

**OSR BRANDS BHD** (599171-D)

**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 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 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 31 December 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 5,000,000 of its issued and paid-up shares from the open market at an average price of RM2.23 per share. Total consideration paid for the buybacks including transaction costs was RM11,173,964 and these buybacks were financed by internally generated funds.

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

#### A7. Dividends 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.

Dividend paid on 8 October 2008 was declared on 20 August 2008, in respect of the year ended 31 December 2008 being interim dividend of 4 sen less 26% taxation per share, on 281,482,929 ordinary shares, amounted to RM8,331,887.

#### A8. Segmental Information

RM'million	Cumulative Quarters 1 Jan - 31 Dec 2008		Cumulative Quarters 1 Jan - 31 Dec 2007	
	Revenue	Operating Profit/(loss)	Revenue (Audited)	Operating Profit (Audited)
<u>Malaysia</u>				
Pizza Hut restaurants	351.7	36.8	301.0	25.5
<u>Foreign</u>				
Pizza Hut Singapore	176.2	7.5	165.4	8.2
KFC Cambodia	4.9	(3.7)	-	-
	181.1	3.8	165.4	8.2
<b>Consolidated Total</b>	<b>532.8</b>	<b>40.6</b>	<b>466.4</b>	<b>33.7</b>
RM'million	Current Quarter 1 Oct - 31 Dec 2008		Current Quarter 1 Oct - 31 Dec 2007	
	Revenue	Operating Profit/(loss)	Revenue	Operating Profit
<u>Malaysia</u>				
Pizza Hut restaurants	95.2	11.4	81.4	6.5
<u>Foreign</u>				
Pizza Hut Singapore	44.1	1.8	46.0	2.3
KFC Cambodia	1.6	(1.6)	-	-
	45.7	0.2	46.0	2.3
<b>Consolidated Total</b>	<b>140.9</b>	<b>11.6</b>	<b>127.4</b>	<b>8.8</b>

#### 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 5,990,000 ordinary shares in KFC Holdings (Malaysia) Bhd ("KFCH") for the period 2 May 2008 to 31 December 2008 representing 3.02% of the issued and paid-up share capital of KFCH for a total purchase consideration of RM40,795,136. Following the acquisition, the Company's shareholdings in KFCH increased from 46.79% to 49.81%.
4. The Company acquired 865,300 ordinary shares in KFCH on 2 January 2009 representing 0.44% of the issued and paid-up share capital of KFCH for a total purchase consideration of RM6,612,657. Following the acquisition, the Company's shareholdings in KFCH increased from 49.81% to 50.25%, thereby effectively making KFCH a subsidiary of the Company.

**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	870
- approved but not contracted for	49,644
	<u>50,514</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 RM532.8 million for the current financial year, representing an increase of 14.2% over prior year corresponding period of RM466.4 million.

The Group's operating profit before share of profits of associate increased by 20.5% to RM40.6 million (2007 : RM33.7 million). Including the share of profits of its associate, KFCH, the Group's profit before tax improved to RM97.7 million from RM80.2 million in the corresponding period last year.

The revenue improvement was attributed to the continuing network expansion where 19 new Pizza Hut outlets were opened in Malaysia in the year under review. 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, the Hot Delivery campaign and Flavour of the World range of pizzas 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, Starzbites Cheesy Extreme Pizza, Tom Yum Pizza and Hearty Set Meals and the net addition of 5 Pizza Hut outlets since January 2008. However its profitability was dampened by the increasing cost of raw materials and electricity tariffs.

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 RM167.5 million as compared to RM150.6 million in the prior year's corresponding period. This represented a 11.2% increase in year-on-year profitability.

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

The Group registered a turnover of RM140.9 million, an increase of 6.9% over previous quarter's RM131.8 million. Its operating profit before share of profits of associate increased to RM11.6 million in the current quarter from RM8.5 million in the previous quarter.

Including its share of profits in KFCH, the Group registered a higher profit before tax of RM25.6 million in the current quarter as against RM23.8 million in the previous quarter. Earnings per share increased from 7.75 sen in the previous quarter to 7.89 sen in the current quarter. The better performance in the current quarter was primarily due to the improved performance in its Malaysian operations from the successful introduction of new products and higher throughput at its restaurants.

**B3. Current Year Prospects**

The global financial crisis had deepened further. The International Monetary Fund (IMF) who had earlier projected a world economic growth of 2.2% in 2009 has recently revised the projected growth downwards to 0.5% (source : IMF). The major developed economies such as the US, UK and Japan are currently in recession.

In Singapore, Government is bracing for a negative growth of -2% to -5% in 2009.

At the local front, staff retrenchments are on the rise with some employers resorting to reducing the number of operating hours to control operating costs. Consumers spending is expected to reduce in tandem. The Malaysian Government is expected to announce another economic stimulus package in addition to the RM7 billion announced earlier, to cushion the economy from the negative impact of the global slowdown.

The Government's positive measures and the declining inflationary pressures are expected to 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, the Board is cautiously optimistic of satisfactory 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**

	<b>Current Quarter RM'000</b>	<b>Cumulative Quarters RM'000</b>
Tax expense for the year :-		
Malaysian income tax	4,176	11,915
Foreign tax	(34)	1,228
	<u>4,142</u>	<u>13,143</u>
Underprovision in prior years	255	255
Deferred tax	3	602
	<u>4,400</u>	<u>14,000</u>

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 was no sale of unquoted investments during the financial year under review. However there was a sale of property to KFCH during the year 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 year.

**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 31 December 2008
	RM'000
Short term borrowings:-	
Secured - Term loan I (SGD2,400,000)	5,717 =====
Long term borrowings:-	
Secured - Term loan II	173,000 =====
(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 RM3.5 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, revolving credit facilities and partially finance the acquisition of KFCH shares. 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. Dividends**

The Board of Directors has recommended a final dividend of 7 sen (2007 : 5 sen less tax of 26%) less tax of 25% per ordinary share in respect of the financial year ended 31 December 2008, 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 2008 represented 11 sen (2007 : 9 sen) less tax per ordinary share.

**B14. Earnings Per Share**

	CURRENT QUARTER		CUMULATIVE QUARTERS	
	1 Oct - 31 Dec		1 Jan - 31 Dec	
	2008	2007	2008	2007
Profit attributable to equity holders of the Company (RM'000)	21,797	18,235	85,293	67,016
Weighted average number of ordinary shares in issue ('000)	276,228	245,405	276,228	245,405
Basic earnings per share (sen)	<u>7.89</u>	<u>7.43</u>	<u>30.88</u>	<u>27.31</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 31 December 2008 of RM2.43 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 year 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\$)	2.3820	2.3376	2.3165	2.2805
US Dollar (USD)	3.4430	3.3791	-	-

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: 26 February 2009