

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 year.

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 year 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

Dividend paid on 9 July 2007 was declared on 18 May 2007, in respect of the year ended 31 December 2006 being final dividend of 6 sen less 27% taxation per share, on 245,471,082 ordinary shares, amounted to RM10,751,622.

Dividend paid on 5 October 2007 was declared on 30 August 2007, in respect of the year ended 31 December 2007 being interim dividend of 4 sen less 27% taxation per share, on 245,471,082 ordinary shares, amounted to RM7,167,759.

A8. Segmental Information

RM million	Cumulative Quarters 1 Jan - 31 Dec 2007		Cumulative Quarters 1 Jan - 31 Dec 2006	
	Revenue	Operating Profit	Revenue	Operating Profit
Malaysia	301.0	25.5	267.9	23.9
Singapore	165.4	8.2	160.6	6.2
Consolidated Total	<u>466.4</u>	<u>33.7</u>	<u>428.5</u>	<u>30.1</u>

RM million	Current Quarter 1 Oct - 31 Dec 2007		Current Quarter 1 Oct - 31 Dec 2006	
	Revenue	Operating Profit	Revenue	Operating Profit/(Loss)
Malaysia	81.4	6.5	68.4	(0.6)
Singapore	46.0	2.3	41.1	1.9
Consolidated Total	<u>127.4</u>	<u>8.8</u>	<u>109.5</u>	<u>1.3</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 2006.

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

There are no changes in the composition of the Group during the year other than the acquisition by the Company of 7,740,000 ordinary shares in KFC Holdings (Malaysia) Bhd ("KFCH") for the period from 27 April 2007 to 31 December 2007 representing 3.9% of the issued and paid-up share capital of KFCH for a total purchase consideration of RM53,054,466. Following the acquisition, the Company's shareholdings in KFCH has increased from 42.89% to 46.79%.

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	1,399
- approved but not contracted for	32,000
	<u>33,399</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 RM466.4 million for the current financial year, representing an increase of 8.8% over prior year corresponding period of RM428.5 million.

The Group's operating profit before share of profits of associate increased by 12.0% to RM33.7 million (2006 : RM30.1 million). Including the share of profits of its associate, KFCH, the Group's profit before tax improved to RM80.2 million as compared to RM65.8 million in the corresponding period last year.

The revenue improvement was attributed to the continuing network expansion where twenty (20) new Pizza Hut outlets were opened in Malaysia in the year under review. The launch of its highly successful Sensasi Delight combo value meals in June 2007 coupled with the introduction of new products such as Cheesy Bites Dip-Licious Pizza, Sausage Bites Dip-Licious Pizza and Mexican Fiesta Pizza boosted sales and transactions.

The restaurants profitability in the year under review was negatively affected by the decline in its same store sales in the first half of 2007. However the decline was arrested with the introduction of the well accepted 'Sensasi Delight' meals. The Group's profitability was also affected by the additional interest costs incurred arising from the Company's acquisition of additional KFCH shares. This was however more than covered by the higher share of profits from the higher equity in and 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, Pasta Perfetto, Cheesy Bites Fondue and Sambal Seafood Pizza.

KFCH generated better results with improved sales and better margin at its restaurants with a pre-tax profit of RM150.6 million as compared to RM142.3 million in the prior year's corresponding period. This represented a 5.8% increase in year-on-year profitability.

B2. Material Changes in the Quarterly Results

The Group registered a turnover of RM127.4 million, an increase of 1.5% over previous quarter's RM125.5 million. Its operating profit before share of profits of associate decreased to RM8.8 million in the current quarter from RM13.2 million in the previous quarter.

Including its share of profits in KFCH, the Group registered a 6.0% decrease in quarter-on-quarter profit before tax to RM23.4 million from RM24.9 million in the previous quarter. Earnings per share decreased from 8.33 sen in the previous quarter to 7.91 sen in the current quarter. The lower profit in the current quarter was primarily due to the increased cost of raw materials such as flour, cheese and soya oil.

B3. Current Year Prospects

Malaysia is expected to achieve economic growth exceeding 6% in 2007 while Singapore had announced, based on advance estimates, an economic growth of 7.5% in 2007.

The Malaysian and Singapore economy are expected to be on a growth path albeit at a slower rate. There has been a structural change in the Malaysian economy towards domestic demand. The continuing implementation of the development projects under the Ninth Malaysia Plan will drive domestic demand, mitigating the anticipated fall in its exports.

Inflationary pressures in the economy from rising oil prices and global food and commodity prices prevailed. The rate of inflation in 2008 is expected to exceed the 2% registered in 2007 as fuel, electricity tariffs and imported food ingredients prices are expected to rise. Though the anticipated slow down in the world economic front may moderate the rise somewhat, the higher costs will negatively impact the Group's cost of production.

The extension of the Visit Malaysia tourism related activities to the current year 2008 will continue to boost domestic consumption of goods and services.

Based on the foregoing and amid the economic uncertainties, the Board is optimistic of better performance in the current year. The Group will continue to 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 year :-		
Malaysian income tax	1,219	7,387
Foreign tax	742	2,037
	<hr/> 1,961	<hr/> 9,424
Deferred tax	2,682	2,729
Tax expense of prior years	527	1,017
	<hr/> <hr/> 5,170	<hr/> <hr/> 13,170

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 year.

B9. Status of Uncompleted Corporate Announcement

1) Proposed Rights Issue

- a) OSK Investment Bank Berhad (“OSK”) had on 14 September 2007 announced, on behalf of the Board, that the Company proposed to undertake a renounceable rights issue of 40,911,847 new ordinary shares of RM1.00 each in the Company together with 40,911,847 new free detachable warrants on the basis of one (1) Rights Share and one (1) Warrant for every six (6) existing ordinary shares of RM1.00 each in the Company held at an entitlement date to be determined later (“Proposed Rights Issue”).
- b) The Securities Commission had on 4 October 2007 approved the proposed Rights Issue with the following conditions: -
 - (i) OSK, as the principal adviser for the proposed Rights Issue, should, prior to the issuance of the abridged prospectus for the Proposed Rights Issue, submit a written confirmation that Kulim (Malaysia) Berhad, one of the substantial shareholders of QSR, has sufficient resources to take up the securities; and
 - (ii) OSK and the Company should fully comply with the relevant requirements of the Securities Commission’s Policies and Guidelines on Issue/Offer of Securities pertaining to the implementation of the Proposed Rights Issue.
- c) The Controller of Foreign Exchange (via Bank Negara Malaysia) had on 4 October 2007 approved the issuance of Warrants to the non-resident shareholders.
- d) The shareholders of the Company had on 15 November 2007 approved the Proposed Rights Issue.
- e) The Bursa Malaysia Securities Berhad (“Bursa Securities”) had on 20 November 2007 approved in principle the following: -
 - (i) admission of the Warrants to be issued pursuant to the Proposed Rights Issue, to the Official List of Bursa Securities;
 - (ii) listing of and quotation for the new QSR Shares and Warrants to be issued pursuant to the Proposed Rights Issue, on the Main Board of Bursa Securities; and
 - (iii) listing of and quotation for the new QSR Shares to be issued pursuant to the exercise of the Warrants, on the Main Board of Bursa Securities.

The Proposed Rights Issue is in the midst of implementation.

- 2) The Company had on 30 August 2007 announced that it has obtained approval in principle from Yum! Restaurants Asia Pte Ltd (“Yum!”) to operate Kentucky Fried Chicken (KFC) Restaurant business in Cambodia.

The Company will undertake the operation of KFC in Cambodia with two partners, namely Royal Group of Companies Ltd (RGC) and Rightlink Corporation Limited Hong Kong (RCL) subject to Yum!’s approval.

A proposed joint venture company (JV Company) is to be incorporated and registered and the proposed equity structure of the JV Company is as follows: -

<u>Shareholders</u>	<u>Shareholding</u>
QSR	55%
RGC	35%
RCL	10%

As at to-date, the Company is in the midst of finalizing the Joint Venture Agreement.

B10. Borrowings and Debt Securities

		As at 31 December 2007
		RM'000
Short term borrowings:-		
Secured	- Term loan I (SGD4,000,000)	9,266
	- Term loan II	5,000
	- Term loan III	44,053
	- Other borrowing	11,902
		<u>70,221</u>
Unsecured	- Revolving credit	10,000
		<u>80,221</u>
Long term borrowings:-		
Secured	- Term loan I (SGD2,400,000)	5,560
	- Term loan II	121,367
	- Term loan III	44,052
		<u>170,979</u>

- (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 RM15.68 million.
- (b) 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.
- (c) 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.
- (c) The other borrowing was raised to fund further acquisitions of KFCH shares post-MGO exercise period and is secured against certain shares in KFCH.

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 30 September 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 parties have settled the matter amicably and the Notice of Discontinuance has been filed on 13/12/2007.

On 15/2/2008, the matter has been formally withdrawn in Court.

**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 mention on 25/2/2008.

**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 mention on 25/2/2008.

B13. Dividends

The Board of Directors has recommended a final dividend of 5 sen (2006 : 6 sen less tax of 27%) less tax of 26% per ordinary share in respect of the financial year ended 31 December 2007, 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.

With the proposed final dividend, the total dividends declared by the Company for the financial year ended 31 December 2007 represented 9 sen (2006 : 9 sen) less tax per ordinary share.

B14. Earnings Per Share

	CURRENT QUARTER		CUMULATIVE QUARTERS	
	1 Oct - 31 Dec 2007 (RM'000)	2006 (RM'000)	1 Jan - 31 Dec 2007 (RM'000)	2006 (RM'000)
Earnings				
Profit for the year	<u>18,235</u>	<u>11,685</u>	<u>67,016</u>	<u>54,546</u>
Weighted average number of shares				
a) Basic	('000)	('000)	('000)	('000)
Weighted average number of ordinary shares in issue	<u>245,405</u>	<u>241,193</u>	<u>245,405</u>	<u>241,193</u>
b) Diluted earnings per share				
Weighted average number of ordinary shares in issue	245,405	241,193	245,405	241,193
Adjustment for assumed exercised of warrants	<u>-</u>	<u>980</u>	<u>-</u>	<u>980</u>
Adjusted weighted average number of ordinary shares	<u>245,405</u>	<u>242,173</u>	<u>245,405</u>	<u>242,173</u>
Basic earnings per share (sen)	<u>7.43</u>	<u>4.84</u>	<u>27.31</u>	<u>22.62</u>
Diluted earnings per share (sen)	<u>-</u>	<u>4.83</u>	<u>-</u>	<u>22.52</u>

B15. Currency Translation

The exchange rate used for each unit of the foreign currency in the Group for the current financial year 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\$)	2.3165	2.2805	2.3225	2.3110

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: 22 February 2008