

## **A. NOTES TO THE INTERIM FINANCIAL REPORT**

### **A1. Basis of Preparation**

This interim financial report is unaudited and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad, including compliance with Financial Reporting Standard (FRS) 134, Interim Financial reporting, issued by the Malaysian Accounting Standards Board (MASB). The Interim Financial Report should be read in conjunction with the Group's audited financial statement for the year ended 31 December 2010.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the last audited financial statements for the financial year ended 31 December 2010.

### **A2. Significant Accounting Policies**

The significant accounting policies adopted are consistent with the audited financial statements for the year ended 31 December 2010. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2010.

On 1 January 2011, the Group adopted the following FRSs, Amendments to FRSs and IC Interpretations:-

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations (Revised)
FRS 127	Consolidated and Separate Financial Statements
Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 2	Share-based Payment
Amendments to FRS 2	Group Cash-settled Share-based Payment Transactions
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7	Improving Disclosures about Financial Instruments
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 138	Intangible Assets
Amendments to FRS 1	Improvements to FRSs (2010)
FRS 3, FRS 7, FRS 101, FRS 128, FRS 132, FRS 134, FRS 139	
IC Interpretation 4	Determining Whether an Arrangement Contains a Lease
IC Interpretation 12	Service Concession Agreements
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 18	Transfers of Assets from Customers
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives

Adoption of the above FRSs, Amendments to FRSs and IC Interpretations did not have any material impact on the financial performance, position or presentation of financials of the Group.

**A3. Status on Qualification of Audited Financial Statements**

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

**A4. Seasonality or Cyclicity of Operations**

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

**A5. Unusual Items affecting Assets, Liabilities, Equity, Net Income or Cash flows**

There were no significant items which unusually affect assets, liabilities, equity, net income or cash flows during the financial period.

**A6. Change in Accounting Estimates**

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

**A7. Debt and Equity Securities**

There were no cancellation, resale and repayment of debt and equity securities for the financial period other than the following :-

- (a) The paid-up share capital of the Company was increased from RM290,682,067 as at 31 December 2010 to RM291,737,761 as a result of the issuance of 1,055,694 ordinary shares of RM1.00 each upon the conversion of 1,055,694 warrants at the exercise price of RM3.01 per share.
- (b) The number of warrants outstanding as at 30 June 2011 was 35,557,015. 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 RM3.01 per share. The warrants will expire on 5 March 2013.
- (c) During the current period, the Company bought back 531,000 of its issued and paid-up shares from the open market at an average price of RM5.90 per share. Total consideration paid for the buybacks including transaction costs was RM3,131,574 and these buybacks were financed by internally generated funds. Total shares bought back as at 30 June 2011 amounted to 13,161,900 shares totalling RM37,216,431 at an average price of RM2.83 per share.

All the bought back shares are being retained as treasury shares.

**A8. Dividend Paid**

Dividend paid on 31 March 2011 was declared on 21 February 2011, in respect of the year ended 31 December 2010 been second interim dividend of 4.5 sen less 25% tax and single tier dividend of 3.5 sen per share, on 278,061,336 ordinary shares, amounted to RM19,116,713.

## A9. Operating Segments

RM'million	Cumulative Quarters 1 Jan - 30 Jun 2011		Cumulative Quarters 1 Jan - 30 Jun 2010	
	Revenue	Operating Profit/(loss)	Revenue	Operating Profit
<u>Malaysia</u>				
Pizza Hut restaurants	218.0	25.4	205.6	25.5
KFC restaurants	796.0	102.1	715.6	89.1
Integrated Poultry	256.2	0.9	241.6	2.4
Ancillary	21.0	(5.2)	21.8	0.8
	<u>1,291.2</u>	<u>123.2</u>	<u>1,184.6</u>	<u>117.8</u>
<u>Foreign</u>				
Pizza Hut restaurants	94.7	4.2	84.9	2.3
KFC restaurants	219.4	2.0	188.4	4.0
	<u>314.1</u>	<u>6.2</u>	<u>273.3</u>	<u>6.3</u>
<b>Consolidated Total</b>	<u>1,605.3</u>	<u>129.4</u>	<u>1,457.9</u>	<u>124.1</u>
RM'million	Current Quarter 1 Apr - 30 Jun 2011		Current Quarter 1 Apr - 30 Jun 2010	
	Revenue	Operating Profit/(loss)	Revenue	Operating Profit
<u>Malaysia</u>				
Pizza Hut restaurants	106.5	12.5	101.2	11.7
KFC restaurants	408.1	51.5	358.4	46.5
Integrated Poultry	132.9	(0.6)	123.4	0.5
Ancillary	12.3	(3.4)	10.7	0.5
	<u>659.8</u>	<u>60.0</u>	<u>593.7</u>	<u>59.2</u>
<u>Foreign</u>				
Pizza Hut restaurants	50.7	3.3	43.9	2.5
KFC restaurants	115.1	2.4	95.6	2.4
	<u>165.8</u>	<u>5.7</u>	<u>139.5</u>	<u>4.9</u>
<b>Consolidated Total</b>	<u>825.6</u>	<u>65.7</u>	<u>733.2</u>	<u>64.1</u>

## A10. 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 2010.

## A11. Material event subsequent to the end of the interim period

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

## A12. Changes in the Composition of the Group

On 29 June 2011, the Company announced that it had incorporated a wholly-owned subsidiary as a Labuan Offshore company, QSR Captive Insurance Limited.

### **Announcements made by KFCH, a subsidiary of the Company**

On 2 August 2011, KFCH announced that it had through KFC Marketing Sdn Bhd entered into a Sale and Purchase of Shares incorporating Shareholders' Agreement with Ayamazz Sdn Bhd and Mohamed Hashim bin Mohd Kamil ("Intrapreneur").

The agreement enables the Intrapreneur to subscribe/purchase ordinary shares representing up to 25% equity interest in Ayamazz Sdn Bhd arising from the implementation of the Group's Intrapreneur Scheme.

#### **A13. Changes in Contingent Liabilities and Contingent Assets**

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

#### **A14. Capital Commitment**

	<b>RM'000</b>
Capital expenditure :	
Property, plant and equipment	
- authorised but not contracted for	287,425
- contracted but not provided for	<u>27,062</u>
	<u><u>314,487</u></u>

#### **A15. Impairment of Assets**

There were no significant impairment losses recognised by the Company and the Group for the financial year.

### **B. ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS**

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

The Group registered a revenue of RM1,605.3 million for the current financial year-to-date, representing an increase of 10.1% over prior year corresponding period of RM1,457.9 million.

The Group registered a profit before tax of RM129.4 million in the current period as against previous year corresponding period of RM124.1 million. Earnings per share increased by 3.2% from 18.02 sen in prior year to 18.60 sen in the current period.

##### *a) Pizza Hut Restaurants Segment*

The Group continued to expand its network to broaden customers reach where 12 new Pizza Hut outlets (including its new PHD delivery outlets) were opened in Malaysia in the period under review. It introduced new products and promotions such as Ring of Fortune Pizza, Big Shot Cheesy Pops Pizza, Wingstreet Promotion to promote chicken wings, Wow savers 50% discount on selected items for weekday dine-in and Loaded Favorites which drove transactions at the restaurants. It also launched a brand thematic campaign in early 2011 for brand building.

Its Singapore operations' continued to improve and contributed significantly to the Group's profit growth. It created excitement and drove transactions at the restaurants via the introduction of new products such as CNY Prosperity Pizza and Loveberry Pizza. It also launched a Pan Thematic campaign with 30% more cheese to provide better value products and introduced a new menu for its dine in segment providing new delicious offerings to its customers.

b) KFC Restaurants Segment

KFC Cambodia is operating ten outlets as at end June 2011. It continued to face challenges on the back of a mild recovering economy and increasing tourist arrivals to the country. New marketing programs are being designed and effected to improve sales throughput at its restaurants.

KFCH generated better results with improved sales at its restaurants with a pre-tax profit of RM105.6 million as compared to prior year's RM102.2 million. This represented a 3.3% increase in year-on-year profitability.

**B2. Material Changes in the Quarterly Results**

The Group registered a turnover of RM825.6 million in the current quarter, an increase of 12.6% over previous year corresponding period of RM733.2 million.

It achieved a profit before tax of RM65.7 million in the current quarter as against RM64.1 million in the prior year corresponding period. The improved performance in the current quarter was primarily due to the better contributions from its KFC operations in Malaysia and its Singapore's Pizza Hut operations.

**B3. Prospects for the Year**

The current state of affairs in major economies of the world have created uncertainty to the global economy, moving forward. The downside risks has grown and potentially brought about by external factors. Nevertheless, with the domestic economy being robust and consumer confidence remaining high, the Malaysian economy continued to be sustained by healthy domestic demand. Consumers' confidence grew by 5.2% in the second quarter and, barring the major economies turning for the worse, is not expected to contract significantly.

The global uncertainties affecting Malaysia will however be partly mitigated by the continuing implementation of projects under the Government's Economic Transformation Programme and sustained private capital spending via expansion in production capacity and investment in new growth areas. These projects would potentially create multiplier effect to sustain consumers' confidence and contribute to continued healthy domestic demand.

In view of the prevailing inflationary pressures, Management continues to develop and introduce new products and promotions with value propositions in mind to drive transactions at the Group's operating network. The Group will continue to implement its plan of increasing revenue and profitability by enhancing customer experience, increasing the restaurants network, expanding business activities, developing better cost efficiencies and improving productivity at all its restaurants, manufacturing and production facilities.

Based on the foregoing, the Board is confident of the Group registering satisfactory performance for the balance of the year.

**B4. Profit Forecast/Profit Guarantee**

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

**B5. Taxation**

	<b>Current Quarter RM'000</b>	<b>Cumulative Quarters RM'000</b>
Income tax expense for the period :-		
Malaysian income tax	17,549	35,257
Foreign tax	<u>2,195</u>	<u>3,078</u>
	19,744	38,335
Deferred tax	<u>856</u>	<u>2,165</u>
	<u><u>20,600</u></u>	<u><u>40,500</u></u>

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

**B6. Sale of Unquoted Investments and Properties**

There was no sale of unquoted investments and properties.

**B7. Quoted Securities**

(a) The particulars of purchase or disposal of quoted securities are as follows :-

	<b>Current Quarter RM'000</b>	<b>Cumulative Quarters RM'000</b>
Total purchase consideration	2,993	9,682
Total sale proceeds	-	-
Total profit/(loss) on disposals	<u>-</u>	<u>-</u>

(b) Investments as at 30 June 2011 :-

	<b>RM'000</b>
At cost	33,145
At book value	36,563
At market value	<u><u>36,563</u></u>

The Group acquired 5.7 million units of AL-'AQAR KPJ REIT from the open market at an average price of RM1.16 per unit during the period under review. Total consideration paid for the acquisition including transaction costs was RM6,689,508. Total units acquired as at 30 June 2011 amounted to 28,249,600 units at a total cost of RM30,152,184.

The Group also acquired 1.125 million units of KPJ warrants from the open market at an average price of RM2.66 per unit during the period under review. Total consideration paid for the acquisition including transaction costs was RM2,993,159.

## **B8. Status of Uncompleted Corporate Announcement**

### Announcements made by KFCH, a subsidiary of the Company

1. KFCH had on 27 December 2007 announced the purchase of a piece of land (including all factories, buildings, structures, infrastructure and facilities built or erected on the land) measuring 20.533 acres that forms part of a leasehold industrial land (expiring on 30 January 2041) held under document of title HS (D) 2276, PTD 1384, Mukim Hulu Sungai Johor, Kota Tinggi, Johor for a cash consideration of RM6,150,000.

KFCH is in the midst of completing the Condition Precedents as defined in the Sale and Purchase Agreement with Sindora Berhad, a member of Johor Corporation Group of Companies.

2. KFCH had on 10 July 2008 announced the purchase of a part of the land measuring 1.18 acres held under HS(D) 367670 PTD104984, in the Mukim of Tebrau, Daerah Johor Bahru, Johor, via its wholly-owned subsidiary, SPM Restaurants Sdn Bhd for a cash consideration of RM4,034,963.

KFCH had on 18 September 2009 announced that KFCH and Damansara Realty (Johor) Sdn Bhd, the Vendor, have mutually agreed that the Sale and Purchase Agreement have been varied with the execution of the Supplemental Sale and Purchase Agreement on 18 September 2009.

3. KFCH had on 5 November 2008 announced the purchase of a piece of agricultural land measuring 400 acres in area being part of Lot PTD 9374 HS(D) 41897, Mukim Bukit Batu, District of Kulaijaya, State of Johor Darul Takzim, via its wholly-owned subsidiary, Ayamas Food Corporation Sdn Bhd for a cash consideration of RM10,400,000.

KFCH is in the midst of completing the Condition Precedents as defined in the Sale and Purchase Agreement with Johor Corporation.

4. KFCH on 11 July 2011 announced the purchase of part of the freehold vacant commercial land measuring approximately 3.095 acres or 134,818 sq ft on part of Lot PTD 156352 (previously under part of Lot 84134) located within Bandar Dato' Onn ("BDO") ("Parcel 2") at a total consideration of RM9,167,624.00 or RM68.00 per sq.

KFCH is in the midst of completing the Condition Precedents as defined in the Sale and Purchase Agreement with Johor Land Berhad, a member of Johor Corporation Group of Companies.

## B9. Borrowings and Debt Securities

		As at 30 Jun 2011 RM'000
Short term borrowings:-		
Secured	- Term Loan I	5,000
	- Term Loan II	414
	- Term Loan V	2,288
	- Term Loan X	20
		-----
		7,722
Unsecured	- Term Loan III	7,275
	- Term Loan VI	1,122
	- Term Loan VII	2,000
	- Term Loan VIII	10,600
	- Bankers' Acceptance	11,582
		-----
		40,301
		=====
Long term borrowings:-		
Secured	- Term Loan II	492
	- Term Loan V	180,712
	- Term Loans X	728
		-----
		181,932
Unsecured	- Term Loan III	7,275
	- Term Loan IV	45,000
	- Term Loan VI	2,245
	- Term Loan VII	2,000
	- Term Loan VIII	31,800
	- Term Loan IX	29,930
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		300,182
		=====

- (a) The secured Term Loan I were a partial drawdown of a total loan facility of RM150 million which was arranged to partly finance the redemption of the ABBA NIF. This facility is repayable semi-annually from the 4<sup>th</sup> to 7<sup>th</sup> year commencing from the first quarter of year 2009, expiring in the third quarter of year 2011, and is secured against 1<sup>st</sup> and 3<sup>rd</sup> party charges over certain land and buildings owned by the Company's subsidiaries.
- (b) The secured Term Loan II of RM1.4 million and RM2.4 million obtained by Tepak Marketing Sdn Bhd were secured by certain of its land and buildings, cash deposit of RM200,000, corporate guarantee of Sindora Berhad (the previous majority shareholder) and a debenture on its assets. The two term loans are repayable over a period of 7 years expiring in the third quarter of year 2011 and fourth quarter of year 2013 respectively.
- (c) The unsecured Term Loan III of RM29,009,000 is repayable over a period of 4 years commencing from the third quarter of year 2009.
- (d) The unsecured Term Loan IV of RM45 is repayable in a full lump sum in the second quarter of 2014.
- (e) Term Loan V was a partial drawdown of a RM220 million loan, which is secured by certain quoted shares of its subsidiary. The loan was drawn to refinance an existing term loan. This loan is repayable quarterly over a period of 5 years commencing from the 2<sup>nd</sup> quarter of year 2012.

- (f) Term Loan VI was a full drawdown of the USD1.5 million loan for KFC Cambodia's capital expenditure requirement. This loan is repayable over a period of 4 years commencing from the third quarter of 2010.
- (g) The unsecured Term Loan VII was a partial drawdown of RM8 million loan and is repayable quarterly over three years commencing from the third quarter of 2010.
- (h) The unsecured Term Loan VIII was a partial drawdown of RM53 million loan and is repayable quarterly over 4 years commencing from the third quarter of 2011.
- (i) The unsecured Term Loan IX was a full drawdown of a USD10 million term loan. The term loan was offered in 2 Tranches ie Tranche 1 of USD6 million to be repaid over 7 semi annual instalments commencing 24 months from August 2010 and Tranche 2 of USD4 million payable upon maturity on 13 July 2015.
- (j) Term Loan X are loans taken over by KFC Holdings (M) Bhd when it acquired Paramount Management Sdn Bhd in January 2010. These loans are payable monthly over a period of 20 years and are secured against the properties financed.

**B10. Financial Instrument with Off Balance Sheet Risk**

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

**B11. Material Litigation, Claims and Arbitration**

There were no material litigations, claims and arbitration outstanding.

**B12. Dividend proposed**

The Board of Directors has during the quarter under review declared a single tier interim dividend of 5 sen (2010 : 6 sen less tax of 25%) per ordinary share in respect of the financial year ending 31 December 2011 which will be paid on 7 October 2011 to shareholders whose names appear on the record of Depositors as at 19 September 2011, ie :-

- a) shares transferred into the Depository's Securities Account before 4p.m on 19 September 2011 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.

**B13. Earnings Per Share**

Earnings	CURRENT QUARTER 1 Apr - 30 Jun		CUMULATIVE QUARTERS 1 Jan - 30 Jun	
	2011 (RM'000)	2010 (RM'000)	2011 (RM'000)	2010 (RM'000)
Profit attributable to owners of the Company	<u>26,474</u>	<u>26,204</u>	<u>51,742</u>	<u>49,582</u>
<b>Weighted average number of shares</b>				
<b>a) Basic</b>	<b>('000)</b>	<b>('000)</b>	<b>('000)</b>	<b>('000)</b>
Weighted average number of ordinary shares in issue	<u>278,256</u>	<u>275,101</u>	<u>278,256</u>	<u>275,101</u>
<b>b) Diluted earnings per share</b>				
Weighted average number of ordinary shares in issue	278,256	275,101	278,256	275,101
Adjustment for assumed exercised of warrants	<u>16,167</u>	<u>4,693</u>	<u>16,167</u>	<u>4,693</u>
Adjusted weighted average number of ordinary shares	<u>294,423</u>	<u>279,794</u>	<u>294,423</u>	<u>279,794</u>
<b>Basic earnings per share (sen)</b>	<u>9.51</u>	<u>9.53</u>	<u>18.60</u>	<u>18.02</u>
<b>Diluted earnings per share (sen)</b>	<u>8.99</u>	<u>9.37</u>	<u>17.57</u>	<u>17.72</u>

**B14. Currency Translation**

The exchange rates used for each unit of the foreign currencies in the Group for the current financial period are :-

	THIS YEAR CURRENT QUARTER		PRECEEDING YEAR CORRESPONDING QUARTER	
	MTH-END RATE RM	AVERAGE RATE RM	MTH-END RATE RM	AVERAGE RATE RM
Hong Kong (HK\$)	0.3782	0.3771	0.4058	0.4069
Brunei Darussalam (B\$)	2.4250	2.4180	2.2920	2.2950
Singapore (S\$)	2.4250	2.4180	2.2920	2.2950
US Dollar (USD)	2.9930	2.9833	3.2160	3.2255
Indian Rupee (INR)	0.0658	0.0654	0.0683	0.0686

## B15. Realised and unrealised profits or losses

On 25 March 2010, Bursa Malaysia Securities Berhad (“Bursa Malaysia”) issued a directive to all listed issuers pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows :-

	As at 30 Jun 2011 RM'000	As at 31 Dec 2010 RM'000
The retained earnings of the Group :-		
- realised	861,718	807,307
- unrealised	(52,122)	(49,957)
	<u>809,596</u>	<u>757,350</u>
Less : Consolidation adjustments	(341,869)	(322,248)
Total retained earnings	<u><u>467,727</u></u>	<u><u>435,102</u></u>

By Order of the Board  
QSR BRANDS BHD

.....  
IDHAM JIHADI BIN ABU BAKAR (MAICSA 7007381)  
HENG AI LENG (MAICSA 7017245)  
(COMPANY SECRETARIES)

Date: 24 August 2011