

A. NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with FRS 134: "Interim Financial Reporting" and paragraph 9.22 of the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2006.

The accounting policies and presentation adopted by the Group in this interim financial report are consistent with those adopted in the annual financial statements for the financial year ended 31 December 2006.

A2. Status on Qualification of Audited Financial Statements

The audit report of the Group's preceding year financial statement was not qualified.

A3. Seasonality or Cyclicalities of Operations

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

A4. Unusual Items affecting Assets, Liabilities, Equity, Net Income or Cash flows

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

A5. Changes in Accounting Estimates

There were no changes in estimate of amount reported in prior interim period or financial year that have a material effect in the current financial quarter for the current financial period.

A6. Debt and Equity Securities

There was no issuance, cancellation, repurchases, resale and repayment of debt and equity securities for the financial period other than as mentioned below:-

- (a) During the current financial period, the paid-up share capital of the Company was increased from RM244,252,839 to RM245,471,082 as a result of the issuance of 1,218,243 ordinary shares of RM1.00 each upon the conversion of 1,218,243 warrants at the exercise price of RM1.19 per share.
- (b) 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. These warrants had expired on 24 January 2007 and were removed from the Official List of Bursa Securities with effect from 25 January 2007. The number of lapsed warrants was 328,920.

A7. Dividends Paid

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

A8. Segmental Information

RM million	Current Quarter 1 Jan - 31 Mar 2007		Current Quarter 1 Jan - 31 Mar 2006	
	Revenue	Operating Profit	Revenue	Operating Profit
Malaysia	65.5	3.6	62.0	7.7
Singapore	38.3	1.5	37.4	0.4
Consolidated Total	<u>103.8</u>	<u>5.1</u>	<u>99.4</u>	<u>8.1</u>

A9. Valuation of Property, Plant and Equipment

The valuation of property, plant and equipment has been brought forward without amendment from the financial statements for the year ended 31 December 2006.

A10. Material Events subsequent to the end of the current quarter

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

A11. Changes in the Composition of the Group

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

A12. Changes in Contingent Liabilities and Contingent Assets

Since the last Balance Sheet date, there were no material changes in contingent liabilities and contingent assets.

A13. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 March 2007 are as follows:-

	RM'000
(a) Capital expenditure Property, plant and equipment - approved but not contracted for	<u>30,106</u>
(b) Non-cancellable Operating Lease Commitments – Group as Lessee	<u>54,491</u>

B. ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENT

B1. Review of the Performance of the Company and its Principal Subsidiaries

The Group registered a revenue of RM103.8 million for the current quarter, representing an increase of 4.4% over prior year corresponding period of RM99.4 million.

The Group's operating profit before share of results of associate decreased by 37.3% to RM5.1 million (2006 : RM8.1 million). Including the share of results of its associate; KFCH, the Group's profit before tax improved to RM14.8 million compared to RM14.3 million in the corresponding period last year.

The revenue improvement was attributed to the continuing restaurant expansion where 6 new Pizza Hut outlets were opened in Malaysia in the period under review.

However the restaurants profitability was negatively affected by the decline in its same store sales and increase in operating overheads from higher utility tariffs. The Group profitability was also dampened by the additional interest costs arising from the MGO exercise.

Its Singapore operation's improved sales and profitability were attributed to the successful launches of its Double Sensations, Fortune Chinese New Year pizza and American Superstars pizza promotions.

Its associate, KFC Holdings (Malaysia) Bhd, turned in a much improved performance with improved sales throughput and better margin at its restaurants and integrated poultry segment with a pre-tax profit of RM33.0 million as compared to RM27.3 million in the prior year's corresponding period. KFCH achieved a commendable 21% increase in year-on-year profitability.

B2. Material Changes in the Quarterly Results

The Group registered a turnover of RM103.8 million, a decline of 5.2% over previous quarter's RM109.5 million. Its operating profit before share of profits of associate increased to RM5.1 million in the current quarter from RM1.3 million in the previous quarter.

Including its share of profits in KFCH, the Group registered an 2.8% increase in quarter-on-quarter profit before tax to RM14.8 million from RM14.4 million in the previous quarter. Earnings per share increased from 4.98 sen in the previous quarter to 5.42 sen in the current quarter. The better performance in the current quarter was primarily due to the higher contribution from its associate, KFCH.

B3. Current Year Prospects

Malaysia is expected to achieve an annual economic growth of up to 6.0% whilst Singapore is expected to grow by 4.5%-6.5% in 2007. Based on advance estimates, Singapore economy registered a growth of 6% in the first quarter 2007.

The Statistics Department had reported that inflation has moderated to 2.6% in the first quarter 2007 from a high of 4.8% in March 2006 and it is expected that the full year inflation rate be at 2.2%. This was partly contributed by the continued strengthening of Ringgit Malaysia which would mitigate the continuing strength of the prices of the Group imported raw materials such as corn and soyabean meal.

The lower inflation rate coupled with the implementation of the development projects under the Ninth Malaysia Plan will drive economic growth and potentially improve domestic demand for goods and services. The recent announcement by the Government of salary increases for the civil servants will further boost consumer demand.

With these 'feel good' factors, the Board is confident of better performance for the balance of the year. The Group will take measures to improve its performance by introducing more product offerings that focus on value to customers. In addition, the Group will continue to derive better cost efficiencies across all functions and focus on productivity at the restaurants.

B4. Statement of Revenue or Profit Estimate, Forecast, Projection or Internal Targets previously announced or Disclosed in a Public Document

Not applicable.

B5. Profit Forecast/Profit Guarantee

The Company is not subject to any profit forecast or profit guarantee requirement.

B6. Taxation

	Current Quarter RM'000
Tax expense for the period :-	
Malaysian income tax	1,355
Foreign tax	165
	<u>1,520</u>

B7. Sale of Unquoted Investments and Properties

There were no sale of unquoted investments and properties.

B8. Quoted Securities

There was no purchase or disposal of quoted securities during the financial period.

B9. Status of Uncompleted Corporate Announcement

The Group announcements on corporate proposals are updated as follows :

- (a) On 12 September 2006, CIMB Investment Bank Berhad (formerly known as Commerce International Merchant Bankers Berhad) ("CIMB") on behalf of the Company, announced that the Company had acquired via a direct business transaction in accordance with the rules and regulations of Bursa Malaysia Securities Berhad 10,000,000 ordinary shares of RM1.00 each in KFCH, representing 5.04% of the issued and paid-up share capital of KFCH as at 7 September 2006 for a total cash consideration of RM49,400,000 or at the price of RM4.94 per KFCH share (hereinafter referred to as "Initial Acquisition").

As a result of the Initial Acquisition, QSR's cumulative direct and indirect equity interest in KFCH increased from 32.83% to 37.88%. The increase in QSR's equity interest in KFCH to more than 33% means that QSR has obtained control of KFCH and accordingly, under Section 6 of the Malaysian Code on Take-Overs and Mergers, 1998, QSR and persons acting in concert with it ("PACs") are obligated to carry out a MGO for the remaining KFCH shares not already owned by QSR and PACs for a cash consideration of RM4.94 per KFCH share.

Following the Initial Acquisition, during the offer period of the MGO, QSR continued to increase its equity interest in KFCH by acquiring on-market further KFCH shares ("Further Acquisition Shares").

(The Initial Acquisition and Further Acquisition are collectively referred to as Acquisitions.)

The proposals are subject to approvals, including where required ratification, being obtained from the following: -

- (i) Consent of the Securities Commission (SC) for the Offer Document and approval of the SC for an extension of time to despatch the Offer Document.

On 28 September 2006, the SC approved the application for an extension of time to despatch the Offer Document to five (5) Market Days from the date of the last approval for the Offer by the relevant authorities and/or QSR shareholders;

- (ii) Approval and/or ratification of the SC [on behalf of Foreign Investment Committee (FIC)]

On 10 January 2007, the SC (on behalf of FIC) approved the Proposals, subject to the following conditions:

- (a) CIMB is to inform the SC as soon as the acquisition arising from the Offer has been completed; and
 - (b) CIMB is to furnish the SC a list of acceptances for each category of shareholder (Bumiputera, non-Bumiputera and foreign) and the effective equity structure of KFCH before and after the Proposals have been implemented, whereby further equity conditions may be imposed on KFCH;
- (iii) Approval and/or ratification of the MITI. On 7 February 2007, the MITI approved the Proposals subject to the approval of the SC and compliance with the FIC's guideline on the acquisition of interests, mergers and take-overs by local and foreign interests.
 - (iv) Approval and/or ratification by QSR shareholders at EGM. The Proposals were approved by the shareholders at an EGM of the Company on 27 March 2007.
 - (v) Exemption by the SC to CIMB under Practice Note 2.9.5, from the obligation to carry out a mandatory offer for the remaining KFCH Shares not already owned by CIMB in relation to the underwriting.

On 10 January 2007, the SC granted CIMB's exemption mentioned above, subject to the condition that CIMB place out the underwritten KFCH Shares acquired by it, if any, within six (6) months from the date CIMB first holds more than 33% equity interest in KFCH; and

- (vi) Approvals from any other relevant parties, if required.

On 23 April 2007, CIMB on behalf of the Company, announced that as at 5.00pm on 23 April 2007, ie the close of the offer, the offer is still conditional as to acceptances (as QSR and PACs still collectively hold not more than 50% of the voting shares of KFCH). Accordingly, the offer has lapsed at the closing date.

B10. Borrowings and Debt Securities

		As at 31 March 2007
		RM'000
Short term borrowings:-		
Secured	- Term Loan I (SGD3,200,000)	7,299
	- Term Loan II	5,000
	- Term Loan III	22,026
		<u>34,325</u>
Long term borrowings:-		
Secured	- Term Loan I (SGD6,400,000)	14,598
	- Term Loan II	121,367
	- Term Loan III	66,079
		<u>202,044</u>

The Singapore currency denominated Term Loan I is repayable semi-annually over a period of 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.

Term Loan II 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.

Term Loan III was raised to fund its Acquisitions as described in note B9 and is secured by certain quoted shares of its associate and is repayable annually via 4 semi annual instalments commencing from the first quarter of year 2008.

B11. Financial Instrument with Off Balance Sheet Risk

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

B12. Changes in Material Litigations

Since the last quarterly report ended 31 December 2006, the following are the updates: -

a) KUALA LUMPUR HIGH COURT SUIT NO. D4-22-1032-2005

Plaintiff v 9 Defendants (QSR Brands Bhd being the 9th Defendant)

The Plaintiff filed Writ of Summons and Statement of Claims dated 20/7/2005, seeking damages/orders for, inter alia:

- (i) restraining implementation of resolution dated 11/7/2005, suspending the Plaintiff as the Managing Director of the 9th Defendant;
- (ii) restraining implementation/suspension of resolution dated 29/4/2005 for appointment of 1st to 4th Defendants, restraining 1st to 8th Defendants from holding out as directors of the 9th Defendant or participating in the management of the 9th Defendant; and
- (iii) restraining implementation/suspending resolutions passed by the Board of Directors of the 9th Defendant after 29/4/2005.

On 7/9/2006, the Plaintiff has withdrawn the suit with costs to be taxed and no liberty to file afresh.

b) KUALA LUMPUR HIGH COURT ORIGINATING SUMMONS NO. D1-24-323-2005

Plaintiff v QSR Brands Bhd

Plaintiff filed Writ of Summons and Statement of Claims, seeking, inter alia, Declaratory Orders in relation to the avoidance of contract of employment as Group Managing Director.

On 12/10/2005, the Defendant filed the Defendant's First Affidavit In Reply and gave Notice of Counterclaim against the Plaintiff for the return of 2 vehicles which the Plaintiff took possession of pursuant to his contract of appointment, damages for failure to deliver up the 2 vehicles, damages for breach of fiduciary duties, full and/or partial restitution for all emoluments and benefits received, interest and costs. The manner in which the Defendant's counterclaim is to proceed is pending direction from the Court.

The Court has fixed the matter for mention on 26/7/2007 for the parties to resubmit the written submission.

**c) KUALA LUMPUR HIGH COURT ORIGINATING SUMMONS NO. D2-24-321-2005
COURT OF APPEAL, APPEAL NO. W-02-983-2005**

2 Plaintiffs v QSR Brands Bhd & 13 others

Plaintiffs filed Originating Summons dated 2/9/2005, seeking for declaratory orders that, among others, the Special Notice issued by the 1st to 3rd Defendants on 18/8/2005 to convene an extraordinary general meeting to be held on 15/9/2005 is invalid, consequentially the 1st to 12th Defendants, their servants, agent nominees and/or any shareholder of the Company, acting in concert with them, be restrained from moving, or proposing the proposed resolutions contained in the special notice dated 18/8/2005 at the intended EGM then scheduled to be held on 15/9/2005.

On 13/9/2005, Court dismissed the suit with costs as the Court found that there was no breach of Section 153 of the Companies Act 1965, and as a result thereof, the Special Notice issued on 18/8/2005 to convene the intended EGM is valid.

On 15/9/2005, the Plaintiffs filed oral application for an Erinford Injunction to restrain the Defendants from moving or proposing resolutions at the then intended EGM. The application for injunction was dismissed with costs.

The Plaintiffs filed notice of appeal against the High Court decision. No date of hearing of the appeal has been fixed yet.

**d) COURT OF APPEAL NO. W-02-1095-2005
(KUALA LUMPUR HIGH COURT SUIT NO. D7-22-341-2005)**

QSR Brands Bhd & Anor v 9 Defendants

This suit was instituted by the then directors of QSR to establish for an order to restrain the Defendants from acting or holding out as directors of the QSR arising from the proceedings of the extraordinary general meeting ("EGM") requisitioned by the 2nd Plaintiff in September 2005. There are multiple appeals involved in this matter. The matter had become academic due to the result of the EGM requisitioned by Kulim (Malaysia) Berhad on 7/6/2006. As such, at the last hearing date on 1/8/2006, solicitors for all parties have agreed to asked for a postponement from the court pending discussion for amicable settlement, and after getting the confirmation and supported by all the other counsels and solicitors in the above matter, the Court has agreed to adjourn the hearing of the above matter and has fixed 21/9/2006 as the next mention date.

On 21/9/2006, the Court adjourned the matter and fixed 22/11/2006 as the next mention date.

On 22/11/2006, the Court adjourned the matter and fixed 5/4/2007 as the next mention date.

On 5/4/2007, the Court has fixed the matter for mention on 12/7/2007.

e) **KUALA LUMPUR HIGH COURT SUIT NO D2-24-315-2005
QSR Brands Bhd v 6 Defendants**

QSR sought to restrain, inter alia, the holding of the extraordinary general meetings requisitioned by the 3rd, 4th, 5th and 6th Defendants on 20/9/2005 for the purpose of removing certain QSR directors and to restraint the 1st Defendant from voting until the 1st Defendant issue the offer document pursuant to the Malaysian Code on Take-Overs and Mergers, 1998.

On 15/9/2005, QSR's application by way of Summons in Chamber for interlocutory injunction ("QSR Application") was dismissed with costs.

The date for the hearing on the Originating Summons has yet to be fixed. On 16/9/2005, QSR filed an appeal against the dismissal of the QSR Application in the Court of Appeal but no date of hearing has been fixed.

f) **FEDERAL COURT APPLICATION NO. : 08-53-2006 w AND 08-55-2006 w
COURT OF APPEAL NO. W-02-1070-2005
(KUALA LUMPUR HIGH COURT SUIT NO. D7-22-1386-2005)
QSR Brands Bhd & 2 Others v 5 Defendants**

This suit was instituted by the then directors of QSR for an order to restrain the Defendants from acting or holding out as directors of the QSR arising from the proceedings of the EGM requisitioned by Wisdom Innovative Technology Sdn Bhd in September 2005. There are also multiple appeals and counterclaims involved in this matter.

The matter has become academic due to the result of the EGM requisitioned by Kulim (Malaysia) Berhad on 7/6/2006. As such, at the last hearing date on 1/8/2006, solicitors for all parties have agreed to asked for a postponement from the court pending discussion for amicable settlement, and after getting the confirmation and supported by all the other counsels and solicitors in the above matter, the Court has agreed to adjourn the hearing of the above matter and has fixed 21/9/2006 as the next mention date. On 21/9/2006, the Court adjourned the matter and fixed 22/11/2006 as the next mention date.

On 22/11/2006, the Court adjourned the matter and fixed 5/4/2007 as the next mention date.

On 5/4/2007, the Court has fixed the matter for mention on 12/7/2007.

- g) **KUALA LUMPUR HIGH COURT APPLICATION FOR JUDICIAL REVIEW NO. R2-25-220-2005 -COURT OF APPEAL NO. W-02-1216-2005**
QSR Brands Bhd v.
1. **Securities Commission**
 2. **Kulim (Malaysia) Berhad**
- i) Appeal for Leave For Judicial Review
On 15/8/2006, the matter has been withdrawn with order for costs to be taxed.
- ii) Committal Proceedings against the 1st and 2nd Defendants.
The 2nd Defendant's application to set aside the leave for committal proceedings was heard on 28/6/2006 and allowed by the High Court on 6/7/2006, with further orders that the costs be ordered against the directors who authorized the application for leave and not against QSR. The solicitors for the 2nd Defendant have yet to give notice to the relevant directors.
- iii) Committal Proceedings against News Straits Times Press ("NSTP")
On 17/8/2006, the High Court granted NSTP's application to set aside the leave for committal proceedings with no order as to costs.
- h) **KUALA LUMPUR HIGH COURT SUIT NO. D2-22-105-2006**
Kulim (Malaysia) Berhad v QSR Brands Bhd
- On 25 January 2006, the Plaintiff filed a Writ of Summons and Statement of Claim against QSR seeking inter alia, a declaration that the proposed private placement of up to 10% of the issued and paid up capital of QSR which was announced by QSR on 30 December 2005 ("Proposed Private Placement") is ultra vires of Article 4(iv) of the Articles of Association of QSR and sought orders to restraint the implementation of the Proposed Private Placement until the Plaintiff's representatives have been appointed to the Board of QSR and have the opportunity to consider the Proposed Private Placement and until related legal suits have been disposed off. The Plaintiff's application for an interlocutory injunction to restraint, inter alia, the implementation of the Proposed Private Placement and other corporate proposals adverse to the interest of the Plaintiff was granted on 15 February 2006.
- QSR has filed a motion for stay of the injunction order and subsequently withdraw the same when the motion was called for hearing. The withdrawal was on the basis that costs would follow the event.
- QSR's solicitors have started negotiation with the Plaintiff's solicitors for withdrawal of the suit with consensus as to the costs, failing which, costs to be taxed.

B13. Dividend Proposed

There was no dividend proposed during the current quarter (2006 : 3 sen per ordinary share).

B14. Earnings Per Share

	CURRENT QUARTER 1 Jan - 31 Mar	
	2007 (RM'000)	2006 (RM'000)
Earnings		
Profit for the period	13,280	11,952
Weighted average number of shares		
a) Basic	('000)	('000)
Weighted average number of ordinary shares in issue	245,203	240,206
b) Diluted earnings per share		
Weighted average number of ordinary shares in issue	245,203	240,206
Adjustment for assumed exercised of warrants	-	3,110
Adjusted weighted average number of ordinary shares	245,203	243,316
Basic earnings per share (sen)	5.42	4.98
Diluted earnings per share (sen)	-	4.91

B15. Currency Translation

The exchange rate used for each unit of the foreign currency in the Group for the current financial period was :-

	THIS YEAR CURRENT QUARTER		PRECEEDING YEAR CORRESPONDING QUARTER	
	MTH-END RATE RM	AVERAGE RATE RM	MTH-END RATE RM	AVERAGE RATE RM
Singapore (S\$)	2.3035	2.3095	2.2810	2.2960

By Order of the Board
QSR BRANDS BHD

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MOHD ZAM BIN MUSTAMAN (LS 0009020)
COMPANY SECRETARY

Date: 22 May 2007