

QSR BRANDS BHD (599171-D)**QUARTERLY REPORT ON UNAUDITED CONSOLIDATED RESULTS FOR THE FIRST FINANCIAL QUARTER ENDED 31 MARCH 2006****CONDENSED CONSOLIDATED INCOME STATEMENTS**

	CURRENT YEAR QUARTER 31/03/2006 RM'000	PRIOR YEAR QUARTER 31/03/2005 RM'000	CURRENT YEAR TO DATE 31/03/2006 RM'000	PRIOR YEAR TO DATE 31/03/2005 RM'000
Revenue	99,385	92,503	99,385	92,503
Operating expenses	(89,826)	(86,141)	(89,826)	(86,141)
Other operating income	635	298	635	298
Profit from operations	10,194	6,660	10,194	6,660
Finance cost	(2,133)	(2,258)	(2,133)	(2,258)
Operating profit before share of results of associates	8,061	4,402	8,061	4,402
Share of results of associates (net of tax)	6,277	4,480	6,277	4,480
Profit before taxation	14,338	8,882	14,338	8,882
Taxation	(2,386)	(1,222)	(2,386)	(1,222)
Net profit for the period	11,952	7,660	11,952	7,660
Earnings per share (sen) :				
(a) Basic	4.98	3.82	4.98	3.82
(b) Fully diluted	4.91	3.48	4.91	3.48

(The Condensed Consolidated Income Statements should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005)

QSR BRANDS BHD (599171-D)
CONDENSED CONSOLIDATED BALANCE SHEETS

	AS AT END OF CURRENT QUARTER 31/03/2006 RM'000	AS AT PRECEDING FINANCIAL YEAR END 31/12/2005 RM'000
Non-Current Assets		
Property, Plant and Equipment	90,140	89,667
Investment in Associates	313,192	306,915
Goodwill on Consolidation	50,605	50,605
Intangible Assets	8,865	7,085
Fixed Deposit	20,000	20,000
	<u>482,802</u>	<u>474,272</u>
Current Assets		
<i>Properties held for sale</i>	1,151	1,151
<i>Inventories</i>	13,760	14,039
<i>Trade and Other Receivables</i>	22,837	15,191
<i>Tax Recoverable</i>	1,659	3,577
<i>Cash and Bank Balances</i>	76,171	84,853
	<u>115,578</u>	<u>118,811</u>
Current Liabilities		
<i>Trade and Other Payables</i>	42,033	49,711
<i>Tax Payable</i>	1,986	2,844
<i>Borrowings</i>	7,296	7,336
	<u>51,315</u>	<u>59,891</u>
Net Current Assets	<u>64,263</u>	<u>58,920</u>
	<u>547,065</u>	<u>533,192</u>
Equity and Liabilities :		
Equity attributable to the equity holders of the Company		
Share Capital	240,850	239,288
Reserves		
<i>Share Premium</i>	8,273	7,977
<i>Revaluation Reserve</i>	596	596
<i>Exchange Fluctuation Reserve</i>	(50)	(57)
<i>Retained Earnings</i>	142,303	130,351
Total Equity	<u>391,972</u>	<u>378,155</u>
Long Term Borrowings	148,255	148,375
Deferred Taxation	6,838	6,662
	<u>547,065</u>	<u>533,192</u>
Net assets per share (RM)	1.63	1.58

(The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	-<Attributable to equity holders of the Company->					
	Share Capital RM'000	Share Premium RM'000	Revaluation Reserve RM'000	Exchange Fluctuation Reserve RM'000	Retained Earnings RM'000	Total RM'000
At 1 January 2006	239,288	7,977	596	(57)	130,351	378,155
Net profit for the period	-	-	-	-	11,952	11,952
Issue of shares - conversion of warrants	1,562	296	-	-	-	1,858
Translation differences	-	-	-	7	-	7
At 31 March 2006	<u>240,850</u>	<u>8,273</u>	<u>596</u>	<u>(50)</u>	<u>142,303</u>	<u>391,972</u>
At 1 January 2005	196,698	82	-	(397)	132,153	328,536
Net profit for the period	-	-	-	-	7,660	7,660
Issue of shares - conversion of warrants	18,112	3,244	-	-	-	21,356
Translation differences	-	-	-	58	-	58
At 31 March 2005	<u>214,810</u>	<u>3,326</u>	<u>0</u>	<u>(339)</u>	<u>139,813</u>	<u>357,610</u>

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005)

QSR BRANDS BHD (599171-D)
CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	CURRENT YEAR TO DATE 31/03/2006 RM'000	PRIOR YEAR TO DATE 31/03/2005 RM'000
Operating activities		
Profit before taxation	14,338	8,882
Adjustments for :		
Share of results of associates	(6,277)	(4,480)
Interest expense	2,133	2,258
Non-cash items	4,903	4,568
Operating profit before working capital changes	<u>15,097</u>	<u>11,228</u>
Changes in working capital :		
Net change in current assets	(7,367)	1,231
Net change in current liabilities	(7,678)	(5,728)
Cash generated from operations	<u>52</u>	<u>6,731</u>
Interest paid	(2,133)	(2,258)
Taxation paid	(1,150)	(2,461)
Net cash generated from/(used in) operating activities	<u>(3,231)</u>	<u>2,012</u>
Investing activities		
Equity investments	-	-
Other investments	(7,309)	(3,628)
Net cash used in investing activities	<u>(7,309)</u>	<u>(3,628)</u>
Financing activities		
Issuance of shares	1,858	21,356
Bank borrowings	-	25,647
Net cash generated from financing activities	<u>1,858</u>	<u>47,003</u>
Net change in cash and cash equivalents	(8,682)	45,387
Cash and cash equivalents at beginning of period	<u>84,853</u>	<u>29,801</u>
Cash and cash equivalents at end of period	<u><u>76,171</u></u>	<u><u>75,188</u></u>
Cash and cash equivalents comprise of :		
<i>Deposits with Financial Institutions</i>	65,044	64,500
<i>Cash and Bank Balances</i>	<u>11,127</u>	<u>10,688</u>
	<u><u>76,171</u></u>	<u><u>75,188</u></u>

(The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005)

QSR BRANDS BHD (599171-D)

NOTES

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134 : Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2005.

The accounting policies and methods of computation adopted by the Group in this interim financial statements are consistent with those adopted in the financial statements for the year ended 31 December 2005.

2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the financial year ended 31 December 2005 was not qualified.

3. Comments About Seasonal or Cyclical Factors

The Group's performance is generally affected by seasonal factors such as school holidays and festive seasons.

4. Unusual Items Due to their Nature, Size or Incidence

There was no unusual items affecting assets, liabilities, equity, net income, or cash flows during the financial quarter.

5. Changes in Estimates

There were no changes in estimates that have had a material effect in the current quarter.

6. Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the financial year-to-date other than as mentioned below :-

- (a) During the current financial period, the paid-up share capital of the Company was increased from RM239,288,318 to RM240,849,894 as a result of the issuance of 1,561,576 ordinary shares of RM1.00 each upon the conversion of 1,561,576 warrants at the exercise price of RM1.19 per share.
- (b) The number of warrants outstanding as at 31 March 2006 was 4,950,108. 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 share. The warrants will expire on 24 January 2007.

7. Dividends Paid

There were no dividend payments made during the current financial quarter.

8. Segmental Information

RM 'million	3 months ended 31-Mar-06		3 months ended 31-Mar-05	
	Revenue	Operating profit	Revenue	Operating profit/(loss)
Malaysia	62.0	7.7	58.2	5.7
Singapore	37.4	0.4	34.3	(1.3)
Consolidated Total	99.4	8.1	92.5	4.4

9. **Carrying Amount of Revalued Assets**

The valuation of property, plant and equipment have been brought forward without amendment from the financial statements for the year ended 31 December 2005.

10. **Subsequent Events**

There were no material events subsequent to the end of the current quarter.

11. **Changes in the Composition of the Group**

There were no changes in the composition of the Group during the current quarter.

12. **Changes in Contingent Liabilities and Contingent Assets**

There were no contingent liabilities or contingent assets since the last audited balance sheet as at 31 December 2005.

13. **Capital Commitments**

Capital commitments not provided for in the financial statements as at 31 March 2006 were as follows :

	RM'000
(a) Capital expenditure : Property, plant and equipment	
- approved and contracted for	2,630
- approved but not contracted for	26,413
	<u>29,043</u>
(b) Non-Cancellable Operating Lease Commitments - Group as Lessee	<u>45,970</u>

14. **Performance Review**

The Group had a sterling first quarter.

Revenue generated increased to RM99.4million (2005: RM92.5 million) for the three months to 31st March 2006, representing an increase of 7.4% over prior year's corresponding quarter.

The Group's profitability increased by an outstanding 83.1% with Operating Profit before Share of Results of Associates increasing to RM8.1 million (2005: RM4.4 million). Including the share of results of associates, the Group's Profit before Taxation increased by 61.4% to RM14.3 million (2005: RM8.9 million).

The revenue and profit improvement were primarily attributed to the successful planning and execution of the initiatives embodied in the August 2005 Strategic Roadmap:-

a) ***"Back to Basics" focus on Quick Service Restaurants***

- i) restaurant expansion in Malaysia where 17 new stores have been opened since the second half of 2005 (including 5 stores which were opened in the current quarter). This is in addition to the remodelling of 9 existing stores to improve our customer dine-in experience. Both of these initiatives have increased visit frequency and consequently, increased sales and throughput;
- ii) the Group's strategy of expanding its channel sales. The use of a one telephone number nationwide for Delivery and Take-Out orders combined with our Hot Pouch for Home Delivery has increased sales from this channel;
- iii) introduction of value for customer special menu such as the Back to School RM3.00 discount, the RM7.90 Lunch Express have increased store transactions and visit frequency;

- iv) introduction of innovative new products such as Atlantis Stuffed Crust and Hawaiian X-tra have brought in better sales and margins; and
- v) more effective cost control (labour, material usage, wastages etc) and improved productivity and operational efficiencies at the store level which leads to higher Restaurant Margins;

b) **"Lean and Efficient" Supply Chain**

Further improvement in procurement policies and procedures.

- (i) Particular focus was placed on effective sourcing of products and services and on ensuring both internal and external suppliers deliver on time, at the right place, at the right price and with the right quantities; and
- (ii) Efforts were also directed at optimising the Group's raw materials and finished goods stock holdings.

c) **"Improve Financial Management"**

- i) Effective control of general and administration expenses at the Group Support Divisions;
- ii) Policies and procedures for more effective asset and liability management have also been implemented.

The Group's Singapore operations achieved a remarkable 130% turnaround in profitability. It recorded an operating profit of RM400,000 for the current quarter compared to an operating loss of RM1,300,000 for the prior year's corresponding quarter. This was a consequence of effective marketing and benefits derived from better operational efficiencies notwithstanding that the electricity tariffs in Singapore increased by 30% during the current quarter.

The Group's associate company, KFC Holdings (Malaysia) Bhd ("**KFCH**") also recorded improved performance resulting mainly from improved turnover and profitability at KFC Malaysia. Initiatives implemented under the Strategic Roadmap continued to contribute to the improvement in KFCH Group's performance. KFCH's pre-tax profit for the current quarter increased by 33% to RM27.3million (2005: RM20.5million).

15. **Comment on Material Change in Profit Before Taxation**

The 4th Quarter is traditionally the best performing period for the Quick Service Restaurant industry segment owing to the quarter benefitting from the combination of the festive seasons and year end school holidays.

As a result, the Group recorded a 40% lower Operating Profit before Share of Results of Associates at RM8.1 million in the current quarter as against RM13.4 million in the previous quarter to 31st December 2005. The Group's share of KFCH's results also declined by 26% to RM6.3 million in the current quarter as against RM8.5 million in the previous quarter. In addition, KFCH's results for the current quarter were adversely affected by the Avian Flu outbreak in Peninsular Malaysia and the Hand, Foot and Mouth outbreak in Sarawak.

Consequently the Group registered a lower Profit before Taxation of RM14.3 million in the current quarter as against RM21.9 million in the previous quarter. Earnings per share decreased from from 7.8 sen in the previous quarter to 5.0 sen in the current quarter.

16. Commentary on Prospects

Malaysia is expected to achieve an annual economic growth of 6.0% for 2006. Singapore on the other hand is expected to grow by up to 7%.

The Group is cautiously optimistic that the execution of the Strategic Roadmap will further create value and growth. However, the Group is also conscious of the challenges posed by increasing costs and will take measures to introduce more layered product offering that focusses on value for our customers. At the same time, we are continuing with our efforts to derive better cost efficiencies across all functions and to improve on the productivity of our restaurant operations.

Further, to sustain our growth momentum, the Group's marketing efforts will be towards strengthening our position in our core consumer segment and to build brand relevancy in other segments. Towards this objective, the Group Marketing Division for both Malaysia and Singapore have been integrated to promote cross fertilisation of ideas and to drive economies of scale. The Group will also continue to aggressively open new stores and to re-model existing stores to ensure that our stores continue to be attractive, relevant and convenient for customers. Complementing these initiatives is a strong pipeline of exciting new products and product variants designed to tantalise and enthrall the tastebuds of our customers. The objective is to entice repeat visits and promote customer loyalty.

17. Profit Forecast or Profit Guarantee

Not applicable.

18. Taxation

	Current Quarter RM'000	Current Year-To-Date RM'000
Tax expense for the period :		
Malaysian income tax	2,088	2,088
Foreign tax	122	122
	<u>2,210</u>	<u>2,210</u>
Deferred tax	176	176
	<u><u>2,386</u></u>	<u><u>2,386</u></u>

The effective tax rate for the Group for the current year-to-date is higher than the statutory tax rate in view of the absence of tax loss relief for losses of some subsidiaries and the disallowance of certain expenses for tax purposes.

19. Sale of Unquoted Investments and Properties

There were no sales of unquoted investments and properties.

20. Marketable Securities

There were no purchases or disposals of marketable securities during the current financial year-to-date.

21. Corporate Proposals

On 30 December 2005, the Company announced to Bursa Securities that the Company proposed to implement a private placement of up to ten percent (10%) of the issued and paid-up share capital of the Company ("Proposed Private Placement"). The Proposed Private Placement will help to address the public shareholding spread requirement of the Company. Further, the Proposed Private Placement will also enable the Company to raise funds for repayment and prepayment of bank borrowings, capital expenditure and working capital.

The proposed private placement is pending approvals from the following :-

- i) Securities Commission ("SC") ;
- ii) Foreign Investment Committee (through SC) ; and

- iii) Bursa Securities for the listing of and quotation for the new shares to be issued pursuant to the Proposed Private Placement on the Main Board of Bursa Securities.

The maximum number of new ordinary shares of RM1.00 each in the Company ("QSR Shares") to be issued pursuant to the Proposed Private Placement amounting up to 23,928,832 QSR Shares ("Placement Shares") was arrived at based on approximately ten percent (10%) of the issued and paid-up share capital of the Company of RM239,288,318 comprising 239,288,318 OSR Shares.

On 20 January 2006, the Company announced to Bursa Securities that the issue price of the Placement Shares is fixed at RM2.90 per QSR share, which represents a discount of approximately 9.4% from the five (5) day weighted average market price of QSR shares up to 19 January 2006 of RM3.20.

On 15 February 2006, the High Court of Malaysia allowed an interlocutory application by Kulim Berhad; which among other orders, imposed an interlocutory injunction against QSR from taking any further steps to implement the Proposed Private Placement.

QSR has subsequently filed an appeal.

22. Borrowings and Debt Securities

Short term borrowings :	RM'000
Secured - Term Loan (SGD3,200,000)	<u>7,296</u>
Long term borrowings :	
Secured - Term Loan (SGD9,600,000)	21,888
- Term Loan	<u>126,367</u>
	<u>148,255</u>

The Singapore currency denominated term loan is repayable semi-annually over a period of 3 to 5 years commencing from the second quarter of year 2004. The term loan is secured by a deposit pledged with a licensed bank amounting to RM20 million.

The other term loan is secured by certain quoted shares of its associate and certain unquoted shares of its subsidiary and is repayable annually via 5 annual instalments commencing from the first quarter of year 2008.

23. Off Balance Sheet Financial Statements

There were no financial instruments with off balance sheet risk as at the date of this report.

24. Material Litigation

There was no material litigation pending as at the date of this report.

25. Proposed Dividend

The Board of Directors has declared an interim dividend of 3 sen less 28% taxation per share (2005 : Nil) in respect of the financial year ending 31 December 2006 which will be paid on 3 August 2006 to shareholders whose names appear on the Record of Depositors as at 17 July 2006, i.e.:-

- a) shares transferred into the Depositor's Securities Account before 4p.m. on 17 July 2006 in respect of ordinary transfers; and
- b) shares bought on the Bursa Securities on a cum entitlement basis according to the Rules of the Bursa Securities

26. **Earnings Per Share**

	Current Year Quarter 31/03/2006	Prior Year Quarter 31/03/2005	Current Year- To-Date 31/03/2006	Prior Year- To-Date 31/03/2005
Earnings				
Net profit for the period (RM'000)	<u>11,952</u>	<u>7,660</u>	<u>11,952</u>	<u>7,660</u>
Weighted average number of shares				
a) Basic				
Weighted average number of ordinary shares in issue ('000)	<u>240,206</u>	<u>200,552</u>	<u>240,206</u>	<u>200,552</u>
b) Diluted earnings per share				
Weighted average number of ordinary shares in issue ('000)	240,206	200,552	240,206	200,552
Adjustment for assumed exercise of warrants ('000)	3,110	19,293	3,110	19,293
Adjusted weighted average number of ordinary shares ('000)	<u>243,316</u>	<u>219,845</u>	<u>243,316</u>	<u>219,845</u>
Basic earnings per share (sen)	<u>5.0</u>	<u>3.8</u>	<u>5.0</u>	<u>3.8</u>
Diluted earnings per share (sen)	<u>4.9</u>	<u>3.5</u>	<u>4.9</u>	<u>3.5</u>

27. **Authorisation for Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 16 May 2006.

By Order of the Board
QSR BRANDS BHD

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CHAI SING HONG
DIRECTOR

Date : 16 May 2006