

A. NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of Preparation

This interim financial report is unaudited and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad, including compliance with Financial Reporting Standard (FRS) 134, Interim Financial reporting, issued by the Malaysian Accounting Standard Board (MASB). The Interim Financial Report should be read in conjunction with the Group's audited financial statement for the year ended 31 December 2009.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the last audited financial statements for the financial year ended 31 December 2009.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with the audited financial statements for the year ended 31 December 2009. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2009.

On 1 January 2010, the Group adopted the following FRSs:-

FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements (Revised 2009)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 1	First-time Adoption of Financial Reporting Standards
Amendment to FRS 2	Share-based Payment – Vesting conditions and cancellations
Amendment to FRS 7	Financial Instruments: Disclosures
Amendment to FRS 107	Statement of Cash Flows
Amendment to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendment to FRS 110	Events after the Reporting Period
Amendment to FRS 116	Property, Plant and Equipment
Amendment to FRS 117	Leases
Amendment to FRS 118	Revenue
Amendment to FRS 119	Employee Benefits
Amendment to FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
Amendment to FRS 123	Borrowing Costs
Amendment to FRS 128	Investment in Associates
Amendment to FRS 129	Financial Reporting in Hyperinflationary Economies
Amendment to FRS 131	Interest in Joint Ventures
Amendment to FRS 132	Financial Instruments: Presentation
Amendment to FRS 134	Interim Financial Reporting
Amendment to FRS 136	Impairment of Assets
Amendment to FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 140	Investment Property

IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 – Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Other than for the application of FRS 8, FRS 101 and FRS 139, the application of the above FRSs, Amendments to FRSs and Interpretations did not result in any significant changes in the accounting policies and presentation of the financial results of the Group.

FRS 4 and IC interpretation 13 are not applicable to the Group.

(a) FRS 8: Operating Segments (FRS 8)

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group’s segmental reporting had been presented based on the internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. This standard does not have any impact on the financial position and results of the Group.

(b) FRS 101: Presentation of Financial Statement (FRS 101)

FRS 101 separates owner and non-owner changes in equity. Therefore, the current consolidated statement of changes in equity only includes details of transactions with owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income.

(c) Amendment to FRS 117: Leases (FRS 117)

Amendment to FRS 117 sets out the new requirement where leasehold land which is in substance is a finance lease will be reclassified to property, plant and equipment. The Group has reassessed and determined that all leasehold land of the Group which are in substance finance leases and has reclassified the leasehold land to property, plant and equipment. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment.

The reclassification does not affect the basic and diluted earnings per ordinary share for the current and prior periods.

The following comparative figures have been restated following the adoption of the amendment to FRS 117 :

	As at 31 December 2009	
	As restated	As previously
Cost	RM’000	stated
		RM’000
Property, plant and equipment	773,241	705,329
Prepaid land lease payments	-	67,912
	=====	=====

(d) FRS 139: Financial Instruments – Recognition and Measurement (FRS 139)

FRS 139 sets out the new requirements for the recognition and measurement of the Group’s financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments at the balance sheet date reflects the designation of the financial instruments. The Group determines the classification at initial recognition and for the purpose of the first adoption of the standard, as at transitional date on 1 January 2010.

Financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are included in trade and other receivables in the balance sheet.

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held to maturity financial asset, the whole category would be tainted and reclassified as available for sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Financial liabilities

Financial liabilities are classified as financial at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial guarantee contracts

The Company has provided various financial guarantees to banks for the guarantee of credit facilities granted to its various subsidiaries. The Company monitors the performance of its subsidiaries closely to ensure they meet all their financial obligations. In view that there is minimal risk of default, the Company has not carried the value of the financial guarantee in its books.

Impact on opening balance

FRS 139 did not have any significant impact on the financial position and results of the Group.

(e) FRS 140: Investment Property (FRS 140)

Before 1 January 2010, an investment property under construction was classified as property, plant and equipment and measured at cost. Such property is stated at cost until construction or development was completed, at which time it would be remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement was recognised in profit or loss.

With the amendment made to FRS 140 with effect from 1 January 2010, investment property under construction is classified as investment property. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

The change in accounting policy has been made prospectively in accordance with the transitional provisions of FRS 140.

Hence, the adoption of FRS 140 does not affect the basic and diluted earnings per ordinary share for prior periods and has no material impact to current period's basic and diluted earnings per ordinary share.

A3. Status on Qualification of Audited Financial Statements

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

A4. Seasonality or Cyclicity of Operations

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

A5. Unusual Items affecting Assets, Liabilities, Equity, Net Income or Cash flows

There were no significant items which unusually affect assets, liabilities, equity, net income or cash flows during the quarter under review.

A6. Change 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.

A7. Debt and Equity Securities

There were no cancellation, resale and repayment of debt and equity securities during the quarter other than on loans repayments in accordance with the Group's loans repayment schedules.

A8. Dividend Paid

There was no dividend paid during the quarter.

A9. Operating Segments

RM'million	Current Quarter 1 Jan - 31 Mar 2010		Current Quarter 1 Jan - 31 Mar 2009	
	Revenue	Operating Profit	Revenue	Operating Profit
<u>Malaysia</u>				
KFC restaurants	357.2	42.6	303.9	35.2
Integrated Poultry	124.9	1.9	118.3	1.3
Ancillary	28.5	2.9	21.6	1.7
	<u>510.6</u>	<u>47.4</u>	<u>443.8</u>	<u>38.2</u>
<u>Foreign</u>				
KFC restaurants	<u>90.1</u>	<u>2.7</u>	<u>82.8</u>	<u>2.7</u>
Consolidated Total	<u>600.7</u>	<u>50.1</u>	<u>526.6</u>	<u>40.9</u>

A10. 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 2009.

A11. Material Events subsequent to the end of the interim period

The Company had on 22 April 2010 announced the purchase of a vacant commercial land measuring 2 acres, situated at part of PTD 84134, Mukim Tebrau, District of Johor Bahru, Johor Darul Takzim for a cash consideration of RM5,924,160.00 (RM68.00 per sq ft) from Johor Land Berhad.

A12. Changes in the Composition of the Group

1. On 27 January 2010, the Company announced that it had through Roaster's Chicken Sdn Bhd entered into several Subscription Agreement incorporating Shareholders' Agreement with the following parties: -

- i) Masnawi bin Mohamed Soa'aid and Rasamas Bukit Tinggi Sdn Bhd; and
- ii) Mohd Faizal bin Awang Soh and Rasamas Kota Bharu Sdn Bhd.

The agreements enable the parties to subscribe ordinary shares representing up to 10% equity interest in the respective companies arising from the implementation of the Rasamas Intrapreneur Scheme.

2. On 27 January 2010, the Company announced that it had re-organised its group structure involving the transfer of the Rasamas Intrapreneur Companies, arising from the implementation of the Group's Rasamas Intrapreneur Scheme, to the following: -

- i) Rasamas Wangsa Maju Sdn Bhd acquired Rasamas BC Sdn Bhd (formerly known as Natural Equity Sdn Bhd). Rasamas BC Sdn Bhd (formerly known as Natural Equity Sdn Bhd) is intended to house the operations of the Rasamas Batu Caves outlet; and
- ii) Rasamas Tebrau Sdn Bhd acquired Rasamas Terminal Larkin Sdn Bhd (formerly known as Bold Ocean Sdn Bhd). Rasamas Terminal Larkin Sdn Bhd (formerly known as Bold Ocean Sdn Bhd) is intended to house the operations of the Rasamas Terminal Larkin outlet.

3. On 17 February 2010, the Company announced that it had re-organised its group structure involving the transfer of Ayamazz Sdn Bhd (formerly known as Rasa Gourmet Sdn Bhd) from Ayamas Food Corporation Sdn Bhd to KFC Marketing Sdn Bhd.

A13. Changes in Contingent Liabilities and Contingent Assets

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

A14. Capital Commitment

	RM'000
Capital expenditure :	
Property, plant and equipment	
- authorised but not contracted for	202,239
- contracted but not provided for	27,054
	<u>229,293</u>

A15. Impairment of Assets

There were no significant impairment losses recognised by the Company and the Group during the quarter.

B. ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of the Performance of the Company and its Principal Subsidiaries

The Group achieved revenue of RM600.7 million for the current quarter, representing a growth of 14.1% over prior year corresponding period of RM526.6 million. The KFC restaurants segment registered a 15.7% revenue growth to RM447.3 million (2009 : RM386.7 million) while the Integrated Poultry segment recorded a 5.6% revenue growth to RM124.9 million (2009 : RM118.3 million).

The Group registered a profit before tax of RM50.1 million in the current quarter as against previous year's corresponding period of RM40.9 million.

Revenue

The Group's revenue for the period under review improved primarily from its continuing strategy of network expansion and its effective KFC marketing programs. The growth in the integrated poultry segment was attributed to better sales to the KFC restaurants and improvement in its local open market sales and export sales.

Profitability

(a) KFC Restaurants Segment

The restaurant segment profit growth of 19.5% to RM45.3 million (2009 : RM37.9 million) was primarily attributed to :-

Malaysia Operations

- (i) continuing network expansion where 5 new restaurants were opened during the period under review; and
- (ii) the introduction of innovative new products and promotions such as Colonel's Royal Briyani Combo, X-Meal combos with Clash of the Titans movie tie-up, Shrimp Hearties and relaunch of Zinger Tower.

Singapore Operations

The introduction of value products such as the Ultimate Value Box meal, Fortune Feast during the festive season and new products such as egg tarts drove sales and transactions at the restaurants. KFC Breakfast which was relaunched in Singapore in May 2009 was well received by consumers with its KFC a.m. Breakfast Challenge with Dine In coupons.

(b) Integrated Poultry Segment

This segment registered an improvement in profitability due to improved sales to the KFC restaurants and better sales of its Ayamas products to the local open market and export market.

B2. Material Changes in the Quarterly Results

The Group's revenue decreased by 3.8% to RM600.7 million in the current quarter as against RM624.2 million in the previous quarter. Correspondingly, profit before tax decreased by 8.4% to RM50.1 million for the current quarter from RM54.7 million in the previous quarter. As a result, earnings per share decreased from 17.67 sen in the previous quarter to 17.27 sen in the current quarter.

The lower profit in the current quarter was attributed to lower turnover from its restaurant business and higher cost of imported commodities which increased its production cost.

B3. Prospects for the Year

The global economic outlook has shown signs of improvement. Industrial production across advanced and developing economies has continued to expand.

In the US, the economic recovery has broadened with growth in both the manufacturing and services sector. Business conditions have strengthened with firmer consumer spending. The US labour market is showing signs of a turnaround with strong employment growth in March 2010. (Source : US Commerce Department/Labour Department).

Within Asia, China continue to lead the way to economic growth with estimated first quarter growth of 11.9%. The Malaysian Institute of Economic Research (MIER) has revised its projected growth for Malaysia from 3.7% to 5.2% in 2010 (Source : MIER) while Singapore, based on advance estimates, indicated that its economy has expanded strongly by 13.1% in the first quarter of 2010. (Source : Ministry of Trade and Industry Singapore).

While downside risks remain, such as the sovereign debt crisis in Greece which could potentially spread to Spain and Portugal, the continuing volcanic ash cloud affecting world travel and the local prevalence of the Influenza A (H1N1) viral spread, these have been outweighed by stronger signs that global and local economic conditions are improving.

Based on the above generally positive outlook, the Board is optimistic of sustaining the Group's current performance for the balance of the year. The Group will continue to implement its plan of increasing revenue and profitability and developing better cost efficiencies and improving productivity at all its restaurants and manufacturing facilities.

B4. Profit Forecast/Profit Guarantee

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

B5. Taxation

	Current Quarter RM'000
Tax expense for the period :-	
Malaysian income tax	14,486
Foreign tax	840
	<hr/>
	15,326
Deferred tax	(226)
	<hr/>
	<u>15,100</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.

B6. Sale of Unquoted Investments and/or Properties

There was no sale of unquoted investments and properties.

B7. Quoted Securities

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

B8. Status of Uncompleted Corporate Announcements

1. The Company had on 2 November 2007 announced the purchase of a piece of freehold land measuring approximately 41,294.90 square feet identified as Parcel C9 being part of land previously held under Lot 413, Mukim of Tebrau, District of Johor Bahru, via its wholly-owned subsidiary, KFC (Peninsular Malaysia) Sdn Bhd for a cash consideration of RM3,241,648.

The Company is in the midst of completing the Condition Precedents as defined in the Sale and Purchase Agreement with Damansara Realty (Johor) Sdn Bhd, a member of Johor Corporation Group of Companies.

2. The Company had on 27 December 2007 announced the purchase of a piece of land (including all factories, buildings, structures, infrastructure and facilities built or erected on the land) measuring 20.533 acres that forms part of a leasehold industrial land (expiring on 30 January 2041) held under document of title HS (D) 2276, PTD 1384, Mukim Hulu Sungai Johor, Kota Tinggi, Johor for a cash consideration of RM6,150,000.

The Company is in the midst of completing the Condition Precedents as defined in the Sale and Purchase Agreement with Sindora Berhad, a member of Johor Corporation Group of Companies.

3. The Company had on 10 July 2008 announced the purchase of a part of the land measuring 1.18 acres held under HS(D) 367670 PTD104984, in the Mukim of Tebrau, Daerah Johor Bahru, Johor, via its wholly-owned subsidiary, SPM Restaurants Sdn Bhd for a cash consideration of RM4,034,963.

The Company had on 18 September 2009 announced that the Company and Damansara Realty (Johor) Sdn Bhd, the Vendor, have mutually agreed that the Sale and Purchase Agreement have been varied with the execution of the Supplemental Sale and Purchase Agreement on 18 September 2009.

4. The Company had on 5 November 2008 announced the purchase of a piece of agricultural land measuring 400 acres in area being part of Lot PTD 9374 HS(D) 41897, Mukim Bukit Batu, District of Kulajaya, State of Johor Darul Takzim, via its wholly-owned subsidiary, Ayamas Food Corporation Sdn Bhd for a cash consideration of RM10,400,000.

The Company is in the midst of completing the Condition Precedents as defined in the Sale and Purchase Agreement with Johor Corporation.

B9. Borrowings and Debt Securities

		As at 31 March 2010
		RM'000
Short term borrowings:-		
Secured	- Term Loan I	25,000
	- Term Loans II	586
	- Term Loans	76

		25,662
Unsecured	- Term Loan III	7,275
	- Term Loan V	1,500

		34,437
		=====
Long term borrowings:-		
Secured	- Term Loan I	5,000
	- Term Loans II	1,053
	- Term Loans	1,000

		7,053
Unsecured	- Term Loan III	16,369
	- Term Loan IV	45,000
	- Term Loan V	4,500

		72,922
		=====

- (a) The secured Term Loan I was a partial drawdown of a total loan facility of RM150 million which was arranged to partly finance the redemption of the ABBA NIF. This facility is repayable semi-annually over a period of 4-7 years commencing from the first quarter of year 2009, expiring in the third quarter of year 2011, and is secured against 1st and 3rd party charges over certain land and buildings owned by the Company's subsidiaries.
- (b) The secured Term Loan II of RM2.4 million and RM1.4 million obtained by Tepak Marketing Sdn Bhd were secured by certain of its land and buildings, cash deposit of RM200,000, corporate guarantee of Sindora Berhad (the previous majority shareholder) and a debenture on its assets. The two term loans are repayable over a period of 7 years expiring in the fourth quarter of year 2013 and third quarter of year 2011 respectively.
- (c) The unsecured Term Loan III of RM29,009,000 is repayable over a period of 4 years commencing from the third quarter of year 2009.
- (d) The unsecured Term Loan IV of RM45 million was taken to refinance a term loan which was fully repaid in the second quarter of 2009. This loan is repayable in a full lump sum in the second quarter of 2014.
- (e) The unsecured Term Loan V was a partial drawdown of RM8 million loan and is repayable quarterly over three years commencing from the 2nd quarter of 2010.

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. Material Litigation, Claims and Arbitration

There were no material litigations, claims and arbitration outstanding.

B12. Dividend Proposed

There was no dividend payment proposed during the quarter (2009: Nil).

B13. Earnings Per Share

	CURRENT QUARTER 1 Jan - 31 Mar	
	2010	2009
Profit attributable to shareholders of the Company (RM'000)	34,243	28,697
Weighted average number of ordinary shares in issue ('000)	198,275	198,275
Basic earnings per share (sen)	<u>17.27</u>	<u>14.47</u>

There was no dilution in its earnings per share as there were no dilutive ordinary shares outstanding as at the end of the reporting period.

B14. Currency Translation

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

	THIS YEAR CURRENT QUARTER		PRECEEDING YEAR CORRESPONDING QUARTER	
	MTH-END RATE RM	AVERAGE RATE RM	MTH-END RATE RM	AVERAGE RATE RM
Hong Kong (HK\$)	0.4100	0.4177	0.4594	0.4610
Brunei Darussalam (B\$)	2.3100	2.3490	2.3750	2.3700
Singapore (S\$)	2.3100	2.3490	2.3750	2.3700
Indian Rupee	0.0696	0.0701	-	-

By Order of the Board
KFC HOLDINGS (MALAYSIA) BHD

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

Date: 25 May 2010