

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 Standards Board (MASB). The Interim Financial Report should be read in conjunction with the Group's audited financial statement for the year ended 31 December 2010.

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 2010.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with the audited financial statements for the year ended 31 December 2010. 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 2010.

On 1 January 2011, the Group adopted the following FRSs, Amendments to FRSs and IC Interpretations:-

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations (Revised)
FRS 127	Consolidated and Separate Financial Statements
Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 2	Share-based Payment
Amendments to FRS 2	Group Cash-settled Share-based Payment Transactions
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7	Improving Disclosures about Financial Instruments
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 138	Intangible Assets
Amendments to FRS 1	Improvements to FRSs (2010)
FRS 3, FRS 7, FRS 101, FRS 128, FRS 132, FRS 134, FRS 139	
IC Interpretation 4	Determining Whether an Arrangement Contains a Lease
IC Interpretation 12	Service Concession Agreements
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 18	Transfers of Assets from Customers
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives

Adoption of the above FRSs, Amendments to FRSs and IC Interpretations did not have any material impact on the financial performance, position or presentation of financials of the Group.

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 estimates 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 for the financial quarter other than the following :-

- (a) The paid-up share capital of the Company was increased from 793,230,984 ordinary shares of RM0.50 each or RM396,615,492 as at 31 December 2010 to 793,265,448 ordinary shares of RM0.50 each or RM396,632,724 as a result of the issuance of 34,464 new ordinary shares upon conversion of 34,464 warrants at the exercise price of RM3.00 per share.
- (b) The number of warrants outstanding as at 31 March 2011 was 31,557,229. Each warrant entitles the holder the right to subscribe for a new ordinary share of RM0.50 each in the Company at an exercise price of RM3.00 per share. The warrants will expire on 14 September 2015.

A8. Dividend Paid

Dividend paid on 31 March 2011 was declared on 21 February 2011, in respect of the year ended 31 December 2010 being second interim dividend of 5.5 sen less 25% tax per share, on 793,256,968 ordinary shares, amounted to RM32,721,805.

A9. Operating Segments

RM'million	Current Quarter 1 Jan - 31 Mar 2011		Current Quarter 1 Jan - 31 Mar 2010	
	Revenue	Operating Profit/(loss)	Revenue	Operating Profit
<u>Malaysia</u>				
KFC restaurants	387.8	50.6	357.2	42.6
Integrated Poultry	130.9	1.5	124.9	1.9
Ancillary	23.8	(0.2)	28.5	2.9
	<u>542.5</u>	<u>51.9</u>	<u>510.6</u>	<u>47.4</u>
<u>Foreign</u>				
KFC restaurants	<u>101.7</u>	<u>0.8</u>	<u>90.1</u>	<u>2.7</u>
Consolidated Total	<u>644.2</u>	<u>52.7</u>	<u>600.7</u>	<u>50.1</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 2010.

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

There were no material events subsequent to the end of the current quarter.

A12. Changes in the Composition of the Group

1. On 1 November 2010, the Company announced that it has via its wholly-owned subsidiary, Ayamas Food Corporation Sdn Bhd, entered into Sale and Purchase of Shares Agreements for the acquisition of the entire issued and paid-up share capital of Southern Poultry Farming Sdn Bhd, Synergy Poultry Farming Sdn Bhd, Ventures Poultry Farm Sdn Bhd and Agrotech Farm Solutions Sdn Bhd for a total cash consideration of RM1,111,951.

The acquisition was completed on 14 January 2011.

2. On 11 March 2011, the Company announced that it has via its wholly-owned subsidiary, Ayamas Shoppe Sdn Bhd (formerly known as Kedai Ayamas Sdn Bhd), incorporated a company, ie. Ayamas Shoppe (Sabah) Sdn Bhd pursuant to the Joint Venture Agreement dated 27 October 2010 with Rastamas Trading Sdn Bhd for the purpose of operating Kedai Ayamas business in Sabah.

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	244,157
- contracted but not provided for	34,417
	<u>278,574</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 RM644.2 million for the current quarter, representing a growth of 7.2% over prior year corresponding period of RM600.7 million. The KFC restaurants segment registered a 9.4% revenue growth to RM489.5 million (2010 : RM447.3 million) while the Integrated Poultry segment recorded a 4.8% revenue growth to RM130.9 million (2010 : RM124.9 million).

The Group registered a profit before tax of RM52.7 million in the current quarter as against previous year's corresponding period of RM50.1 million.

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 restaurants and retail outlets and the continuing improvement in its local open market sales and export sales.

(a) **KFC Restaurants Segment**

The restaurant segment profit growth of 13.5% to RM51.4 million (2010 : RM45.3 million) was primarily attributed to its Malaysian Operations.

Malaysia Operations

Its revenue and profit growth were due to :-

- (i) continuing network expansion where 8 new KFC restaurants were opened during the period under review; and
- (ii) the introduction of innovative new products and promotions such as the 500th restaurant celebration Combo, KFC Fish Donut and KFC Lunch Treats.

The lower profitability of its foreign operations was attributed to :-

Singapore Operations

The introduction of new products such as the Fortune Feast, KFC Mandarin Orange egg tarts during the festive season and value products such as KFC Snacker and Hearty Deal drove sales and transactions at the restaurants. However its profitability was dampened by the increased operating costs.

India Operations

KFC India currently operates 8 outlets as at end March 2011. Its outlets registered encouraging sales but its profitability was hampered by initial start-up costs.

(b) **Integrated Poultry Segment**

Though this segment registered improved sales to the KFC restaurants and better sales of its Ayamas products to the local open market and export market, its profitability was negatively affected by its Rasamas restaurants performance.

B2. Material Changes in the Quarterly Results

The Group's revenue increased by 7.2% to RM644.2 million in the current quarter as against RM600.7 million in the previous year corresponding period. Correspondingly, profit before tax increased by 5.2% to RM52.7 million in the current quarter from RM50.1 million in the previous year quarter. As a result, earnings per share increased from 4.32 sen (previously 17.27 sen, adjusted for share split and bonus issue) in the previous year quarter to 4.55 sen in the current quarter.

The better profit in the current quarter was primarily attributed to the higher throughput and better cost efficiencies from its KFC restaurant business.

B3. Prospects for the Year

The economies in Malaysia and Singapore are expected to register further growth in the current year, albeit moderately as compared to 2010.

The local economy in Malaysia continues to be buoyant with the implementation of projects under the Government's Economic Transformation Programme. This would potentially create a multiplier effect to consumers spending and boosts our restaurants throughput. These positive sentiments were however dampened by the increasing prices of global commodities and the Government's gradual reduction in food and fuel subsidies which increased food costs.

In view of the increasing inflationary pressures, Management is taking several initiatives to develop and introduce new products and promotions with value propositions in mind to drive transactions at the Group's operating network. The Group will continue to implement its plan of increasing revenue and profitability by enhancing customer experience, increasing the restaurants network, expanding business activities, developing better cost efficiencies and improving productivity at all its restaurants, manufacturing and production facilities.

Based on the foregoing, the Board is confident of maintaining the Group's current growth trend for the balance of the year.

B4. Profit Forecast/Profit Guarantee

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

B5. Taxation

	Current Quarter RM'000
Income tax expense for the period :-	
Malaysian income tax	13,137
Foreign tax	665
	<hr/>
	13,802
Deferred tax	1,998
	<hr/>
	<u>15,800</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

(a) The particulars of purchase or disposal of quoted securities are as follows :-

	Current Quarter RM'000
Total purchase consideration	-
Total sale proceeds	-
Total profit/(loss) on disposals	-

(b) Investments as at 31 March 2011 :-

	RM'000
At cost	20,879
At book value	23,400
At market value	<u>23,400</u>

Total units acquired as at 31 March 2011 amounted to 20 million units at a total cost of RM20,878,778.

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.

5. 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 from Johor Land Berhad, via its wholly-owned subsidiary, SPM Restaurants Sdn Bhd for a cash consideration of RM5,924,160.00 (RM68.00 per sq ft).

B9. Borrowings and Debt Securities

		As at 31 Mar 2011 RM'000
Short term borrowings:-		
Secured	- Term Loan I	5,000
	- Term Loans II	468
	- Term Loans VIII	35

		5,503
Unsecured	- Term Loan III	7,275
	- Term Loan V	2,000
	- Term Loan VI	9,500
	- Bankers' Acceptance	4,849

		29,127
		=====
Long term borrowings:-		
Secured	- Term Loans II	585
	- Term Loans VIII	953

		1,538
Unsecured	- Term Loan III	9,094
	- Term Loan IV	45,000
	- Term Loan V	2,500
	- Term Loan VI	28,500
	- Term Loan VII	29,945

		116,577
		=====

- (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 from the 4th to 7th year 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 RM1.4 million and RM2.4 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 third quarter of year 2011 and fourth quarter of year 2013 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 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 third quarter of 2010.
- (f) The unsecured Term Loan VI was a partial drawdown of RM53 million loan and is repayable quarterly over 4 years commencing from the second quarter of 2011.
- (g) The unsecured Term Loan VII was a full drawdown of a USD10 million term loan. The term loan was offered in 2 Tranches ie Tranche 1 of USD6 million to be repaid over 7 semi-annual instalments commencing 24 months from August 2010 and Tranche 2 of USD4 million payable upon maturity on 13 July 2015.
- (h) Term Loans VIII are loans taken over by the Company when it acquired Paramount Management Sdn Bhd in January 2010. These loans are payable monthly over a period of 20 years and are secured against the properties financed.

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 (2010: Nil).

B13. Earnings Per Share

	CURRENT QUARTER	
	1 Jan - 31 Mar	
	2011	2010
	(RM'000)	(RM'000)
Earnings		
Profit attributable to owners of the Company	36,124	34,243
Weighted average number of shares		
a) Basic	('000)	('000)
Weighted average number of ordinary shares in issue	793,239	793,099
b) Diluted earnings per share		
Weighted average number of ordinary shares in issue	793,239	-
Adjustment for assumed exercised of warrants	5,941	-
Adjusted weighted average number of ordinary shares	799,180	-
Basic earnings per share (sen)	4.55	4.32
Diluted earnings per share (sen)	4.52	-

There was no dilution in its earnings per share in the previous year.

The weighted average number of ordinary shares in issue in the previous year was recalculated to include the shares split and bonus shares issued in September 2010 for better comparability.

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	AVERAGE	MTH-END	AVERAGE
	RATE RM	RATE RM	RATE RM	RATE RM
Hong Kong (HK\$)	0.3783	0.3795	0.4100	0.4177
Brunei Darussalam (B\$)	2.3700	2.3690	2.3100	2.3490
Singapore (S\$)	2.3700	2.3690	2.3100	2.3490
Indian Rupee (INR)	0.0660	0.0658	0.0696	0.0701

B15. Realised and unrealised profits or losses

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated lossess as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows :-

	As at 31 Mar 2011 RM'000	As at 31 Dec 2010 RM'000
The retained earnings of the Group :-		
- realised	475,199	471,260
- unrealized	(37,138)	(35,140)
	<u>438,061</u>	<u>436,120</u>
Add : Consolidation adjustments	47,567	46,106
Total retained earnings	<u>485,628</u>	<u>482,226</u>

By Order of the Board
KFC HOLDINGS (MALAYSIA) BHD

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

Date: 24 May 2011