

**QSR BRANDS BHD (599171-D)**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**1. 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 Requirement and should be read in conjunction with the Group's audited financial statement for the year ended 31 December 2005.

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 2005.

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

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

**3. Seasonality or Cyclicity of Operations**

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

**4. 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.

**5. 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.

**6. 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 RM239,288,318 to RM240,910,194 as a result of the issuance of 1,621,876 ordinary shares of RM1.00 each upon the conversion of 1,621,876 warrants at the exercise price of RM1.19 per share.
- (b) The number of warrants outstanding as at 30 June 2006 was 4,889,808. 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 shall expire on 24 January 2007.

**7. Dividends Paid**

No dividend payments were made during the financial period.

**8. Segmental Information**

RM million	6 months ended 30-June-06		6 months ended 30-June-05	
	Revenue	Operating Profit	Revenue	Operating Profit/(Loss)
Malaysia	126.6	13.6	113.8	8.8
Singapore	76.4	2.2	67.5	(1.7)
<b>Consolidated Total</b>	<u>203.0</u>	<u>15.8</u>	<u>181.3</u>	<u>7.1</u>

RM million	3 months ended 30-June-06		3 months ended 30-June-05	
	Revenue	Operating Profit	Revenue	Operating Profit/(Loss)
Malaysia	64.7	5.9	55.6	3.1
Singapore	39.0	1.8	33.2	(0.4)
<b>Consolidated Total</b>	<u>103.7</u>	<u>7.7</u>	<u>88.8</u>	<u>2.7</u>

#### 9. 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 2005.

#### 10. Material Events subsequent to the end of the current quarter

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

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

There is no change in the composition of the Group during the current quarter.

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

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

#### 13. Capital Commitments

Capital commitments not provided for in the financial statements as at 30 June 2006 are as follows:-

		RM'000
(a) Capital expenditure:	Property, plant and equipment	
	- approved and contracted for	1,462
	- approved but not contracted for	<u>25,851</u>
		<u>27,313</u>
(b) Non-cancelable Operating Lease Commitments – Group as Lessee		<u>62,943</u>

#### 14. Review of the Performance of the Company and its Principal Subsidiaries

The Group has maintained the strong sales performance momentum recorded in the 1<sup>st</sup> Quarter of the current financial year. Revenue generated increased by 12% to RM203.0 million (2005:RM181.3 million) for the six months to 30<sup>th</sup> June 2006.

The Group's profitability increased by three (3) folds with its Operating Profit before Share of Results of Associates increasing to RM15.8 million (2005: RM5.2 million). Including the Share of Results of its Associate; KFC Holdings (Malaysia) Bhd ("KFCH"), the Group's Profit before Taxation improved by almost RM50 million to RM29.5 million compared to a loss of RM19.8 million in the corresponding six months last year.

The revenue and profit improvements are primarily attributed to the successful execution of the Group's business plan and initiatives: -

- (i) **Restaurant expansion** in Malaysia where 24 new Pizza Hut restaurants have been opened since the second half of 2005 (including 10 restaurants opened in the first six months of the current financial year). This enables the Group to tap new target markets, improve the customer's accessibility to the restaurants and increase the brand presence;

This is in addition to the remodeling of 15 existing restaurants since the second half of 2005 (including 6 restaurants which were remodeled in the first six months of the current financial year) under the "Enhanced Dine -In" initiative.

Both of these initiatives have lifted Pizza Hut's brand visibility leading to increased sales and contribution margin.

- (ii) **Product and menu innovation** such as the introduction of "Pasta Perfetto" (a range of pasta and sauces) to reinforce our focus on serving a variety of exciting and quality cuisine.
- (iii) **Turnaround of Singapore operations** also continued with a 230% (RM3.9 million) jump in operating profit of RM2.2 million compared to a loss of RM1.7 million in the prior year's corresponding six months. This is due to effective marketing and benefits derived from improved operational efficiencies.

The Group's associate company, KFCH also recorded improved performance resulting mainly from improved turnover and profitability of its KFC chain of restaurants. Initiatives implemented under the business plan to improve KFCH's performance included but were not limited to:

- (a) Restaurant expansion in Malaysia where 24 new KFC restaurants have been opened since the second half of 2005 (including 14 restaurants which were opened in the first six months of the current financial year);
- (b) Remodeling of a further 24 existing KFC restaurants since the second half of 2005 (including 11 restaurants which were remodeled in the first six months of the current financial year);
- (c) Well planned and executed marketing campaigns such as the O.R. Chicken Chop to drive customer visits and spend; and
- (d) Implementation of an active debt reduction program which yielded significant interest savings.

As a result, KFCH's pre-tax profit for the six months improved by more than RM122 million to RM60.8 million compared to a loss of RM61.6 million in the prior year's corresponding six months. Excluding the one off charge of RM106.4 million in 2005 due largely to impairment losses on properties, KFCH still achieved a commendable 31% increase in year-on-year profitability.

## 15. Material Changes in the Quarterly Results

The Group recorded a 4.0% reduction in its Operating Profit before Share of Results of Associates at RM 7.7 million in the current quarter as against RM8.1 million in the previous quarter to 31st March 2006. However, this is more than offset by an increase in the Group's share of KFCH's results, which increased by 17.8% to RM7.4 million in the current quarter as against RM6.3 million in the previous quarter.

Consequently the Group registered a 5.6% increase in quarter-on-quarter Profit before Taxation at RM15.1 million as against RM14.3 million in the previous quarter. Earnings per share increased from 4.98 sen in the previous quarter to 5.25 sen in the current quarter.

## 16. Current Year Prospects

According to official announcements Malaysia is expected to achieve an annual economic growth of up to 6.0% whilst Singapore is expected to grow by up to 7.5%.

With the recent conclusion to the shareholders tussle, the Company is now a subsidiary of Kulim (Malaysia) Bhd, whose ultimate holding corporation is Johor Corporation. This brings in the much needed stability to the ownership of QSR and consequently the management of the Group. A new senior management team is in place and will institutionalize corporate governance and values that embodies best practices and standards commensurating with a reputable and credible corporate shareholder.

The Group is cautiously optimistic that the execution of the business plan and initiatives will further create value and growth. However, the Group is also conscious of the challenges posed by concerns over the dampening effect of high oil prices, increase in electricity tariffs, rising inflationary pressure and interest hikes on the economy in Malaysia and Singapore. To address these challenges, the Group will take measures to introduce more layered product offerings that focus on value for customers. At the same time, the Group is continuing with every effort to derive better cost efficiencies across all functions and to improve on the productivity of the restaurant operations. The strengthening of Ringgit Malaysia against United States Dollar has assisted the Group to contain some of its imported food costs. This in turn enabled the Group to partly offset the increases in fuel, electricity, transport and product packaging costs.

## 17. Profit Forecast / Profit Guarantee

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

## 18. Taxation

	<b>Current Quarter RM'000</b>	<b>Cumulative Quarters RM'000</b>
Tax expenses for the period:-		
Malaysian income tax	2,812	4,900
Foreign tax	(122)	-
	<u>2,690</u>	<u>4,900</u>
Deferred tax	(176)	-
	<u>2,514</u>	<u>4,900</u>

The effective tax rate for the Group for the financial period 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 sale of unquoted investments and properties.

## 20. Quoted Securities

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

## 21. Status of Uncompleted Corporate Announcement

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").

However, on 7 June 2006, the Extraordinary General Meeting of QSR Brands Bhd voted in favour of an ordinary resolution for the revocation of the same. Consequently, this has put a stop to the proposed private placement.

## 22. Borrowings and Debt Securities

	<b>As at 30 June 2006 RM'000</b>
Short term borrowings:-	
Secured - Term Loan I (SGD3,200,000)	<u>7,360</u>
Long term borrowings:-	
Secured - Term Loan I (SG8,000,000)	18,400
- Term Loan II	<u>126,367</u>
	<u>144,767</u>

The Singapore currency denominated Term Loan I 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.

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 installments commencing from the first quarter of year 2008.

## 23. Financial Instrument with Off Balance Sheet Risk

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

## 24. Changes in Material Litigations

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

#### Plaintiff v 8 Defendants & QSR Brands Bhd

The Plaintiff filed Writ of Summons and Statement of Claims dated 20/07/2005, seeking damages/orders for, inter alia:

- (i) restraining implementation of resolution dated 11/07/2005, suspending the Plaintiff as the Managing Director of the 9<sup>th</sup> Defendant;
- (ii) restraining implementation/suspension of resolution dated 29/04/2005 for appointment of 1<sup>st</sup> to 4<sup>th</sup> Defendants, restraining 1<sup>st</sup> to 8<sup>th</sup> Defendants from holding out as directors of the 9<sup>th</sup> Defendant or participating in the management of the 9<sup>th</sup> Defendant; and
- (iii) restraining implementation/suspending resolutions passed by the board of directors of the 9<sup>th</sup> Defendant after 29/04/2005.

Pending filing of the Common Bundle of Documents, the Court has fixed the next case management on 05/09/2006.

**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.

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 parties have filed written submissions and the Court has fixed the date for hearing on 06/09/2006.

**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 2/09/2005, seeking for declaratory orders that, among others, the Special Notice issued by the 1<sup>st</sup> to 3<sup>rd</sup> Defendants on 18/08/2005 to convene an extraordinary general meeting to be held on 15/09/2005 is invalid, consequentially the 1<sup>st</sup> to 12<sup>th</sup> 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 18/08/2005 at the intended EGM then scheduled to be held on 15/09/2005.

On 13/09/2005, 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 18/09/2005 to convene the intended EGM is valid.

On 15/09/2005, 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 Plaintiff 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 2<sup>nd</sup> 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 07/06/2006. As such, at the last hearing date on 01/08/2006, 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 21/09/2006 as the next mention date.

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 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> Defendants on 20/09/2005 for the purpose of removing certain QSR directors and to restrain the 1<sup>st</sup> Defendant from voting until the 1<sup>st</sup> Defendant issued the offer document pursuant to the Malaysian Code on Take-Overs and Mergers, 1998.

On 15/09/2005, QSR's application by way of Summons in Chambers for interlocutory injunction ("QSR Application") was dismissed with costs.

The date for the hearing on the Originating Summons has yet to be fixed. On 16/09/2005, 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 had become academic due to the result of the EGM requisitioned by Kulim (Malaysia) Berhad on 07/06/2006. As such, at the last hearing date on 01/08/2006, solicitors for all parties have agreed to ask 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 21/09/2006 as the next mention date.

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 15/08/2006, the matter has been withdrawn with order for costs to be taxed.

ii) Committal Proceedings against the 1<sup>st</sup> and 2<sup>nd</sup> Defendants.

The 2<sup>nd</sup> Defendant's application to set aside the leave for committal proceedings was heard on 28/06/2006 and allowed by the High Court on 06/07/2006, 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 2<sup>nd</sup> Defendant have yet to give notice to the relevant directors.

iii) Committal Proceedings against News Straits Times Press ("NSTP")

On 17/08/2006, 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 Claims 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.

**25. Dividend Proposed**

There was no dividend proposed during the quarter (2005: 3 sen per ordinary share).

An interim dividend for the financial year 2006 was announced by the Directors on 16 May 2006 at 3 sen less 28% Malaysian income tax per share. This interim dividend was paid on 3<sup>rd</sup> August 2006.

## 26. Earnings Per Share

	CURRENT QUARTER		CUMULATIVE QUARTERS	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
<b>Earnings</b>	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Net profit/(loss) for the period	<u>12,626</u>	<u>(30,448)</u>	<u>24,578</u>	<u>(22,788)</u>
<b>Weighted average number of shares</b>				
<b>a) Basic</b>	('000)	('000)	('000)	('000)
Weighted average number of ordinary shares in issue	<u>240,539</u>	<u>219,117</u>	<u>240,539</u>	<u>219,117</u>
<b>b) Diluted earnings per share</b>				
Weighted average number of ordinary shares in issue	240,539	219,117	240,539	219,117
Adjustment for assumed exercised of warrants	3,048	4,612	3,048	4,612
Adjusted weighted average number of ordinary shares	<u>243,587</u>	<u>223,729</u>	<u>243,587</u>	<u>223,729</u>
<b>Basic earnings/(loss) per share (sen)</b>	<u>5.25</u>	<u>(13.90)</u>	<u>10.22</u>	<u>(10.40)</u>
<b>Diluted earnings/(loss) per share (sen)</b>	<u>5.18</u>	<u>(13.61)</u>	<u>10.09</u>	<u>(10.19)</u>

By Order of the Board  
**QSR BRANDS BHD**

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**MOHD ZAM BIN MUSTAMAN**  
**GROUP COMPANY SECRETARY (LS 0009020)**

Date: 29 August 2006