

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 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 except for the recognition of deferred tax assets on unused reinvestment allowances by its associate, KFCH Holdings (Malaysia) Bhd (KFCH).

In prior years, KFCH recognized deferred tax assets on unused reinvestment allowances. During the current year, KFCH changed its accounting policy and accordingly, deferred tax assets on unused reinvestment allowances are no longer recognized. The effects arising from this change on the comparative figures are as follows:-

	GROUP	
	2006	2005
	RM'000	RM'000
Effect on retained earnings		
At 1 January, as previously restated	130,351	132,153
Effect of prior year adjustment – share of results of associate	(625)	(303)
At 1 January, as restated	<u>129,726</u>	<u>131,850</u>
Effect on net profit for the year		
At 31 December, as previously reported	55,059	10,224
Effect of change in accounting policy – share of results of associate	(179)	(322)
At 31 December, as restated	<u>54,880</u>	<u>9,902</u>

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 year other than the additional loan facility raised for the Company's acquisition of additional shares in KFCH. Please refer to note A11, B8 and B9.

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 year.

A6. Debt and Equity Securities

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

- (a) During the current financial year, the paid-up share capital of the Company was increased from RM239,288,318 to RM244,252,839 as a result of the issuance of 4,964,521 ordinary shares of RM1.00 each upon the conversion of 4,964,521 warrants at the exercise price of RM1.19 per share.
- (b) The number of warrants outstanding as at 31 December 2006 was 1,547,163. 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 had expired on 24 January 2007. The trading of the warrants was suspended on 9 January 2007 in order to facilitate the expiry and final exercise of the warrants.

The expired warrants 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

Dividend paid on 19 September 2006 was declared on 3 August 2006, in respect of the year ended 31 December 2005 being final dividend of 4 sen less 28% taxation per share, on 240,951,055 ordinary shares, amounted to RM6,939,394.

Dividend paid on 3 August 2006 was declared on 16 May 2006, in respect of the year ended 31 December 2006 being interim dividend of 3 sen less 28% taxation per share, on 240,910,194 ordinary shares, amounted to RM5,203,656.

A8. Segmental Information

RM million	Cumulative Quarters 1 Jan - 31 Dec 2006		Cumulative Quarters 1 Jan - 31 Dec 2005	
	Revenue	Operating Profit	Revenue	Operating Profit
Malaysia	267.9	23.9	240.5	28.7
Singapore	160.6	6.2	145.6	3.3
Consolidated Total	<u>428.5</u>	<u>30.1</u>	<u>386.1</u>	<u>32.0</u>

RM million	Current Quarter 1 Oct - 31 Dec 2006		Current Quarter 1 Oct - 31 Dec 2005	
	Revenue	Operating Profit/(Loss)	Revenue	Operating Profit
Malaysia	68.4	(0.6)	62.4	10.5
Singapore	41.1	1.9	39.7	2.9
Consolidated Total	<u>109.5</u>	<u>1.3</u>	<u>102.1</u>	<u>13.4</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 2005 except for those properties which have been reclassified from Properties Held For Sale to Property, Plant and Equipment. These properties have not been successfully sold for a period exceeding 12 months from date of classification. Arising from this reclassification, a revaluation surplus of RM3,200 (net of tax) was credited to equity and an impairment loss of RM75,000 was charged to current year profits.

- (iii) **Turnaround of Singapore operations** continued with an increase in operating profit from RM3.3 million in the previous year to RM6.2 million in the current year.. This was due to effective marketing and benefits derived from improved operational efficiencies.

The Group's associate, 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 and Singapore where 37 new KFC restaurants (15 relocations) have been opened since this year;
- (b) Remodeling of a further 43 existing KFC restaurants since the beginning of the year;
- (c) Well planned and executed marketing campaigns and introduction of innovative new products such as the O.R. Chicken Chop, Cheezy BBQ Meltz and Zinger Maxx to drive customer visits and spend;
- (d) Better performance of its Singapore operations; and
- (e) Implementation of an active debt reduction program which yielded significant interest savings.

As a result, KFCH's pre-tax profit for the year improved by RM137.5 million to RM143.1 million as compared to RM5.6 million in the prior year's corresponding period. Excluding the one off charge of RM118.2 million in 2005 due largely to impairment losses on properties, KFCH still achieved a commendable 15.6% increase in year-on-year profitability.

B2. Material Changes in the Quarterly Results

The Group registered a turnover of RM109.5 million, a decline of 5.6% over previous quarter's RM116 million. Its operating profit before share of results of associate declined to RM1.3 million in the current quarter from RM13.0 million in the previous quarter to 30 September 2006.

Including its share of results in KFCH, the Group registered a 35.3% decrease in quarter-on-quarter profit before taxation to RM14.4 million from RM22.3 million in the previous quarter. Earnings per share decreased from 7.60 sen in the previous quarter to 4.98 sen in the current quarter. The lower profit in the current quarter was primarily due to inclusion of one-off expenses relating to the MGO exercise as described in note B8 and lower throughput at the restaurants.

B3. Current Year Prospects

According to press releases, Malaysia is expected to achieve an annual economic growth of up to 6.0% whilst Singapore is expected to grow by 7.7% in 2006. In 2007, the economy of Malaysia and Singapore are projected to grow by 6.0% and 4.5% respectively.

The Group is optimistic that the constant review and effective 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 continuing strength of the prices of the imported raw materials such as corn and soyabean meal. 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 restaurants and manufacturing operations. The strengthening of Ringgit Malaysia against United States Dollar has assisted the Group to offset some of its imported raw material costs.

B4. Profit Forecast/Profit Guarantee

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

B5. Taxation

	Current Quarter RM'000	Cumulative Quarters RM'000
Tax expense for the year :-		
Malaysian income tax	1,233	9,261
Foreign tax	898	1,759
	<hr/> 2,131	<hr/> 11,020
Deferred tax	(28)	(17)
Tax expense of prior years	283	283
	<hr/> 2,386	<hr/> 11,286

B6. Sale of Unquoted Investments and Properties

There were no sale of unquoted investments and properties.

B7. Quoted Securities

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

B8. 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 intends to continue increasing 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;
- (iv) Approval and/or ratification by QSR shareholders at the forthcoming EGM;
- (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.

B9. Borrowings and Debt Securities

	As at 31 December 2006 RM'000
Short term borrowings:-	
Secured - Term Loan I (SGD3,200,000)	<u>7,432</u>
Long term borrowings:-	
Secured - Term Loan I (SGD6,400,000)	14,864
- Term Loan II	126,367
- Term Loan III	58,780
	<u>200,011</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 B8 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.

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. Changes in Material Litigations

Since the last quarterly report ended 30 September 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 20/07/2005, seeking damages/orders for, inter alia:

- (i) restraining implementation of resolution dated 11/07/2005, suspending the Plaintiff as the Managing Director of the 9th Defendant;
- (ii) restraining implementation/suspension of resolution dated 29/04/2005 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 29/04/2005.

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 clarification/decision on 29/3/2007.

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 2/09/2005, seeking for declaratory orders that, among others, the Special Notice issued by the 1st to 3rd Defendants on 18/08/2005 to convene an extraordinary general meeting to be held on 15/09/2005 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 18/08/2005 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 18/08/2005 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 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 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.

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.

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 20/09/2005 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 15/09/2005, 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 16/09/2005, 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 has 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. 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.

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 1st and 2nd Defendants.

The 2nd 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 2nd 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 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.

B12. Dividend Proposed

The Board of Directors has recommended a final dividend of 6 sen (2005 : 4 sen) less tax of 28% per ordinary share in respect of the financial year ended 31 December 2006, subject to approval by the shareholders at the forthcoming Annual General Meeting. The date of the Annual General Meeting and dividend entitlement date will be announced at a later date.

The Company had on 16 May 2006 declared an interim dividend of 3 sen less tax of 28% and subject to the shareholders' approval for the final dividend, the total dividend declared by the Company for the financial year ended 31 December 2006 would represent 9 sen (2005 : 7 sen) less tax of 28% per ordinary share.

B13. Earnings Per Share

	CURRENT QUARTER 1 Oct - 31 Dec		CUMULATIVE QUARTERS 1 Jan - 31 Dec	
	2006 (RM'000)	2005 (RM'000)	2006 (RM'000)	2005 (RM'000)
Earnings				
Net profit for the year	<u>12,019</u>	<u>17,804</u>	<u>54,880</u>	<u>9,902</u>
Weighted average number of shares				
a) Basic	(‘000)	(‘000)	(‘000)	(‘000)
Weighted average number of ordinary shares in issue	<u>241,193</u>	<u>229,206</u>	<u>241,193</u>	<u>229,206</u>
b) Diluted earnings per share				
Weighted average number of ordinary shares in issue	241,193	229,206	241,193	229,206
Adjustment for assumed exercised of warrants	<u>980</u>	<u>4,062</u>	<u>980</u>	<u>4,062</u>
Adjusted weighted average number of ordinary shares	<u>242,173</u>	<u>233,268</u>	<u>242,173</u>	<u>233,268</u>
Basic earnings per share (sen)	<u>4.98</u>	<u>7.77</u>	<u>22.75</u>	<u>4.32</u>
Diluted earnings per share (sen)	<u>4.96</u>	<u>7.63</u>	<u>22.66</u>	<u>4.24</u>

B14. Currency Translation

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

	THIS YEAR CURRENT QUARTER		PRECEEDING YEAR CORRESPONDING QUARTER	
	MTD-END RATE RM	AVERAGE RATE RM	MTH-END RATE RM	AVERAGE RATE RM
Singapore (S\$)	2.3225	2.3110	2.2925	2.2737

By Order of the Board
QSR BRANDS BHD

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MOHD ZAM BIN MUSTAMAN (LS 0009020)
GROUP COMPANY SECRETARY

Date: 15 February 2007