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Financial Statements

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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company are that of investment holding and provision of management services. The principal activities of its subsidiaries and associate are described in Note 15 and Note 16 to the financial statements respectively.

RESULTS

	Group RM'000	Company RM'000
Profit before tax	65,832	22,437
Income tax expense	(11,286)	(6,811)
Profit after tax	54,546	15,626

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in Note 5 to the financial statements.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2005 were as follows:

RM'000

In respect of the financial year ended 31 December 2005 as reported in the directors' report of that year.

Final dividend of 4 sen less 28% taxation per share, on 240,951,055 ordinary shares,
declared on 3 August 2006 and paid on 19 September 2006

6,939

In respect of the financial year ended 31 December 2006:

Interim dividend of 3 sen less 28% taxation per share, on 240,910,194 ordinary shares,
declared on 16 May 2006 and paid on 3 August 2006

5,204

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2006, of 6 sen less 28% taxation per share on 244,252,839 ordinary shares, amounting to a total dividend payable of RM10,552,000 (4.3 sen net per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2007.

DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Dato' Muhammad Ali bin Hashim	(Appointed as director on 7 June 2006 & Chairman on 8 June 2006)
Ahamad bin Mohamad	(Appointed as director on 7 June 2006 & Deputy Chairman on 8 June 2006)
Jamaludin bin Md Ali	(Appointed as director on 7 June 2006 & Managing Director on 8 June 2006)
Mohammad bin Alwi	(Appointed as director on 7 June 2006 & Executive Director on 7 August 2006)
Dato' Dr Ridzuan bin Mohd Akil	
YAM Dato' Seri Syed Amir Abidin Jamalullail Ibni Almarhum Tuanku Syed Putra Jamalullail	
Kua Hwee Sim	(Appointed on 7 June 2006)
Wong Seng Lee	(Appointed on 7 June 2006)
Sheik Sharufuddin bin Sheik Mohd	(Appointed on 7 June 2006)
Idham Jihadi bin Abu Bakar	(Appointed on 7 June 2006 & retired on 29 August 2006)
Toh Chun Wah	(Retired on 29 August 2006)
Tan Sri Dato' Nik Ibrahim Kamil bin Tan Sri Nik Ahmad Kamil	(Removed on 7 June 2006)
Umar bin Abdul Hamid	(Removed on 7 June 2006)
Nurolamin bin Abas	(Removed on 7 June 2006)
Datuk Haji Izhar bin Sulaiman	(Removed on 7 June 2006)
Datuk Johari bin Abdul Ghani	(Removed on 7 June 2006)
Choong Show Tong	(Removed on 7 June 2006)
Yoong Nim Chor	(Removed on 7 June 2006)
Razmi bin Alias	(Removed on 7 June 2006)
Chai Sing Hong	(Appointed as Chairman on 5 June 2006 & removed on 7 June 2006)
Ahmad Aznan bin Mohd Nawawi	(Appointed as Executive Director on 4 May 2006, Deputy Chairman on 5 June 2006 & removed on 7 June 2006)
Lim Kuan Yew	(Appointed as Executive Director on 4 May 2006 & removed on 7 June 2006)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement, to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 9 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 31 to the financial statements.

Directors' Report (cont'd)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares of RM1.00 Each			
	Date of Appointment	Acquired	Sold	31 December 2006
The Company				
Direct Interest:				
Ahamad bin Mohamad	100	–	100	–
The Associate				
KFC Holdings (Malaysia) Bhd				
Direct Interest:				
Ahamad bin Mohamad	100	–	100	–

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up share capital from RM239,288,318 to RM244,252,839 by way of the issuance of 4,964,521 new ordinary shares of RM1.00 each upon the conversion of 4,964,521 warrants at the exercise price of RM1.19 each. The share premium of RM943,259 arising from the issuance of the shares at the exercise price above the nominal value of RM1.00 each share has been credited to the share premium account.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

WARRANTS

The main features of the warrants are disclosed in Note 25 to the financial statements.

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

The ESOS had been approved by the Securities Commission and became effective on 8 July 2004. At the date of this report, the Scheme is in the process of being implemented.

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:
- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

OTHER STATUTORY INFORMATION (cont'd)

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 March 2007.

TAN SRI DATO' MUHAMMAD ALI BIN HASHIM
Chairman

JAMALUDIN BIN MD ALI
Managing Director

STATEMENT BY DIRECTORS pursuant to Section 169(15) of the Companies Act, 1965

We, TAN SRI DATO' MUHAMMAD ALI BIN HASHIM and JAMALUDIN BIN MD ALI, being two of the directors of QSR Brands Bhd, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 56 to 96 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 March 2007.

TAN SRI DATO' MUHAMMAD ALI BIN HASHIM
Chairman

JAMALUDIN BIN MD ALI
Managing Director

STATUTORY DECLARATION pursuant to Section 169(16) of the Companies Act, 1965

I, MOHAMMAD BIN ALWI, being the director primarily responsible for the financial management of QSR Brands Bhd, do solemnly and sincerely declare that the accompanying financial statements set out on pages 56 to 96 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed MOHAMMAD BIN ALWI
at Kuala Lumpur in the Federal Territory
on 28 March 2007

MOHAMMAD BIN ALWI

Before me
MAISHARAH BINTI ABU HASAN (W181)
Commissioner for Oaths

REPORT OF THE AUDITORS TO THE MEMBERS OF QSR BRANDS BHD

(INCORPORATED IN MALAYSIA) – 599171 D

We have audited the accompanying financial statements set out on pages 56 to 96. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditors' reports thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note 15 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

ERNST & YOUNG
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
28 March 2007

MOHD SUKARNO BIN TUN SARDON
No. 1697/03/09 (J)
Partner

INCOME STATEMENTS for the year ended 31 December 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000 (restated)	2006 RM'000	2005 RM'000
Revenue	3	428,543	386,146	–	1,000
Cost of sales	4	(122,568)	(113,449)	–	–
Gross profit		305,975	272,697	–	1,000
Other income		21,932	20,281	41,692	33,257
Administrative expenses		(35,183)	(27,694)	(10,412)	(4,398)
Selling and marketing expenses		(251,323)	(222,090)	(87)	–
Other expenses	5	(1,102)	(3,451)	–	(1,750)
Operating profit		40,299	39,743	31,193	28,109
Finance costs	6	(10,204)	(9,570)	(8,756)	(7,331)
Share of profit/(loss) of associate		35,737	(10,693)	–	–
Profit before tax	7	65,832	19,480	22,437	20,778
Income tax expense	10	(11,286)	(9,578)	(6,811)	(8,089)
Profit for the year		54,546	9,902	15,626	12,689
Earnings per share attributable to equity holders of the Company (sen):					
Basic, for profit for the year	11	22.62	4.32		
Diluted, for profit for the year	11	22.52	4.24		

The accompanying notes form an integral part of the financial statements.

BALANCE SHEETS as at 31 December 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000 (restated)	2006 RM'000	2005 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	13	106,464	89,667	1,296	–
Intangible assets	14	61,876	57,690	–	–
Investments in subsidiaries	15	–	–	125,346	125,346
Investments in associate	16	436,076	306,290	127,348	28,612
Fixed deposit	17	14,864	20,000	14,864	20,000
		619,280	473,647	268,854	173,958
Current assets					
Properties held for sale	18	–	1,151	–	–
Inventories	19	15,071	14,039	–	–
Trade and other receivables	20	32,935	18,768	281,313	279,478
Cash and bank balances	21	32,225	84,853	7,574	29,594
		80,231	118,811	288,887	309,072
TOTAL ASSETS		699,511	592,458	557,741	483,030
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	25	244,253	239,288	244,253	239,288
Other reserves	26	9,498	8,516	8,920	7,977
Retained earnings	27	172,129	129,726	109,614	106,131
Total equity		425,880	377,530	362,787	353,396
Non-current liabilities					
Borrowings	22	200,011	148,375	185,147	126,367
Deferred tax liabilities	24	6,646	6,662	–	–
		206,657	155,037	185,147	126,367
Current liabilities					
Borrowings	22	7,432	7,336	–	–
Trade and other payables	23	56,938	49,711	9,807	3,267
Current tax payable		2,604	2,844	–	–
		66,974	59,891	9,807	3,267
Total liabilities		273,631	214,928	194,954	129,634
TOTAL EQUITY AND LIABILITIES		699,511	592,458	557,741	483,030

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY for the year ended 31 December 2006

	Note	← Attributable to Equity Holders of the Company →					Total Equity RM'000
		Share Capital (Note 25) RM'000	Share Premium (Note 26) RM'000	← Non-Distributable →		Distributable Retained Earnings (Note 27) RM'000	
				Exchange Fluctuation Reserve (Note 26) RM'000	Revaluation Reserve (Note 26) RM'000		
Group							
At January 2005							
As previously stated		196,698	82	(397)	–	132,153	328,536
Prior year adjustment	32	–	–	–	–	(303)	(303)
At 1 January 2005 (restated)		196,698	82	(397)	–	131,850	328,233
Translation differences		–	–	340	–	–	340
Profit for the year		–	–	–	–	9,902	9,902
Issuance of share capital							
– conversion of warrants		42,590	7,895	–	–	–	50,485
Revaluation surplus (net of deferred tax)							
on land and buildings		–	–	–	596	–	596
Dividends	12	–	–	–	–	(12,026)	(12,026)
At 31 December 2005		239,288	7,977	(57)	596	129,726	377,530
At 1 January 2006							
As previously stated		239,288	7,977	(57)	596	130,351	378,155
Prior year adjustment	32	–	–	–	–	(625)	(625)
At 1 January 2006 (restated)		239,288	7,977	(57)	596	129,726	377,530
Translation differences		–	–	36	–	–	36
Profit for the year		–	–	–	–	54,546	54,546
Issuance of share capital							
– conversion of warrants		4,965	943	–	–	–	5,908
Revaluation surplus (net of deferred tax)							
on land and buildings		–	–	–	3	–	3
Dividends	12	–	–	–	–	(12,143)	(12,143)
At 31 December 2006		244,253	8,920	(21)	599	172,129	425,880

	Note	Share Capital (Note 25) RM'000	Non-Distributable		Distributable Retained Earnings (Note 27) RM'000	Total Equity RM'000	
			Share Premium (Note 26) RM'000	Exchange Fluctuation Reserve (Note 26) RM'000			Revaluation Reserve (Note 26) RM'000
Company							
At 1 January 2005		196,698	82	–	–	105,468	302,248
Profit for the year		–	–	–	–	12,689	12,689
Issuance of share capital – conversion of warrants		42,590	7,895	–	–	–	50,485
Dividends	12	–	–	–	–	(12,026)	(12,026)
At 31 December 2005		239,288	7,977	–	–	106,131	353,396
At 1 January 2006		239,288	7,977	–	–	106,131	353,396
Profit for the year		–	–	–	–	15,626	15,626
Issuance of share capital – conversion of warrants		4,965	943	–	–	–	5,908
Dividends	12	–	–	–	–	(12,143)	(12,143)
At 31 December 2006		244,253	8,920	–	–	109,614	362,787

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS for the year ended 31 December 2006

	Group		Company	
	2006 RM'000	2005 RM'000 (restated)	2006 RM'000	2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	65,832	19,480	22,437	20,778
Adjustments for:				
Amortisation of franchise fees	947	771	-	-
Depreciation of property, plant and equipment	19,742	17,377	87	-
Interest expense	10,204	9,570	8,756	7,331
Loss on disposal of property, plant and equipment	1,027	1,590	-	-
Dividend income from				
– unquoted subsidiaries	-	-	(39,686)	(26,500)
– associate	-	-	(802)	(1,586)
Interest income	(3,180)	(3,157)	(1,203)	(5,171)
Impairment of properties held for sale	-	33	-	-
Impairment of property, plant and equipment	75	-	-	-
Share of (profit)/loss of associate	(35,737)	10,693	-	-
Operating profit/(loss) before working capital changes	58,910	56,357	(10,411)	(5,148)
Inventories	(1,032)	(1,144)	-	-
Receivables	(12,432)	1,487	(247)	955
Subsidiaries	-	-	1,065	(19,045)
Payables	7,227	(3,266)	6,540	2,814
Cash generated from/(used in) operations	52,673	53,434	(3,053)	(20,424)
Interest paid	(10,204)	(9,570)	(8,756)	(7,331)
Taxes paid	(13,278)	(8,160)	-	-
Net cash generated from/(used in) operating activities	29,191	35,704	(11,809)	(27,755)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(36,696)	(26,055)	(1,383)	-
Purchase of additional shares in associate	(98,736)	(1,555)	(98,736)	(1,555)
Proceeds from disposal of property, plant and equipment	210	803	-	-
Franchise fees	(5,133)	(1,743)	-	-
Acquisition of/Investment in subsidiaries	-	-	-	(10,000)
Interest received	3,180	3,157	1,203	5,171
Exchange translation adjustments	36	340	-	-
Net dividends received from				
– unquoted subsidiaries	-	-	30,446	19,500
– associate	4,687	9,361	578	1,142
Net cash (used in)/generated from investing activities	(132,452)	(15,692)	(67,892)	14,258

	Group		Company	
	2006 RM'000	2005 RM'000 (restated)	2006 RM'000	2005 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of shares	5,908	50,485	5,908	50,485
Drawdown of bank borrowings	58,780	126,367	58,780	126,367
Repayment of term loan	(7,048)	(109,786)	–	(103,479)
Placement of fixed deposit	–	(20,000)	–	(20,000)
Reduction in the restriction on deposit pledged with licensed bank	5,136	–	5,136	–
Payment of dividends	(12,143)	(12,026)	(12,143)	(12,026)
Net cash generated from financing activities	50,633	35,040	57,681	41,347
NET CHANGE IN CASH AND CASH EQUIVALENTS	(52,628)	55,052	(22,020)	27,850
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	84,853	29,801	29,594	1,744
CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 21)	32,225	84,853	7,574	29,594

The accompanying notes form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia Securities Berhad (“Bursa Securities”). The registered office of the Company is located at Level 17, Wisma KFC, No. 17 Jalan Sultan Ismail, 50250 Kuala Lumpur.

The immediate holding company is Kulim (Malaysia) Berhad, a public listed company listed on the Main Board of Bursa Securities and the ultimate holding company is Johor Corporation, a body corporate established under the Johor Corporation Enactment (No. 4 of 1968) (as amended by Enactment No. 5 of 1995).

The principal activities of the Company are that of investment holding and provision of management services. The principal activities of its subsidiaries and associate are described in Note 15 and Note 16 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 March 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared on a historical basis, unless otherwise disclosed in significant accounting policies and comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousands (RM'000) except when otherwise indicated.

2.2 Summary of Significant Accounting Policies

(a) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(a) Subsidiaries and Basis of Consolidation (cont'd)

(ii) Basis of consolidation (cont'd)

Any excess of the cost of the acquisition of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(b) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associate is stated at cost less impairment loss.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(c) Intangible Assets

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Other Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

The restaurants' initial and renewal franchise fees are stated at cost and are amortised on a straight line basis over 10 years.

(d) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and buildings are stated at revalued amount, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Freehold land has an unlimited useful life and therefore is not depreciated.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(d) Property, Plant and Equipment and Depreciation (cont'd)

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Buildings	2%
Leasehold improvements and renovation	10%
Motor vehicles	20%
Restaurant and office equipment	10 – 20%

No depreciation is provided for crockery, cutlery and utensils. The cost of replacing these assets is charged against revenue as and when incurred.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(e) Impairment of Non-financial Assets

The carrying amounts of assets, other than inventories, deferred tax assets and non-current assets (or disposal groups) held for sale, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(f) Inventories

Inventories are stated at the lower of cost (determined on an actual basis) and net realisable value. In arriving at net realisable value, due allowance is made for all obsolete and slow moving items. Cost includes the purchase price of goods and attributable expenditure. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(g) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

(ii) Other Non-Current Investments

Non-current investments other than investments in subsidiaries and associates are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in profit or loss.

(iii) Trade Receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debt based on a review of all outstanding amounts as at the balance sheet date.

(iv) Trade Payables

Trade payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

(v) Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(vi) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared and approved by the shareholders.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

The consideration paid, including attributable transaction costs on repurchased ordinary shares of the Company that have not been cancelled, are classified as treasury shares and presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, re-issuance or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(h) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to the ownership. Leases of land and buildings are classified as operating or finance lease in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classifications. All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exception:

- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Operating Leases – the Group as Lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(i) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest is the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(k) Provision

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(l) Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF"). Some of the Group's foreign subsidiaries also make contributions to their respective countries' statutory pension schemes.

(iii) Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

(m) Foreign Currencies

(i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(m) Foreign Currencies (cont'd)

(ii) Foreign Currency Transactions (cont'd)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Group's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(iii) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2005 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

The principal exchange rate used for every unit of foreign currency is as follows:

	Year end rates		Average rates	
	2006 RM	2005 RM	2006 RM	2005 RM
Singapore (S\$)	2.3225	2.2925	2.3110	2.2737

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(n) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- (i) Revenue from pizza restaurants is recognised at point of sales.
- (ii) Dividend income is recognised when the Group's right to receive payment is established.
- (iii) Other revenue are recognised on an accrual basis or when the right of receipt has been established.

Intercompany sales are excluded from the revenue of the Group.

(o) Non-current Assets (or Disposal Groups) Held for Sale and Discontinued Operation

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets (or all the assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets or disposal groups (other than deferred tax assets, employee benefits assets, financial assets and inventories) are measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of Revised FRSs

On 1 January 2005, the Group and the Company have early adopted FRSs mandatory for financial periods beginning on or after 1 January 2006.

In addition, the Group has early adopted FRS 117: Leases for the financial period beginning 1 January 2006.

The Group has not early adopted the deferred FRS 139 – Financial Instruments: Recognition and Measurement and the following FRSs or amendment for the financial period beginning 1 January 2007:

FRS 124	Related Party Disclosures (effective date: annual periods beginning on or after 1 October 2006)
FRS 6	Exploration for and Evaluation of Mineral Resources (effective date: annual periods beginning on or after 1 January 2007)
FRS 119 ²⁰⁰⁴	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures (effective date: annual periods beginning on or after 1 January 2007)

The adoption of FRS 117 did not result in any significant change in accounting policies as there was no leasehold land held by the Group.

The directors anticipate that the adoption of FRS 119 and FRS 124 in future periods will not have a material impact on the financial statements of the Group except for additional disclosure requirements. FRS 6 is not applicable to the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 Significant Accounting Estimates and Judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2006 was RM50,604,934 (2005: RM50,604,934). Further details are disclosed in Note 14.

3. REVENUE

Revenue of the Group and of the Company consists of the following:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Sale of goods	428,543	386,146	–	–
Management fees from subsidiary	–	–	–	1,000
	428,543	386,146	–	1,000

Revenue for the Group represents cash and invoiced amount for sales of goods and services rendered after allowing for sales discounts and returns and excludes intra-group transactions.

4. COST OF SALES

Cost of sales represents cost of inventories sold.

5. OTHER EXPENSES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Loss on disposal of property, plant and equipment	1,027	1,590	–	–
Impairment of properties held for sale	–	33	–	–
Impairment of property, plant and equipment	75	–	–	–
Contractual obligations	–	1,828	–	1,750
	1,102	3,451	–	1,750

6. FINANCE COSTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Interest payable				
– term loans and others	10,204	9,133	8,756	7,331
– associate	–	437	–	–
	10,204	9,570	8,756	7,331

7. PROFIT BEFORE TAX

The following amounts have been included in arriving at profit before tax:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Employee benefits expense (Note 8)	97,615	87,375	890	712
Non-Executive Directors' remuneration (Note 9)	30	309	30	309
Auditors' remuneration				
– statutory audits	163	138	10	10
– under/(over) provision in prior year	10	(19)	–	–
– other services	112	74	37	20
Amortisation of franchise fees	947	771	–	–
Depreciation of property, plant and equipment (Note 13)	19,742	17,377	87	–
Rental of land and buildings				
– related parties	1,032	721	–	–
– others	42,777	38,824	31	–
Management fees payable to associate	1,692	1,418	–	–
Gross dividends				
– unquoted subsidiaries	–	–	(39,686)	(26,500)
– associate	(6,510)	(13,002)	(802)	(1,586)
Interest receivable				
– deposits with financial institutions	(2,327)	(2,004)	(1,203)	(1,260)
– subsidiary	–	–	–	(3,911)
– associate	(843)	(1,132)	–	–
– others	(10)	(21)	–	–

8. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Wages and salaries	66,457	60,253	437	620
Social security contribution	644	584	–	–
Contributions to defined contribution plan	9,415	8,682	96	92
Other benefits	21,099	17,856	357	–
	97,615	87,375	890	712

Included in employee benefits expense of the Group and of the Company are Executive Directors' remuneration amounting to RM516,000 (2005: RM848,000) and RM515,000 (2005: RM712,000) respectively as further disclosed in Note 9.

9. DIRECTORS' REMUNERATION

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Executive directors' remuneration (Note 8):				
Fees	1	136	–	–
Other emoluments	515	712	515	712
	516	848	515	712
Non-executive directors' remuneration (Note 7):				
Fees				
– current year's provision	137	225	137	225
– overprovision in prior year	(225)	–	(225)	–
Other emoluments	118	84	118	84
	30	309	30	309
Total directors' remuneration	546	1,157	545	1,021
Estimated money value of benefits-in-kind	26	94	26	94
Total directors' remuneration including benefits-in-kind	572	1,251	571	1,115

The details of remuneration receivable by directors of the Company during the year are as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Executive:				
Salaries and other emoluments	349	620	349	620
Fees	1	136	–	–
Bonus	111	–	111	–
Defined contribution plan	55	92	55	92
Estimated money value of benefits-in-kind	26	94	26	94
	542	942	541	806
Non-Executive:				
Fees				
– current year's provision	137	225	137	225
– overprovision in prior year	(225)	–	(225)	–
Other emoluments	118	84	118	84
	30	309	30	309

9. DIRECTORS' REMUNERATION (cont'd)

The previous year's Executive Directors' remuneration consists of payments to the Company's former Group Executive Chairman and former Group Managing Director.

The number of directors of the Company whose total remuneration during the year fell within the following bands is analysed below:

	Number of Directors	
	2006	2005
Executive directors:		
RM150,001 – RM200,000	1	–
RM350,001 – RM400,000	1	–
RM400,001 – RM500,000	–	2
Non-executive directors:		
Below RM50,000	17	13

10. INCOME TAX EXPENSE

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Current income tax:				
Malaysian income tax	9,261	9,660	6,970	7,000
Foreign tax	1,759	–	–	–
	11,020	9,660	6,970	7,000
(Over)/underprovision in prior years:				
Malaysian income tax	(608)	(1,233)	(159)	1,089
Foreign tax	891	47	–	–
	11,303	8,474	6,811	8,089
Deferred tax (Note 24):				
Relating to origination and reversal of temporary differences	(17)	1,104	–	–
Total income tax expense	11,286	9,578	6,811	8,089

Domestic current income tax is calculated at the statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December 2006 has reflected these changes.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

10. INCOME TAX EXPENSE (cont'd)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	2006 RM'000	2005 RM'000
Group		
Profit before tax	65,832	19,480
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	18,433	5,454
Effect of income subject to tax rate of 20%	(40)	(40)
Different tax rates in other country	(496)	(261)
Effect of changes in tax rates on opening balance of deferred tax	(144)	–
Deferred tax recognised at different tax rate	(37)	–
Expenses not deductible for tax purposes	4,599	4,332
Income not subject to tax	–	(2,052)
Overprovision of deferred tax in prior years	(1,307)	–
Under/(over) provision of tax expense in prior years	284	(1,186)
Tax effect on share of associate's (profit)/loss attributable to equity holders of the Company	(10,006)	3,331
Income tax expense for the year	11,286	9,578
Company		
Profit before tax	22,437	20,778
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	6,282	5,818
Expenses not deductible for tax purposes	2,560	3,654
Income not subject to tax	(1,872)	(2,472)
(Over)/under provision of tax expense in prior years	(159)	1,089
Income tax expense for the year	6,811	8,089

Tax savings during the financial year arising from:

	Group	
	2006 RM'000	2005 RM'000
Utilisation of current year capital allowances	13,954	12,800

11. EARNINGS PER SHARE

(a) Basic

Basic earnings per share amount is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2006	2005
Profit for the year (RM'000)	54,546	9,902
Weighted average number of ordinary shares in issue ('000)	241,193	229,206
Basic earnings per share (sen)	22.62	4.32

11. EARNINGS PER SHARE (cont'd)**(b) Diluted**

Fully diluted earnings per share for the year is calculated using an enlarged weighted average number of shares after the inclusion of the number of unexercised warrants outstanding as at 31 December 2006 of 1,547,163 (2005: 6,511,684).

	Group	
	2006	2005
Profit for the year (RM'000)	54,546	9,902
Weighted average number of ordinary shares in issue ('000)	241,193	229,206
Adjustment for assumed exercise of warrants ('000)	980	4,062
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	242,173	233,268
Diluted earnings per share (sen)	22.52	4.24

(c) Employee Share Option Scheme ("ESOS")

The ESOS had been approved by the Securities Commission and became effective on 8 July 2004. At the date of this report, the Scheme is in the process of being implemented.

12. DIVIDENDS

	Dividends in respect of Year			Dividends Recognised in Year	
	2006 RM'000	2005 RM'000	2004 RM'000	2006 RM'000	2005 RM'000
Recognised during the year					
First and final dividend for 2004: 4 sen less 28% taxation on 238,102,190 ordinary shares. (2.9 sen per ordinary share)	-	-	6,857	-	6,857
Interim dividend for 2005: 3 sen less 28% taxation on 239,279,918 ordinary shares. (2.2 sen per ordinary share)	-	5,169	-	-	5,169
Final dividend for 2005: 4 sen less 28% taxation on 240,951,055 ordinary shares (2.9 sen per ordinary share)	-	6,939	-	6,939	-
Interim dividend for 2006: 3 sen less 28% taxation on 240,910,194 ordinary shares (2.2 sen per ordinary share)	5,204	-	-	5,204	-
Proposed for approval at AGM (not recognised as at 31 December)					
Final dividend for 2006: 6 sen less 28% taxation on 244,252,839 ordinary shares (4.3 sen per ordinary share)	10,552	-	-	-	-
	15,756	12,108	6,857	12,143	12,026

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2006, of 6 sen less 28% taxation per share on 244,252,839 ordinary shares, amounting to a dividend payable of RM10,552,000 (4.3 sen net per share) will be proposed for shareholders' approval. The financial statements for current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2007.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM'000	Buildings RM'000	Leasehold improve- ments and renovation RM'000	Motor vehicles RM'000	Restaurant and office equipment RM'000	Total RM'000
Group						
At 31 December 2006						
Cost or valuation						
At 1 January 2006						
At cost	-	-	59,794	4,713	102,299	166,806
At valuation	408	2,632	-	-	-	3,040
	408	2,632	59,794	4,713	102,299	169,846
Revaluation surplus	-	4	-	-	-	4
Reclassification from properties held for sale	-	1,184	-	-	-	1,184
Additions	-	-	11,321	1,671	23,704	36,696
Disposals/write off	-	-	(6,074)	(279)	(3,041)	(9,394)
At 31 December 2006	408	3,820	65,041	6,105	122,962	198,336
Representing:						
At cost	-	-	65,041	6,105	122,962	194,108
At valuation	408	3,820	-	-	-	4,228
At 31 December 2006	408	3,820	65,041	6,105	122,962	198,336
Accumulated depreciation and impairment						
At 1 January 2006	-	59	33,729	3,224	43,167	80,179
Reclassification from properties held for sale	-	33	-	-	-	33
Depreciation charge for the year	-	82	7,036	624	12,000	19,742
Impairment loss recognised in profit or loss	-	75	-	-	-	75
Disposals/write off	-	-	(5,370)	(278)	(2,509)	(8,157)
At 31 December 2006	-	249	35,395	3,570	52,658	91,872
Analysed as:						
Accumulated depreciation	-	141	35,395	3,570	52,658	91,764
Accumulated impairment losses	-	108	-	-	-	108
	-	249	35,395	3,570	52,658	91,872
Net carrying amount						
At cost	-	-	29,646	2,535	70,304	102,485
At valuation	408	3,571	-	-	-	3,979
At 31 December 2006	408	3,571	29,646	2,535	70,304	106,464

13. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land RM'000	Buildings RM'000	Leasehold improve- ments and renovation RM'000	Motor vehicles RM'000	Restaurant and office equipment RM'000	Total RM'000
Group (cont'd)						
At 31 December 2005						
Cost or valuation						
At 1 January 2005						
At cost	408	3,418	57,254	4,250	89,901	155,231
At valuation	–	–	–	–	–	–
	408	3,418	57,254	4,250	89,901	155,231
Elimination of accumulated depreciation on revaluation	–	(192)	–	–	–	(192)
Revaluation surplus	–	828	–	–	–	828
Reclassification to properties held for sale	–	(1,264)	–	–	–	(1,264)
Additions	–	–	7,788	661	17,606	26,055
Disposals/write off	–	(158)	(5,248)	(198)	(5,208)	(10,812)
At 31 December 2005	408	2,632	59,794	4,713	102,299	169,846
Representing:						
At cost	–	–	59,794	4,713	102,299	166,806
At valuation	408	2,632	–	–	–	3,040
At 31 December 2005	408	2,632	59,794	4,713	102,299	169,846
Accumulated depreciation and impairment						
At 1 January 2005	–	295	31,712	2,896	37,187	72,090
Elimination of accumulated depreciation on revaluation	–	(192)	–	–	–	(192)
Reclassification to properties held for sale	–	(80)	–	–	–	(80)
Depreciation charge for the year	–	58	6,587	525	10,207	17,377
Disposals/write off	–	(22)	(4,570)	(197)	(4,227)	(9,016)
At 31 December 2005	–	59	33,729	3,224	43,167	80,179
Net carrying amount						
At cost	–	–	26,065	1,489	59,132	86,686
At valuation	408	2,573	–	–	–	2,981
At 31 December 2005	408	2,573	26,065	1,489	59,132	89,667

13. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Motor vehicles RM'000	Total RM'000
Company		
At 31 December 2006		
Cost		
At 1 January 2006	-	-
Additions	1,383	1,383
At 31 December 2006	1,383	1,383
Accumulated depreciation		
At 1 January 2006	-	-
Charge for the year	87	87
At 31 December 2006	87	87
Net carrying amount		
At 31 December 2006	1,296	1,296
At 31 December 2005	-	-

(a) **Revaluation of Land and Buildings**

During the financial year, the Group has performed valuation update by accredited professional valuers to determine the fair value of its buildings upon reclassification from properties held for sale. Arising from this reclassification, an impairment loss of RM75,000 was charged to current year profits. Valuations were made on the basis of open market values on an existing use basis.

Details of the valuations update are as follows:

	Valuation Amount RM'000
Description of Properties	
Freehold building at Seberang Prai Tengah, Penang	1,645
Freehold land and building at Taman Johor Jaya, Johor Bahru	550
Freehold buildings at Batu Ferringhi, Penang	1,445
Long leasehold building at Petaling Jaya, Selangor	480
	4,120

13. PROPERTY, PLANT AND EQUIPMENT (cont'd)**(a) Revaluation of Land and Buildings (cont'd)**

Had the revalued freehold land and buildings been carried under the cost model, the carrying amounts of properties that would have been included in the financial statements of the Group as at 31 December 2006 would be as follows:

Group	Cost RM'000	Accumulated Depreciation RM'000	Net Carrying Amount RM'000
At 31 December 2006			
Freehold land	408	–	408
Buildings	3,260	414	2,846
	3,668	414	3,254
At 31 December 2005			
Freehold land	408	–	408
Buildings	1,996	251	1,745
	2,404	251	2,153

(b) Title Deeds

The titles of certain properties are pending issuance of strata titles by the relevant authorities.

14. INTANGIBLE ASSETS

Group	Goodwill on Consolidation RM'000	Franchise Fees RM'000	Total RM'000
Cost			
At 1 January 2005	50,605	7,662	58,267
Additions	–	1,743	1,743
At 31 December 2005 and 1 January 2006	50,605	9,405	60,010
Additions	–	5,133	5,133
At 31 December 2006	50,605	14,538	65,143
Accumulated amortisation			
At 1 January 2005	–	1,549	1,549
Amortisation (Note 7)	–	771	771
At 31 December 2005 and 1 January 2006	–	2,320	2,320
Amortisation (Note 7)	–	947	947
At 31 December 2006	–	3,267	3,267
Net carrying amount			
At 31 December 2005	50,605	7,085	57,690
At 31 December 2006	50,605	11,271	61,876

14. INTANGIBLE ASSETS (cont'd)

Impairment tests for goodwill

Goodwill acquired through business combination has been allocated to a cash-generating unit (CGU), Pizza Restaurants segment, which is the reportable segment for impairment testing. Carrying amount of goodwill allocated to Pizza Restaurants segment as at 31 December 2006 was RM50,604,934 (2005: RM50,604,934).

Key assumptions used in value-in-use calculations

The recoverable amount of a CGU is determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a ten-year period. The growth rate used to extrapolate the cash flows of the Pizza Restaurants segment beyond the five-year period is 5% (2005: 5%) which is in line with the estimated GDP growth rate for the country.

The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- There will be no material changes in the structure and principal activities of the Group.
- Raw material price inflation – there will not be any significant increase in the prices and supply of raw materials, wages and other related costs, resulting from industrial dispute, adverse changes in the economic conditions or other abnormal factors, which will adversely affect the operations of the Company.
- Statutory income tax rate – the tax rate for Malaysia is 28% for current year, 27% for year 2007 and thereafter 26% while Singapore tax rate maintains at 20%. There will be no material changes in the present legislation or regulations, rates and bases of duties, levies and other taxes affecting the Company's activities.
- Discount rate – the discount rate used is pre-tax.
- Interest rates – the interest rates on the existing financing facilities will prevail.
- Foreign exchange rate – the foreign exchange rate will not be substantially and adversely different from the current rate.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006 RM'000	2005 RM'000
Unquoted shares at cost	125,346	125,346

Details of the subsidiaries are as follows:

Name of Subsidiaries	Country of Incorporation	Percentage of Effective Equity Held		Activity
		2006	2005	
		%	%	
Held by the Company:				
QSR Ventures Sdn Bhd	Malaysia	100	100	(a)
Pizza Hut Holdings (Malaysia) Sdn Bhd	Malaysia	100	100	(a)

15. INVESTMENTS IN SUBSIDIARIES (cont'd)

Name of Subsidiaries	Country of Incorporation	Percentage of Effective Equity Held		Activity
		2006	2005	
		%	%	
Held through subsidiaries:				
PH Property Holdings Sdn Bhd	Malaysia	100	100	(a)
Pizza Hut Restaurants Sdn Bhd	Malaysia	100	100	(b)
Multibrand QSR Holdings Pte Ltd *	Singapore	100	100	(a)
Pizza Hut Singapore Pte Ltd *	Singapore	100	100	(b)
PH Properties Sdn Bhd	Malaysia	100	100	Dormant

* Audited by affiliate of Ernst & Young

The principal activities of the subsidiaries are in the operations of:

- (a) investment holding; and
- (b) pizza restaurants.

16. INVESTMENTS IN ASSOCIATE

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Quoted shares in Malaysia, at cost	418,348	319,612	127,348	28,612
Share of post-acquisition reserves	17,728	(13,322)	–	–
	436,076	306,290	127,348	28,612
Market value of quoted shares	459,197	266,910	150,965	32,882

Details of the associate and its subsidiaries are as follows:

Name	Country of Incorporation	Percentage of Effective Equity Held		Activity
		2006	2005	
		%	%	
Held by the Group and Company:				
KFC Holdings (Malaysia) Bhd ^	Malaysia	42.9	32.8	(e)

16. INVESTMENTS IN ASSOCIATE (cont'd)

Details of the associate and its subsidiaries are as follows: (cont'd)

Name	Country of Incorporation	Percentage of Effective Equity Held		Activity
		2006 %	2005 %	
Held by the associate:				
Ayamas Food Corporation Sdn Bhd	Malaysia	42.9	32.8	(biv) & (e)
Ayamas Integrated Poultry Industry Sdn Bhd	Malaysia	42.9	32.8	(bi), (bii)
(Formerly known as KFC Integrated Poultry Industry Sdn Bhd)				(biii) & (e)
Havprime Sdn Bhd	Malaysia	42.9	32.8	(e)
Integrated Poultry Industry Sdn Bhd	Malaysia	42.9	32.8	(biv)
KFC Manufacturing Sdn Bhd	Malaysia	42.9	32.8	(ci), (civ) & (e)
KFC Restaurants Holdings Sdn Bhd	Malaysia	42.9	32.8	(e)
Pan-Tiara Corporation Sdn Bhd	Malaysia	42.9	32.8	(e)
Rangeview Sdn Bhd	Malaysia	42.9	32.8	(d)
Region Food Industries Sdn Bhd	Malaysia	42.9	32.8	(ciii)
Signature Chef Dining Services Sdn Bhd	Malaysia	42.9	32.8	(a)
Signature Chef Foodservice & Catering Sdn Bhd	Malaysia	42.9	32.8	(d) & (e)
WP Properties Holdings Sdn Bhd	Malaysia	42.9	32.8	(d) & (e)
Bakers' Street Sdn Bhd	Malaysia	42.9	32.8	Dormant
Bintang Ikhtisas Sdn Bhd	Malaysia	42.9	32.8	Dormant
Edgelink Sdn Bhd	Malaysia	42.9	32.8	Dormant
KFC Agrotech Sdn Bhd	Malaysia	42.9	32.8	Dormant
Roaster's Chicken Sdn Bhd	Malaysia	42.9	32.8	Dormant
Signature Chef Holdings Sdn Bhd	Malaysia	42.9	32.8	Dormant
Idmidton Resources Limited	British Virgin Islands	42.9	32.8	Dormant
Rasa Sayang Holdings Limited	British Virgin Islands	42.9	32.8	Dormant
Hiei Food Industries Sdn Bhd	Malaysia	34.7	26.6	Dormant
Held through associate's subsidiaries:				
AFCB Properties Sdn Bhd	Malaysia	42.9	32.8	(e)
Asbury's (Malaysia) Sdn Bhd	Malaysia	42.9	32.8	(a)
Ayamas Marketing (M) Sdn Bhd	Malaysia	42.9	32.8	(e)
Chippendales (M) Sdn Bhd	Malaysia	42.9	32.8	(d)
Kedai Ayamas Sdn Bhd	Malaysia	42.9	32.8	(bv) & (e)
Kentucky Fried Chicken (Malaysia) Sendirian Berhad	Malaysia	42.9	32.8	(a)
KFC (East Malaysia) Sdn Bhd	Malaysia	42.9	32.8	(e)
KFC (Peninsular Malaysia) Sdn Bhd	Malaysia	42.9	32.8	(a), (cii) & (e)
KFC (Sabah) Sdn Bhd *	Malaysia	38.6	29.5	(a)
KFC (Sarawak) Sdn Bhd *	Malaysia	42.9	32.8	(a)
Ladang Ternakan Putihekar (N.S.) Sdn Bhd	Malaysia	42.9	32.8	(bi)
MH Integrated Farm Berhad	Malaysia	42.9	32.8	(d)
Pintas Tiara Sdn Bhd	Malaysia	42.9	32.8	(d)
Rasa Ayamas Sdn Bhd	Malaysia	42.9	32.8	(a)
Rayaplex Sdn Bhd	Malaysia	42.9	32.8	(e)
SBC Coffee Holdings Sdn Bhd	Malaysia	42.9	32.8	(e)
SPM Restaurants Sdn Bhd	Malaysia	42.9	32.8	(d)

16. INVESTMENTS IN ASSOCIATE (cont'd)

Details of the associate and its subsidiaries are as follows: (cont'd)

Name	Country of Incorporation	Percentage of Effective Equity Held		Activity
		2006 %	2005 %	
Held through associate's subsidiaries: (cont'd)				
Wangsa Progresi Sdn Bhd	Malaysia	42.9	32.8	(d)
Helix Investments Limited *	Hong Kong	42.9	32.8	(e)
WQSR Holdings (S) Pte Ltd *	Singapore	42.9	32.8	(e)
Kentucky Fried Chicken Management Pte Ltd *	Singapore	42.9	32.8	(a)
KFC (B) Sdn Bhd *	Brunei Darussalam	19.7	15.1	(a)
Aspirasi Bintang Sdn Bhd	Malaysia	42.9	32.8	Dormant
Ayamas Contract Farming Sdn Bhd	Malaysia	42.9	32.8	Dormant
Ayamas Farms & Hatchery Sdn Bhd	Malaysia	42.9	32.8	Dormant
Ayamas Feedmill Sdn Bhd	Malaysia	42.9	32.8	Dormant
Ayamas Franchise Sdn Bhd	Malaysia	42.9	32.8	Dormant
Farm's Choice Marketing (M) Sdn Bhd	Malaysia	42.9	32.8	Dormant
Kentucky Trading Sdn Bhd	Malaysia	42.9	32.8	Dormant
KFC Technical Services Sdn Bhd	Malaysia	42.9	32.8	Dormant
Rasa Gourmet Sdn Bhd	Malaysia	42.9	32.8	Dormant
Restoran Sabang Sdn Bhd	Malaysia	42.9	32.8	Dormant
Seattle's Best Coffee Sdn Bhd	Malaysia	42.9	32.8	Dormant
Signature Chef Catercare Sdn Bhd	Malaysia	42.9	32.8	Dormant
Sterling Distinction Sdn Bhd	Malaysia	42.9	32.8	Dormant
Supreme Majestic Sdn Bhd	Malaysia	42.9	32.8	Dormant
Ayamas Food Corporation (S) Pte Ltd *	Singapore	42.9	32.8	Dormant
Yes Gelato Sdn Bhd	Malaysia	34.3	26.2	Dormant

The principal activities of the Company's associate and its subsidiaries are in the operations of:

- (a) restaurants
- (b) integrated poultry
 - (i) breeder farms
 - (ii) hatchery
 - (iii) feedmill
 - (iv) poultry processing and further processing plants
 - (v) poultry retail and convenience food store chain
- (c) ancillary
 - (i) bakery
 - (ii) commissary
 - (iii) sauce manufacturing plant
 - (iv) trading in consumables
- (d) property holding
- (e) investment holding

* Audited by affiliate of Ernst & Young

^ Listed on the Main Board of Bursa Securities

17. FIXED DEPOSIT

An amount of RM20 million is deposited with a licensed bank as collateral for a term loan facility granted to a subsidiary (Note 22).

This security deposit shall be reduced such that the amount of deposit shall not exceed the outstanding term loan principal at all times.

Based on repayment schedule of the outstanding term loan at 31 December 2006, the tenure of the deposit is as follow:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Current (Note 21)	5,136	–	5,136	–
Non-current	14,864	20,000	14,864	20,000
	20,000	20,000	20,000	20,000

18. PROPERTIES HELD FOR SALE

	Group	
	2006 RM'000	2005 RM'000
At 1 January	1,151	–
Net carrying amount upon classification to properties held for sale	–	1,184
Less:		
Impairment loss	–	(33)
Reclassified to property, plant and equipment	(1,151)	–
At 31 December	–	1,151

Properties held for sale consist of buildings that the Group has committed to a plan to sell and is actively seeking for buyers.

Properties held for sale are stated at the lower of carrying amount and fair value less costs to sell, in which their fair value have been determined based on valuations performed by independent professionally qualified valuers using open market value basis.

Properties held for sale have been reclassified to property, plant and equipment during the year as these properties have not been successfully sold for a period exceeding 12 months from date of classification to properties held for sale.

19. INVENTORIES

	Group	
	2006 RM'000	2005 RM'000
At cost		
Trading stocks	14,763	13,699
Spare parts	308	340
	15,071	14,039

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade receivables	1,474	1,286	–	–
Less: Provision for doubtful debts	(1,052)	(1,052)	–	–
Trade receivables, net	422	234	–	–
Other receivables				
Amount due from related parties:				
Advance to subsidiaries	–	–	276,594	277,659
Amount due from associate	7,943	–	–	–
	7,943	–	276,594	277,659
Sundry receivables	1,556	1,017	20	25
Prepayments	5,169	3,353	1,519	1,282
Deposits	12,533	10,587	15	–
Tax recoverable	5,312	3,577	3,165	512
	32,513	18,534	281,313	279,478
	32,935	18,768	281,313	279,478

(a) Credit risk

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

As the Group's transactions are substantially on cash basis, its credit risk is minimal.

(b) Amounts due from related parties

The advance to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The amounts due from associate is interest bearing and repayable on demand, unsecured and is to be settled in cash.

Further details on related party transactions are disclosed in Note 31.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash on hand and at banks	11,396	22,389	935	2,991
Deposits pledged with licensed banks (Note 17)	5,136	–	5,136	–
Deposits with licensed financial institutions	15,693	62,464	1,503	26,603
Cash and bank balances	32,225	84,853	7,574	29,594

The weighted average interest rates of deposits at the balance sheet date were as follow:

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Licensed financial institutions	3.13	2.74	3.02	2.75

22. BORROWINGS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Short Term Borrowings				
Secured:				
Term loan	7,432	7,336	–	–
Long Term Borrowings				
Secured:				
Term loans	200,011	148,375	185,147	126,367
Total Borrowings				
Secured:				
Term loans	207,443	155,711	185,147	126,367
Maturity of Borrowings				
Within one year	7,432	7,336	–	–
More than 1 year and less than 2 years	43,680	7,336	34,390	–
More than 2 years and less than 5 years	49,964	24,672	44,390	10,000
5 years or more	106,367	116,367	106,367	116,367
	207,443	155,711	185,147	126,367

22. BORROWINGS (cont'd)

The term loans are secured by the following:

- (a) a Singapore currency denominated loan, amounting to RM22.296 million, is secured by a deposit pledged with a licensed bank amounting to RM20 million (Note 17). It is also secured by a corporate guarantee of the Company and a subsidiary.
- (b) term loans granted to the Company are secured by certain listed shares in its associate and non listed shares in its subsidiary.

The weighted average effective interest rates per annum for borrowings during the financial year were as follows:

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Term loans	5.49	5.39	4.92	5.40

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade payables	16,405	16,296	–	–
Other payables				
Amount due to associate	–	3,939	–	–
Sundry payables	10,891	9,932	15	36
Accruals	19,229	9,757	9,620	3,037
Payroll liabilities	7,576	6,892	172	194
Duties and other taxes payable	2,837	2,895	–	–
	40,533	33,415	9,807	3,267
	56,938	49,711	9,807	3,267

(a) Trade payables

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days.

(b) Amount due to associate

Amount due to associate was interest bearing and was repayable on demand. The amount was unsecured and was to be settled in cash.

Further details on related party transactions are disclosed in Note 31.

24. DEFERRED TAX

	Group	
	2006 RM'000	2005 RM'000
At 1 January	6,662	5,326
Recognised in income statement (Note 10)	(17)	1,104
Recognised in equity	1	232
At 31 December	6,646	6,662

The components and movements of deferred tax liabilities during the financial year are as follows:

Deferred Tax Liabilities of the Group:

	Revaluation of Land and Buildings RM'000	Accelerated Capital Allowances RM'000	Total RM'000
At 1 January 2006	232	6,430	6,662
Recognised in equity	1	–	1
Recognised in income statement	–	(17)	(17)
At 31 December 2006	233	6,413	6,646
At 1 January 2005	–	5,326	5,326
Recognised in equity	232	–	232
Recognised in income statement	–	1,104	1,104
At 31 December 2005	232	6,430	6,662

25. SHARE CAPITAL

	Number of Ordinary Shares of RM1 each		Amount	
	2006 '000	2005 '000	2006 RM'000	2005 RM'000
Authorised	1,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid				
At 1 January	239,288	196,698	239,288	196,698
Issued during the year				
– Conversion of warrants	4,965	42,590	4,965	42,590
At 31 December	244,253	239,288	244,253	239,288

During the financial year, the Company increased its issued and paid-up share capital from RM239,288,318 to RM244,252,839 by way of the issuance of 4,964,521 new ordinary shares of RM1.00 each upon the conversion of 4,964,521 warrants at the exercise price of RM1.19 each. The share premium of RM943,259 arising from the issuance of the shares at the exercise price above the nominal value of RM1.00 each share has been credited to the share premium account.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

25. SHARE CAPITAL (cont'd)**Warrants 2004/2007**

A total of 49,730,497 warrants were issued by the Company in conjunction with a restructuring scheme completed on 1 April 2004. Each warrant entitles the holder the right to subscribe for a new ordinary share of RM1.00 each in the Company at an exercise price of RM1.19 per new ordinary share. As at the year end, the number of outstanding warrants was 1,547,163 (2005: 6,511,684). The warrants had expired on 24 January 2007. The trading of the warrants was suspended on 9 January 2007 in order to facilitate the expiry and final exercise of the warrants. The expired warrants were removed from the Official List of Bursa Securities with effect from 25 January 2007. The number of lapsed warrants was 328,920.

Employee Share Options Scheme ("ESOS")

The ESOS had been approved by the Securities Commission and became effective on 8 July 2004. At the date of this report, the Scheme is in the process of being implemented.

26. OTHER RESERVES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Asset revaluation reserve	599	596	–	–
Share premium	8,920	7,977	8,920	7,977
Exchange fluctuation reserve	(21)	(57)	–	–
	9,498	8,516	8,920	7,977

The movements in each category of the reserves are disclosed in the statements of changes in equity.

The nature and purpose of each category of reserve are as follows:

(a) Asset revaluation reserve

The asset revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

(b) Share premium

This reserve comprises the premium paid on subscription of shares in the Company over and above the par value of the shares.

(c) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

27. RETAINED EARNINGS

This comprises the cumulative results of the Group and of the Company net of taxation. As at 31 December 2006, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividend amounting to RM67,876,000 (2005: RM57,231,000) out of its entire retained earnings. If the balance of the retained earnings of RM41,738,000 (2005: RM49,016,000) were to be distributed as dividend prior to there being sufficient tax credit, the Company would have a Section 108 shortfall of approximately RM16,232,000 (2005: RM19,062,000).

The Group has no balances in the tax-exempt account available to be utilised for the distribution of reserves as tax-exempt dividend (2005: RM6,686,000), subject to the agreement of the Inland Revenue Board.

28. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group has entered into non-cancellable operating lease agreements for the use of land and buildings. These leases have an average term of 15 years with no renewal or purchase option included in the contracts. Certain contracts include escalation clauses or contingent rental arrangements computed based on sales achieved while others include fixed rentals for an average of 3 years. There are no restrictions placed upon the Group by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the balance sheet date but not recognised as liabilities is as follows:

	2006 RM'000	Group 2005 RM'000
Future minimum rentals payable:		
Not later than 1 year	29,739	23,714
Later than 1 year and not later than 5 years	32,287	28,815
Later than 5 years	1,075	–
	63,101	52,529

29. CAPITAL COMMITMENTS

	2006 RM'000	Group 2005 RM'000
Capital expenditure		
Approved and contracted for:		
Property, plant and equipment	–	1,386
Approved but not contracted for:		
Property, plant and equipment	31,051	28,828
	31,051	30,214

30. CONTINGENT LIABILITIES

	2006 RM'000	Company 2005 RM'000
Unsecured		
Corporate guarantees in favour of various financial institutions in respect of credit facilities extended to certain subsidiaries	27,653	33,373

31. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

Company	Relationship
Pizza Hut Holdings Sdn Bhd ("PHH")	A subsidiary of the Company.
QSR Ventures Sdn Bhd ("QSRV")	A subsidiary of the Company.
KFC Holdings (Malaysia) Bhd ("KFCH")	An associate of the Group.
Ayamas Food Corporation Sdn Bhd ("AFCSB")	A subsidiary of KFCH.
KFC Manufacturing Sdn Bhd ("KFC Manufacturing")	A subsidiary of KFCH.
KFC (Peninsular Malaysia) Sdn Bhd ("KFC PM")	A subsidiary of KFCH.
Region Food Industries Sdn Bhd ("RFI")	A subsidiary of KFCH.
Kentucky Fried Chicken Management Pte Ltd ("KFC MPL")	A subsidiary of KFCH.
Signature Chef Foodservice & Catering Sdn Bhd ("SCFC")	A subsidiary of KFCH.
Wangsa Progresi Sdn Bhd ("WP")	A subsidiary of KFCH.
WP Properties Holdings Sdn Bhd ("WPPH")	A subsidiary of KFCH.
SPM Restaurants Sdn Bhd ("SPM")	A subsidiary of KFCH.
Kentucky Fried Chicken (Malaysia) Sdn Bhd ("KFC (M)")	A subsidiary of KFCH.
WQSR Holdings (S) Pte Ltd ("WQSR")	A subsidiary of KFCH.
Permanis Sandilands Sdn Bhd ("Permanis")	A corporation in which the former directors of the Company have deemed interest.
Sarbjit & Co	A firm in which a former director of the Company has interest.
Yoong & Partners	A firm in which a former director of the Company has interest.
Damansara Assets Sdn Bhd	Subsidiary of ultimate holding company.

	2006 RM'000	2005 RM'000
Group		
Purchase of goods from		
– Permanis	–	4,496
– AFCSB	17,427	15,374
– KFC Manufacturing	41,573	37,407
– KFC PM	1,309	1,327
– RFI	463	321
Management fees to KFCH	1,692	1,418
Allocation of expenses from KFC MPL	5,832	5,264
Interest to KFC MPL	–	437
Rental of land and buildings to		
– SCFC	96	96
– WP	229	229
– WPPH	288	288
– SPM	108	108
– KFC (M)	74	–
– Damansara Assets Sdn Bhd	237	–
Gross dividends from KFCH	6,510	13,002
Interest from WQSR	843	1,132
Legal and professional fees to		
– Sarbjit & Co	99	153
– Yoong & Partners	437	175
Purchase of motor vehicle from ultimate holding company	329	–

31. RELATED PARTY DISCLOSURES (cont'd)

	2006 RM'000	2005 RM'000
Company		
Gross dividends from PHH	31,686	26,500
Gross dividends from KFCH	802	1,586
Gross dividends from QSRV	8,000	–
Interest from QSRV	–	3,911
Legal and professional fees to		
– Sarbjit & Co	99	153
– Yoong & Partners	437	175
Purchase of motor vehicle from ultimate holding company	329	–

The directors are of the opinion that all sales and purchases have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

32. PRIOR YEAR ADJUSTMENT

In prior years, its associate, KFCH recognised deferred tax assets on unutilised reinvestment allowances as required by FRS 112 paragraph 37. During the current year, KFCH changed its accounting policy and accordingly, deferred tax assets on unutilised reinvestment allowances are no longer recognised.

This has been effected by a prior year adjustment to decrease the retained earnings and increase the share of loss of associate by RM625,000.

The effect arising from this change on the comparative figures are as follows:

	Group	
	2006 RM'000	2005 RM'000
Effects on retained earnings:		
At 1 January, as previously reported	130,351	132,153
Effect of prior year adjustment – investments in associate	(625)	(303)
At 1 January, as restated	129,726	131,850
Effects on net profit for the year:		
At 31 December, as previously reported		10,224
Effect of prior year adjustment – investments in associate		(322)
At 31 December, as restated		9,902

Comparative amount as at 31 December 2005 has been restated as follows:

	Previously Stated RM'000	Adjustment RM'000	Restated RM'000
Investments in associate (Note 16)	306,915	(625)	306,290

33. FINANCIAL INSTRUMENTS**(a) Financial Risk Management Objectives and Policies**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate risks (both fair value and cash flow), foreign currency risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

(b) Interest Rate Risk

The Group's primary interest rate risk relates to interest-bearing debt; the Group had no substantial long term interest-bearing assets as at 31 December 2006. The investments in financial assets are mainly short term in nature and have been mostly placed in fixed deposits, marketable securities or occasionally, in short term commercial papers.

The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings. The Group reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes. The Group also uses hedging instruments such as interest rate swaps to minimise its exposure to interest rate volatility.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes. As at the balance sheet date, the Group has entered into interest rate swaps with the following notional amounts and maturities:

	Notional Amounts	
	2006 RM'000	2005 RM'000
Within 1 year	1,057	1,435
More than 1 year and less than 5 years	775	1,822
	1,832	3,257

The interest rate relating to the interest rate swaps at the balance sheet date has been fixed at 5.34% per annum until its maturity in May 2009.

(c) Foreign Currency Risk

The foreign exchange risk of the Group arises from borrowings denominated in foreign currencies. The Group has currency swaps that are primarily used to hedge the foreign currency exposures on the borrowings. The currency exposures are primarily US dollars and Singapore dollars.

The Group also has subsidiaries operating in foreign countries, which generate revenue and incur costs denominated in foreign currencies. The currency exposure is primarily Singapore dollars.

(d) Liquidity Risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

33. FINANCIAL INSTRUMENTS (cont'd)

(e) Credit Risk

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

As the Group's transactions are substantially on cash basis, its credit risk is minimal.

(f) Fair Value

The carrying amounts of financial assets and liabilities of the Group and the Company at the balance sheet date approximated their fair values except for the following:

	Group		Company	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial Assets				
At 31 December 2006:				
Investments in subsidiaries	–	–	125,346	*
Investments in associate	436,076	459,197	127,348	150,965
At 31 December 2005:				
Investments in subsidiaries	–	–	125,346	*
Investments in associate	306,290	266,910	28,612	32,882
Financial Liabilities				
At 31 December 2006:				
Term loans	207,443	200,942	185,147	179,049
At 31 December 2005:				
Term loans	155,711	150,765	126,367	121,912

* It is not practical to estimate the fair value of the Group's non-current unquoted shares because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

It is not practical to estimate the fair value of advance due to subsidiaries, amount due from/(to) subsidiaries and associates due principally to a lack of fixed repayment term entered by the parties involved and the inability to estimate fair value without incurring excessive costs.

33. FINANCIAL INSTRUMENTS (cont'd)**(f) Fair Value** (cont'd)

The methods and assumptions used by management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values are as follows:

(i) Borrowings

Fair value has been determined using discounted estimated cash flows. The discount rates used are the current market incremental lending rates for similar types of lending, borrowing and leasing arrangements.

(ii) Investments in Associate

The fair value of quoted shares is determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date.

34. SEGMENT INFORMATION**(a) Business Segment**

There is no disclosure for segment information by industry as the Group operates in a single industry in the operation of pizza restaurants.

(b) Geographical Segments

The Group's geographical segments can be categorised under Malaysia and foreign. Foreign comprises Singapore only.

	← 2006 →		
	Malaysia RM'000	Foreign RM'000	Consolidated RM'000
External sales	267,892	160,651	428,543
Segment assets	155,683	57,147	212,830
Capital Expenditure	26,846	9,850	36,696

	← 2005 →		
	Malaysia RM'000	Foreign RM'000	Consolidated RM'000
External sales	240,533	145,613	386,146
Segment assets	186,668	48,895	235,563
Capital Expenditure	21,030	5,025	26,055