

KFC HOLDINGS (MALAYSIA) BHD (65787-T)

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 estimate 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.

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 12 sen less 26% taxation per share, on 198,274,682 ordinary shares, amounted to RM17,606,807.

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 8 sen less 26% taxation per share, on 198,274,682 ordinary shares, amounted to RM11,737,862.

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>				
KFC restaurants	1,284.4	149.4	1,043.4	132.6
Integrated Poultry	445.0	7.1	317.0	6.8
Ancillary	105.9	(2.6)	78.1	0.9
	<u>1,835.3</u>	<u>153.9</u>	<u>1,438.5</u>	<u>140.3</u>
<u>Foreign</u>				
KFC Singapore	330.8	13.0	280.2	10.1
KFC Brunei	13.7	0.6	11.7	0.2
	<u>344.5</u>	<u>13.6</u>	<u>291.9</u>	<u>10.3</u>
Consolidated Total	<u>2,179.8</u>	<u>167.5</u>	<u>1,730.4</u>	<u>150.6</u>
RM'million	Current Quarter 1 Oct - 31 Dec 2008		Current Quarter 1 Oct - 31 Dec 2007	
	Revenue	Operating Profit/(loss)	Revenue	Operating Profit/(loss)
<u>Malaysia</u>				
KFC restaurants	361.5	44.3	309.1	48.8
Integrated Poultry	120.7	(3.4)	88.0	(2.3)
Ancillary	30.2	(3.6)	18.7	(2.9)
	<u>512.4</u>	<u>37.3</u>	<u>415.8</u>	<u>43.6</u>
<u>Foreign</u>				
KFC Singapore	85.8	2.5	74.3	1.9
KFC Brunei	3.7	0.2	3.2	(0.3)
	<u>89.5</u>	<u>2.7</u>	<u>77.5</u>	<u>1.6</u>
Consolidated Total	<u>601.9</u>	<u>40.0</u>	<u>493.3</u>	<u>45.2</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 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 31 October 2007, the Company announced the acquisition of 440,000 ordinary shares of RM1.00 each representing 55% equity interest in Tepak Marketing Sdn Bhd (“Tepak Marketing”) for a cash consideration of RM2,970,000 or RM6.75 per share (“Acquisition”).

The Foreign Investment Committee had on 22 January 2008 approved the Acquisition subject to Tepak Marketing maintaining at all times at least 30% of its equity with Bumiputra/Government Agency.

The Acquisition was completed on 4 February 2008.

2. On 22 April 2008, the Company via its subsidiary, Ayamas Food Corporation Sdn Bhd, acquired the entire issued and paid-up share capital of Semangat Juara Sdn Bhd comprising 2 ordinary shares of RM1.00 each for a total cash consideration of RM2.00.
3. On 19 June 2008, the Company has announced the incorporation of a subsidiary in Brunei, Rasamas Sdn Bhd comprising 2 ordinary shares of par value at B\$1.00 each.
4. On 24 June 2008, the Company disposed off the entire issued and paid-up share capital of the following dormant companies to QSR Brands Bhd :
 - (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.
5. On 10 November 2008, the Company announced the voluntary winding-up of the following wholly-owned subsidiaries :
 - (i) Kentucky Trading Sdn Bhd
 - (ii) Signature Chef Catercare Sdn Bhd
 - (iii) KFC Technical Services Sdn Bhd
 - (iv) Havprime Sdn Bhd

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	44,419
- approved but not contracted for	166,904
	211,323
	211,323

B. ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENT

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

The Group achieved a revenue of RM2,179.8 million for the current financial year, representing a growth of 26.0% over prior year corresponding period of RM1,730.4 million. The KFC restaurants segment registered a 22.0% revenue growth to RM1,628.9 million (2007 : RM1,335.3 million) while the Integrated Poultry segment recorded a 40.4% revenue growth to RM445.0 million (2007 : RM317.0 million).

It registered a profit before tax of RM167.5 million in the current year as against previous year's corresponding period of RM150.6 million.

Revenue

The Group's revenue for the year 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 export and local open market sales.

Profitability

(a) KFC Restaurants Segment

The restaurant segment profit growth of 14.1% to RM163.0 million (2007 : RM142.9 million) was primarily attributed to :-

Malaysia Operations

- (i) continuing network expansion where 38 new restaurants were opened during the year under review;
- (ii) the introduction of innovative new products such as Triple XL Burger, Breakfast menu, Chicken Chop combo, Colonel Chicken Rice combo, Toasted Twister, Spicy Crunch Chicken, Hot Rods and effective marketing promotion such as the KFC 400th store celebration set meals ; and
- (iii) the introduction of new sales channel such as breakfast and extension of operating hours of certain outlets to 24 hours.

The better profit from the improved sales was however partly negated by the increased cost of raw materials such as potato-based products, cooking oil, flour and poultry products during the year under review.

Singapore Operations

The effective promotional campaigns such as the Real Taste campaign, Zinger Thematic and the introduction of new products such as the Golden Fiesta Bucket Meals, Fish Fingers, Toasted Twister and reintroduction of Hot Devil Drumlets drove sales and transactions at the restaurants.

Its revenue and profitability were also boosted by the net addition of 4 outlets to the network since January 2008.

(b) Integrated Poultry Segment

With improved sales to the KFC restaurants and better sales of its Ayamias products to both the local open market and export sector, this segment registered an increase in profitability to RM7.1 million in the current year from prior year's corresponding period of RM6.8 million.

The higher profit contribution from the improved sales was partly negated by the increasing cost of commodities such as corn, soya bean meal and palm oil which resulted in higher cost of internally produced poultry products. Its profitability was also dampened by the higher cost of its ingredients and packaging materials in its production units.

B2. Material Changes in the Quarterly Results

The Group's revenue increased by 9.0% to RM601.9 million in the current quarter as against RM552.4 million in the previous quarter. However, profit before tax decreased by 9.3% to RM40.0 million for the current quarter from RM44.1 million in the previous quarter. As a result, earnings per share decreased from 15.86 sen in the previous quarter to 14.32 sen in the current quarter.

The lower profit in the current quarter was attributed to higher cost of imported commodities which increased its cost of production and the inclusion of the full provision for impairment loss of its RM4.5 million investment in some subordinated bonds redeemable in mid 2009.

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

The Company had on 24 May 2006 announced its 2006 – 2008 Business Plan & Key Performance Indicators (“KPIs”) as set out below. The Company’s achievement in the financial year 2008 are as follows :-

<u>KPIs</u>	<u>Target</u>	<u>Achieved</u>
Revenue growth	5% per year	26.0%
EBITDA margin	15% (within 36 months)	11.1%
EPS growth	10% per year	13.7%
Dividend payout	25% of net profit each year	27.5% *

* Included proposed final dividend of 14% less tax of 25% per note B13.

The shortfall in the EBITDA margin was primarily due to higher cost of imported commodities which the Group will address by taking pro-active measures as stated in note B3.

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	13,802	46,933
Foreign tax	12	2,568
	<u>13,814</u>	<u>49,501</u>
Overprovision in prior years	(9,276)	(9,276)
Deferred tax	6,769	6,882
	<u>11,307</u>	<u>47,107</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 were sales of properties during the year which resulted in a gain on disposal of RM453,687.

B8. Quoted Securities

- a) The particulars of purchase or disposal of quoted securities in unit trusts fund by the Group are as follows :-

	Current Quarter RM'000	Cumulative Quarters RM'000
Total purchase consideration	203	20,203
Total sale proceeds	-	-
Total profit/(loss) on disposals	<u>-</u>	<u>-</u>

- b) Investments as at 31 December 2008 :-

	Held as Current Assets RM'000
At cost	20,203
At book value	20,203
At market value	<u>20,354</u>

B9. 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 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.

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 Kulaijaya, 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.

B10. Borrowings and Debt Securities

		As at 31 Dec 2008 RM'000
Short term borrowings:-		
Secured	- Term Loan I (SGD2,550,000)	6,074
	- Term Loan III	20,000
	- Term Loans IV	586

		26,660
Unsecured	- Term Loan II	45,000
	- Term Loan V	3,451

		75,111
		=====
Long term borrowings:-		
Secured	- Term Loan III	40,000
	- Term Loans IV	1,786
	- Term Loan V	24,158

		65,944
		=====

- (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 RM3.7 million cash deposit.
- (b) The unsecured Term Loan II of RM45 million is repayable in the second quarter of year 2009.
- (c) The secured Term Loans III were 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 and is secured against 1st and 3rd party charges over certain land and buildings owned by the Company's subsidiaries.
- (d) The secured Term Loans IV 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.
- (e) The unsecured Term Loan V of RM27.6 million is repayable over a period of 4 years commencing from the third quarter of year 2009.

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 14 sen (2007 : 12 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 22 sen (2007 : 20 sen) less tax per ordinary share.

B14. Earnings Per Share

	CURRENT QUARTER		CUMULATIVE QUARTERS	
	1 Oct - 31 Dec 2008	2007	1 Jan - 31 Dec 2008	2007
Profit attributable to equity holders of the Company (RM'000)	28,385	31,714	118,535	104,269
Weighted average number of ordinary shares in issue ('000)	198,275	198,275	198,275	198,275
Basic earnings per share (sen)	<u>14.32</u>	<u>15.99</u>	<u>59.78</u>	<u>52.59</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 year.

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
Hong Kong (HK\$)	0.4363	0.4306	0.4353	0.4393
Brunei Darussalam (B\$)	2.3820	2.3536	2.3170	2.2805
Singapore (S\$)	2.3820	2.3376	2.3165	2.2805

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: 26 February 2009