

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 Cyclicity 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) 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 | Cumulative Quarters 1 Jan - 30 June 2007 | | Cumulative Quarters 1 Jan - 30 June 2006 | |
|---------------------------|---|------------------|---|------------------|
| | Revenue | Operating Profit | Revenue | Operating Profit |
| Malaysia | 136.6 | 8.2 | 126.6 | 13.6 |
| Singapore | 76.8 | 3.5 | 76.4 | 2.2 |
| Consolidated Total | 213.4 | 11.7 | 203.0 | 15.8 |

| RM million | Current Quarter 1 Apr - 30 June 2007 | | Current Quarter 1 Apr - 30 June 2006 | |
|---------------------------|---|------------------|---|------------------|
| | Revenue | Operating Profit | Revenue | Operating Profit |
| Malaysia | 71.1 | 4.6 | 64.7 | 5.9 |
| Singapore | 38.5 | 2.1 | 39.0 | 1.8 |
| Consolidated Total | 109.6 | 6.7 | 103.7 | 7.7 |

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

The Company via its wholly owned subsidiary, Pizza Hut Restaurants Sdn Bhd, has on 24 August 2007 executed the following Agreements with the following parties: -

1. Development Agreement with Yum! Restaurants Asia Pte Ltd ("Franchisor") which shall be effective from 1 January 2007 and under which the Company is granted the right to develop new Pizza Hut outlets in Malaysia (including Sabah & Sarawak) subject to the terms and conditions as stipulated in the Development Agreement for the next 3 years.
2. International Franchise Agreement ("PH International Franchise Agreement") with Franchisor which shall be effective from 1 January 2007, under which the Company is granted the right to use the System, the System Property and the Marks solely in connection with the conduct of the Business under the Pizza Hut Concepts at existing and new Pizza Hut outlets subject to the terms and conditions as stipulated in the PH International Franchise Agreement. The term of franchise in respect of each Pizza Hut outlet is 10 years from the date of its opening or its renewal thereof of each Pizza Hut outlet (subject to a further renewal for an additional term of 10 years) on the terms outlined in the PH International Franchise Agreement.

Similar agreements have been entered into between Pizza Hut Singapore Pte Ltd, a wholly owned subsidiary of the Company with the Franchisor for the right governing the Singapore outlets.

A11. Changes in the Composition of the Group

There are no changes in the composition of the Group during the current period other than the acquisition by the Company of 3,870,000 ordinary shares in KFC Holdings (Malaysia) Bhd ("KFCH") for the period from 27 April 2007 to 22 June 2007 representing 1.95% of the issued and paid-up share capital of KFCH for a total purchase consideration of RM25,805,699. Following the acquisition, the Company's shareholdings in KFCH has increased from 42.89% to 44.84%.

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 30 June 2007 are as follows:-

| | RM'000 |
|---|---------------|
| (a) Capital expenditure | |
| Property, plant and equipment | |
| - approved and contracted for | 1,387 |
| - approved but not contracted for | 26,074 |
| | <u>27,461</u> |
| (b) Non-cancellable Operating Lease Commitments - Group as Lessee | <u>58,748</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 RM213.4 million for the current period, representing an increase of 5.1% over prior year corresponding period of RM203.0 million.

The Group's operating profit before share of profits of associate decreased by 25.8% to RM11.7 million (2006 : RM15.8 million). Including the share of profits of its associate; KFCH, the Group's profit before tax improved to RM31.9 million compared to RM29.5 million in the corresponding period last year.

The revenue improvement was attributed to the continuing network expansion where ten (10) new Pizza Hut outlets were opened in Malaysia in the period under review. The launch of its highly successful Sensasi Delight combo value meals in June 2007 has boosted sales and transactions.

The restaurants profitability in the period under review was negatively affected by the decline in its same store sales. However the decline was arrested with the introduction of the well accepted 'Sensasi Delight' meals. The Group performance was also affected by the additional interest costs arising from the MGO exercise. This was however more than covered by the higher share of profits from the improved performance of KFCH.

Its Singapore operations' improved sales and profitability were attributed to the successful launches of its Double Sensations, Fortune Chinese New Year pizza, American Superstars pizza promotions and new products such as Crispy Thin Pizza and Pasta Perfetto.

KFCH generated better results with improved sales and better margin at its restaurants and integrated poultry segments with a pre-tax profit of RM67.1 million as compared to RM60.8 million in the prior year's corresponding period. This represented a 10.4% increase in year-on-year profitability.

B2. Material Changes in the Quarterly Results

The Group registered a turnover of RM109.6 million, an increase of 5.6% over previous quarter's RM103.8 million. Its operating profit before share of profits of associate increased to RM6.7 million in the current quarter from RM5.1 million in the previous quarter.

Including its share of profits in KFCH, the Group registered a 15.5% increase in quarter-on-quarter profit before tax to RM17.1 million from RM14.8 million in the previous quarter. Earnings per share increased from 5.42 sen in the previous quarter to 6.14 sen in the current quarter. The better performance in the current quarter was primarily due to the improved performance in its Malaysian operations from the successful 'Sensasi Delight' meals and higher contribution from 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 7% - 8% in 2007. The Singaporean economy registered a year on year growth of 8.6% in the second quarter 2007.

Inflation has moderated to 2.0% in the first half 2007 from a high of 4.8% in March 2006. However it is expected that the inflation rate will creep back to the 2.5% level as inflationary pressure in the economy starts to build up via, inter-alia, oil price-induced imported inflation and rising global food and commodity prices. These factors will negatively impact the KFCH Group's feedmill operations arising from increasing imported raw material costs of corn and soya bean meal which were partly mitigated by the continuing strength of Ringgit Malaysia.

The lower inflation rate coupled with the implementation of the development projects under the Ninth Malaysia Plan will continue to drive economic growth and potentially improve domestic demand for goods and services. The tourism-related planned activities by both the Government and private sector during the current Visit Malaysia Year coupled with the recent salary increases for the civil servants will further boost consumer demand.

Based on the foregoing, the Board is optimistic 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 enhancing productivity at the restaurants and manufacturing facilities.

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 | Cumulative Quarters RM'000 |
|-------------------------------|---------------------------------------|---|
| Tax expense for the period :- | | |
| Malaysian income tax | 1,379 | 2,734 |
| Foreign tax | 615 | 780 |
| | <u>1,994</u> | <u>3,514</u> |
| Deferred tax | 6 | 6 |
| | <u>2,000</u> | <u>3,520</u> |

The effective tax rate for the Group for the current year is higher than the statutory tax rate in view of the disallowance of certain expenses for tax purposes.

B7. Sale of Unquoted Investments and Properties

There were no sale of unquoted investments and properties.

B8. Quoted Securities

Saved as those disclosed under item A11, there was no purchase or disposal of quoted securities during the financial period.

B9. Status of Uncompleted Corporate Announcement

There are no uncompleted corporate proposals announced as at the date of this announcement.

The Mandatory General Offer (MGO) exercise which was announced on 12 September 2006 was completed on 23 April 2007.

B10. Borrowings and Debt Securities

| | As at 30 June 2007 RM'000 |
|------------------------------|--|
| Short term borrowings:- | |
| Secured | |
| - Term Loan I (SGD3,200,000) | 7,210 |
| - Term Loan II | 5,000 |
| - Term Loan III | 22,026 |
| - Others | 11,902 |
| | <u>46,138</u> |
| Long term borrowings:- | |
| Secured | |
| - Term Loan I (SGD4,800,000) | 10,814 |
| - Term Loan II | 121,367 |
| - Term Loan III | 66,079 |
| | <u>198,260</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 RM18.7 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 of KFCH shares pre and during the offer period of the MGO exercise 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.

The other borrowing was raised to fund further acquisitions of KFCH shares post-MGO exercise period and is secured against these shares.

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 March 2007, 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 hearing on 25/9/2007.

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.

The Court has fixed the matter for trial on 1/11/2007.

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.

The Court has fixed the matter for trial on 1/11/2007.

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 restrain 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 restrain, 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

The Board of Directors has during the quarter under review declared an interim dividend of 4 sen (2006 : Nil) less tax of 27% per ordinary share in respect of the financial year ending 31 December 2007 which will be paid on 5 October 2007 to shareholders whose names appear on the Record of Depositors as at 17 September 2007, ie :-

- a) shares transferred into the Depository's Securities Account before 4p.m. on 17 September 2007 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.

The total dividend declared by the Company for the financial year ending 31 December 2007 would represent 4 sen less tax of 27% (2006 : 3 sen less tax of 28%) per ordinary share.

B14. Earnings Per Share

| | CURRENT QUARTER | | CUMULATIVE QUARTERS | |
|---|-------------------------------------|------------------|-------------------------------------|------------------|
| | 1 Apr - 30 June 2007 (RM'000) | 2006 (RM'000) | 1 Jan - 30 June 2007 (RM'000) | 2006 (RM'000) |
| Earnings | | | | |
| Profit for the period | <u>15,067</u> | <u>12,626</u> | <u>28,347</u> | <u>24,578</u> |
| Weighted average number of shares | | | | |
| a) Basic | (‘000) | (‘000) | (‘000) | (‘000) |
| Weighted average number of ordinary shares in issue | <u>245,338</u> | <u>240,539</u> | <u>245,338</u> | <u>240,539</u> |
| b) Diluted earnings per share | | | | |
| Weighted average number of ordinary shares in issue | 245,338 | 240,539 | 245,338 | 240,539 |
| Adjustment for assumed exercised of warrants | <u>-</u> | <u>3,048</u> | <u>-</u> | <u>3,048</u> |
| Adjusted weighted average number of ordinary shares | <u>245,338</u> | <u>243,587</u> | <u>245,338</u> | <u>243,587</u> |
| Basic earnings per share (sen) | <u>6.14</u> | <u>5.25</u> | <u>11.55</u> | <u>10.22</u> |
| Diluted earnings per share (sen) | <u>-</u> | <u>5.18</u> | <u>-</u> | <u>10.09</u> |

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\$) | 2.2530 | 2.2590 | 2.3000 | 2.3120 |

By Order of the Board
QSR BRANDS BHD

.....
MOHD ZAM BIN MUSTAMAN (LS 0009020)
IDHAM JIHADI BIN ABU BAKAR (MAICSA 7007381)
(COMPANY SECRETARIES)

Date: 30 August 2007