obviously, QSR Group would not have become Number 1 in the quick service restaurants business in the region without the present availability of strong, talented, outstanding and capable personalities at all levels. We have every intention to build on these very strong foundations going forward, and are very excited indeed by the opportunities, challenges and possibilities that lie ahead.



Tan Sri Dato' Muhammad Ali Hashim

Chairman



Ahamad Mohamad

Deputy Chairman



Jamaludin Md Ali

Managing Director

