

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 2007.

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 2007.

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 estimates of amount reported in prior interim period or financial year that have a material effect in the current financial quarter.

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 the following :-

- (a) The paid-up share capital of the Company was increased from RM245,471,082 as at 31 December 2007 to RM286,382,929 as a result of the issuance of 40,911,847 new ordinary shares of RM1.00 each together with 40,911,847 new free detachable warrants on the basis of one rights share together with one free warrant for every six existing ordinary shares of RM1.00 each held.
- (b) The number of warrants outstanding as at 30 September 2008 was 40,911,847. Each warrant entitles the holder of 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) The Company bought back 4,900,000 of its issued and paid-up shares from the open market at an average price of RM2.24 per share. Total consideration paid for the buybacks including transaction costs was RM10,951,854 and these buybacks were financed by internally generated funds.

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

A7. Dividend Paid

Dividend paid on 28 May 2008 was declared on 8 April 2008, in respect of the year ended 31 December 2007 being final dividend of 5 sen less 26% taxation per share, on 284,908,929 ordinary shares, amounted to RM10,541,623.

A8. Segmental Information

RM' million	Cumulative Quarters 1 Jan - 30 Sep 2008		Cumulative Quarters 1 Jan - 30 Sep 2007	
	Revenue	Operating Profit/(loss)	Revenue	Operating Profit
<u>Malaysia</u>				
Pizza Hut restaurants	256.5	25.5	219.6	19.0
<u>Foreign</u>				
Pizza Hut Singapore	132.1	5.7	119.3	5.9
KFC Cambodia	3.2	(2.1)	-	-
	135.3	3.6	119.3	5.9
Consolidated Total	391.8	29.1	338.9	24.9
RM' million	Current Quarter 1 Jul - 30 Sep 2008		Current Quarter 1 Jul - 30 Sep 2007	
	Revenue	Operating Profit/(loss)	Revenue	Operating Profit
<u>Malaysia</u>				
Pizza Hut restaurants	84.5	6.7	83.0	10.8
<u>Foreign</u>				
Pizza Hut Singapore	45.7	2.5	42.5	2.4
KFC Cambodia	1.6	(0.7)	-	-
	47.3	1.8	42.5	2.4
Consolidated Total	131.8	8.5	125.5	13.2

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 2007.

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

1. On 29 February 2008, the Company entered into a Joint Venture Agreement with Royal Group of Companies Ltd, Cambodia and Rightlink Corporation Limited, Hong Kong to form a joint venture under a joint venture company, Kampuchea Food Corporation Co. Limited ("KFCL"), to operate Kentucky Fried Chicken Restaurant business in Cambodia. The Company has a 55% shareholding in KFCL.

2. On 24 June 2008, the Company acquired the entire issued and paid-up share capital of the following dormant companies from KFCH Group :
 - (i) Signature Chef Holdings Sdn Bhd – comprising 3 ordinary shares of RM1.00 each for cash consideration of RM3.00;
 - (ii) Sterling Distinction Sdn Bhd – comprising 2 ordinary shares of RM1.00 each for cash consideration of RM2.00; and
 - (iii) SBC Coffee Holdings Sdn Bhd – comprising 2 ordinary shares of RM1.00 each for cash consideration of RM2.00.

3. The Company acquired 3,870,000 ordinary shares in KFC Holdings (Malaysia) Bhd (“KFCH”) for the period 2 May 2008 to 30 June 2008 representing 1.95% of the issued and paid-up share capital of KFCH for a total purchase consideration of RM25,553,213. Following the acquisition, the Company’s shareholdings in KFCH increased from 46.79% to 48.74%.

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

	RM’000
Capital expenditure : Property, plant and equipment	
- approved and contracted for	876
- approved but not contracted for	25,097
	25,973

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 RM391.8 million for the current period, representing an increase of 15.6% over prior year corresponding period of RM338.9 million.

The Group’s operating profit before share of profits of associate increased by 16.9% to RM29.1 million (2007 : RM24.9 million). Including the share of profits of its associate, KFCH, the Group’s profit before tax improved to RM72.2 million from RM56.8 million in the corresponding period last year.

The revenue improvement was attributed to the continuing network expansion where 10 new Pizza Hut outlets were opened in Malaysia in the period under review and the net addition of 14 outlets to the network since October 2007. The highly successful Sensasi Delight combo value meals which were first introduced in June 2007 continue to drive restaurants throughput with its value layer proposition. The introduction of new products such as the Mexican Fiesta Bonanza, Golden Happiness Cheesy Crown Pizza, Italiano Paradiso Pizza, Starzbites Sausage Pizza and the Hot Delivery campaign boosted same store sales and transactions.

Though the restaurants profitability was affected by the increasing cost of raw materials such as flour and cheese, the negative impact was mitigated by the significant improvement in sales.

Its Singapore operations' improved sales were attributed to the successful launches of its Double Treats Delight promotion, Pasta Perfetto promotion and new products such as Prosperity Pizza, Amore Italia Pizza, Specialty Crispy Thin Pizza and Starzbites Cheesy Extreme Pizza and the net addition of 2 outlets since October 2007. However its profitability was dampened by the increasing cost of raw materials.

KFC Cambodia, which commenced operations in March 2008, currently has two operating outlets at Phnom Penh. It registered encouraging sales since opening but its profitability was affected by start-up costs and rising costs of raw materials.

KFCH generated better results with improved sales at its restaurants and its poultry local open market and export market with a pre-tax profit of RM127.4 million as compared to RM105.4 million in the prior year's corresponding period. This represented a 20.9% increase in year-on-year profitability.

B2. Material Changes in the Quarterly Results

The Group registered a turnover of RM131.8 million, an increase of 0.5% over previous quarter's RM131.2 million. Its operating profit before share of profits of associate decreased to RM8.5 million in the current quarter from RM10.4 million in the previous quarter.

Including its share of profits in KFCH, the Group registered a lower profit before tax of RM23.8 million in the current quarter as against RM24.9 million in the previous quarter. Earnings per share decreased from 8.04 sen in the previous quarter to 7.75 sen in the current quarter. The lower profit in the current quarter was primarily due to the negative impact on same store sales arising from inflationary pressures caused by, amongst others, rising fuel and electricity costs from June 2008 and July 2008 respectively. These resulted in consumers trading down its food expenditure.

B3. Current Year Prospects

The financial meltdown particularly in the US and Europe caused by the credit crunch has led to the current global economic slowdown. Singapore had announced an estimated economic contraction of 0.5% in third quarter 2008 and currently in a technical recession. Malaysia's economic growth is expected to be negatively impacted too. The Government had revised downwards its projected economic growth for 2008 from 5.7% to 5%. Amid this economically challenging times, the Malaysian Government has recently unveiled a RM7 billion economic stimulus package to reduce burden on Malaysians and to reinforce private sector confidence. The pump-priming measures as set out in the stimulus package are expected to boost domestic consumption and help cushion Malaysia's economy from the global slowdown. Global crude oil prices are declining and the local petrol prices are expected to fall back to pre-June-2008 pump prices. Thus lessening burden on consumers expenditure.

The Government's positive measures and the declining inflationary pressures will boost consumers confidence and stimulate spending.

In the light of the prevailing economic environment, the Group will continue to sustain existing product offerings and introduce new product offerings that focus on value to customers.

Based on the foregoing and in spite of the economic uncertainties, the Board is confident of better performance in the current year. The Group will continue to drive 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	2,239	7,739
Foreign tax	548	1,262
	<u>2,787</u>	<u>9,001</u>
Deferred tax	13	599
	<u>2,800</u>	<u>9,600</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.

B7. Sale of Unquoted Investments and Properties

There was no sale of unquoted investments during the financial period under review. However there was a sale of property to KFCH during the period which resulted in a gain on disposal of RM56,333.

B8. Quoted Securities

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.

B10. Borrowings and Debt Securities

	As at 30 September 2008 RM'000
Short term borrowings:-	
Secured - Term loan I (SGD4,800,000)	11,700
	=====
Long term borrowings:-	
Secured - Term loan II	155,000
	=====

- (a) 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 RM6.9 million.

- (b) Term Loan II which is secured by certain quoted shares of its associate and certain unquoted shares of its subsidiary was drawn in the third quarter of year 2008 to refinance the existing term loans and revolving credit facilities. This loan is repayable semi-annually over a period of 5 ½ years commencing from the third quarter of year 2010.

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

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

B13. Dividend Proposed

There was no dividend proposed during the current quarter (2007 : Nil)

The total dividend declared by the Company to-date for the financial year ending 31 December 2008 represented 4 sen less tax of 26% (2007 : 4 sen less tax of 27%) per ordinary share.

B14. Earnings Per Share

	CURRENT QUARTER		CUMULATIVE QUARTERS	
	1 Jul - 30 Sep 2008	2007	1 Jan - 30 Sep 2008	2007
Profit attributable to equity holders of the Company (RM'000)	21,285	20,434	63,496	48,781
Weighted average number of ordinary shares in issue ('000)	274,479	245,383	274,479	245,383
Basic earnings per share (sen)	<u>7.75</u>	<u>8.33</u>	<u>23.13</u>	<u>19.88</u>

There was no dilution in its earnings per share as the unexercised 40,911,847 convertible warrants 2008/2013 were anti-dilutive in nature. This was because the market price of a QSR share at 30 September 2008 of RM2.32 was below the exercise price of the warrants of RM3.01 per share.

B15. Currency Translation

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

	THIS YEAR CURRENT QUARTER		PRECEEDING YEAR CORRESPONDING QUARTER	
	MTH-END RATE RM	AVERAGE RATE RM	MTH-END RATE RM	AVERAGE RATE RM
Singapore (S\$)	2.4375	2.3770	2.3155	2.3160
US Dollar (USD)	3.4890	3.4170	-	-

By Order of the Board
QSR BRANDS BHD

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

Date: 20 November 2008