



Horwath AF No 1018
Kuala Lumpur Office
Chartered Accountants

21 January 2008

The Board of Directors
Tamadam Bonded Warehouse Berhad
902, Uptown Two
2, Jalan SS21/37
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

Level 16 Tower C
Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur
Malaysia

+6 03 2166 0000 Main
+6 03 2166 1000 Fax

www.horwath.com.my
info@horwathkl.com

Dear Sirs

**BRAHIM’S-LSG SKY CHEFS HOLDINGS SDN BHD (“BLH” or “the Company”)
ACCOUNTANTS’ REPORT**

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the circular of Tamadam Bonded Warehouse Berhad (“Tamadam”) to its shareholders dated 25 January 2008 (“the Circular”) in connection with the proposed acquisition by Tamadam of 51% equity interest in BLH comprising 510,000 ordinary shares of RM1.00 each (“Shares”) for a purchase consideration of RM130.0 million from Brahim’s International Franchises Sdn Bhd to be satisfied by the issuance of 130,000,000 new Shares in Tamadam valued at RM1.00 per Share.

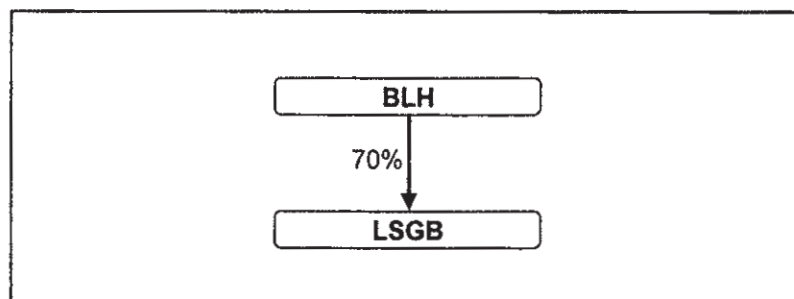
2. DETAILS OF BLH

BLH was incorporated on 18 June 2002 as a private company limited by shares under the Companies Act, 1965 under the name of Gubahan Saujana Sdn Bhd. On 23 December 2003, the Company changed its name to BLH.

BLH subsequently changed its financial year end from 30 June to 31 December in the financial year 2003 to be coterminous with the financial year end of its holding company.

3. GROUP STRUCTURE

Currently, the group structure of BLH Group is as follows:-



Note:-

LSGB - LSG Sky Chefs-Brahim's Sdn. Bhd.

4. RELEVANT FINANCIAL PERIODS AND AUDITORS

The relevant financial periods for the purpose of this report ("Relevant Financial Periods") and the auditors of the respective companies for the Relevant Financial Periods are as follows:-

Name	Relevant Financial Periods	Auditors
Company		
BLH	Financial years ended ("FY") 31 December 2004 to 2006	Pricewaterhouse Coopers
LSGB	FY 31 December 2004 to 2006	Pricewaterhouse Coopers
Group		
BLH Group	FY 31 December 2004 to 2006	Pricewaterhouse Coopers

The audited financial statements of BLH Group for the Relevant Financial Periods were reported upon without any audit qualification or emphasis of matter except as follows:-

LSGB

The auditors' report for the financial year ended 31 December 2004 contained an emphasis matter on the continuation of LSGB as a going concern.

5. ACCOUNTING STANDARDS AND POLICIES

5.1 BASIS OF PREPARATION

The financial statements of BLH Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with applicable MASB approved accounting standards in Malaysia for Entities Other Than Private Entities for the Relevant Financial Periods.

In the FY 2006, BLH Group have adopted all the new and revised Financial Reporting Standards ("FRS") issued by the Malaysian Accounting Standards Board which are relevant to its operations and effective for financial periods beginning on or after 1 January 2006. The applicable FRS are set out below:-

FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

A summary of the impact of the new accounting standards on the financial statements of the Group is set out in Section 7.

As of 31 December 2006, the following new and revised FRSs have been issued but not yet effective until later periods:

FRS 124	Related Party Disclosures
FRS 139	Financial Instruments: Recognition and Measurement

For this set of financial statements, BLH Group has chosen not to adopt the following FRSs in advance:-

FRS 124	Related Party Disclosures, which is effective for the financial periods beginning on or after 1 October 2006.
FRS 139	Financial Instruments: Recognition and Measurement, for which the MASB has yet to announce the effective date of the standard.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by BLH Group in the preparation of this report are as follows:-

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to the end of the financial year. A subsidiary is an enterprise in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

The subsidiary is consolidated on the purchase method of accounting under which the subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the parent. It is measured at the minority's share of the fair value of the subsidiary's identifiable assets and liabilities at the acquisition date and the minority's share of changes in the subsidiary's equity since that date.

All intercompany transactions, balances and unrealised gains on transactions between group companies have been eliminated; unrealised losses are also eliminated unless cost cannot be recovered. When necessary, adjustments are made to the financial statements of subsidiary to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill on acquisition.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using straight line method to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:-

Plant and equipment	10 years
Furniture and fittings	5 to 15 years
Motor vehicles	2 to 10 years
Computer equipment	3 to 10 years
Catering equipment	5 to 15 years
Communication equipment	3 to 10 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts, and are credited or charged to the income statement.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Intangible Assets

(i) *Goodwill*

Goodwill represents the excess of the cost of acquisition of the subsidiary over the fair value of the Group's share of the fair value of its identifiable net assets at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) *Computer Software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Costs associated with maintaining computer software programmes are recognised as expenses when incurred.

(d) Investment in Subsidiary

The investment in subsidiary is stated at cost or valuation determined by the Directors, which recognised the values of the underlying net tangible assets and earning capacity of the investment. When an indication of impairment exists, the carrying amount of the investment is assessed and written immediately to its recoverable amount.

(e) Impairment of Assets

Assets that have definite useful lives other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

5. ACCOUNTING STANDARDS AND POLICIES

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Impairment of Assets (Cont'd)

The impairment loss is charged to the income statement, and any subsequent increase in recoverable amount is recognised in the income statement. Impairment losses on goodwill are not reversed.

(f) Finance Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. In arriving a net realisable value, due allowance is made for all damaged, obsolete and slow moving inventories.

(h) Trade Receivables

Trade receivables are carried at invoice amount less an allowance for doubtful debts based on a review of all outstanding amounts at the financial year end. The allowance is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Bad debts are written off when identified.

(i) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks, demand deposits and short term, highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

5. ACCOUNTING STANDARDS AND POLICIES

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Share Capital

(i) Classification

Ordinary shares are classified as equity. Distributions to holders of financial instruments classified as an equity instrument are charged directly to equity.

(ii) Dividends to Shareholders of the Company

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

(k) Borrowings

(i) Term Loans

Term loans are initially recognised based on the proceeds received, net of transaction costs incurred. In the subsequent periods, term loans are stated at amortised cost using the effective yield method. All borrowing costs are expensed to the income statement in the period of drawdown.

(ii) Redeemable Preference Shares

Preference shares, which are redeemable on a specific date or at the option of the holder or which carry non-discretionary dividend obligations, are classified as liabilities.

The carrying value of redeemable preference shares is the total issue price plus the accrued finance cost. The dividends on the preference shares are recognised in the income statement as finance costs using the effective interest method.

(l) Employee Benefits

(i) Short-term Employee Benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the services are rendered by employees of the Group.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Employee Benefits (Cont'd)

(ii) Defined Contribution Plans

The Group contributes to the Employees' Provident Fund, the national defined contribution plan. The Group's contributions to the defined contribution plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(m) Provisions

Provisions are recognised when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation as well as a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(n) Contingent Liabilities and Contingent Assets

The Group and the Company do not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain events beyond the control of the Group and the Company. The Group and the Company do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Revenue Recognition

Revenue is recognised upon delivery of products and customers' acceptance or performance of services, if any, net of discounts.

Interest income is recognised on an accrual basis.

Dividend income is recognised when the Group and the Company's right to receive payment is established.

(p) Income Taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group and the Company operate and includes all taxes based upon the taxable profits.

Deferred taxation is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiary except where timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(q) Foreign Currencies

Items included in the financial statements of the Group and the Company are measured using the currency of the primary economic environment in which the Group and the Company operate (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Group's and the Company's functional and presentation currency.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Foreign Currencies (Cont'd)

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

(r) Financial Instruments

(i) Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(ii) Financial Instruments Recognised on the Balance Sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy note associated with each item.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Financial Instruments (Cont'd)

(iii) Fair Value Estimation for Disclosure Purposes

In assessing the fair value of financial instruments, the Group and the Company use a variety of methods and make assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes, when available, are used to estimate the fair value of the financial instruments. Other techniques, such as estimated discounted value of future cash flows are used to determine fair values of other financial instruments.

The carrying values of financial assets, less any estimated credit adjustments, and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values.

The fair value of redeemable preference shares has been estimated at their carrying amount net of allowance for possible losses to be borne by the holders, representing the expected recoverable amount.

(s) Critical Accounting Estimates and Judgements

(i) Critical Accounting Estimates and Assumptions

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group and the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Critical Accounting Estimates and Judgements (Cont'd)

(i) *Critical Accounting Estimates and Assumptions (Cont'd)*

(a) *Property, Plant and Equipment and Inventories*

The Group ceased to use certain parts of the Power and Free system since mid 2006; the parts not in use represent approximately 18% of the entire system. The said percentage is the best estimate of the management. Depreciation of the parts has not been recognised since then; and the condition of the parts have been reassessed for impairment and confirmed that they are in good condition and can be used for maintenance purposes in future. Accordingly, no impairment loss is recognised. In addition, the parts are reclassified from property, plant and equipment to inventories. As at the date of reclassification, the respective cost, accumulated depreciation and net book value of the parts are RM15,074,785, RM10,674,224 and RM4,400,561.

(b) *Estimated Impairment of Goodwill*

The Group performs an impairment review on an annual basis to ensure that the carrying value of the goodwill does not exceed its recoverable amounts from cash-generating units to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercise judgement in estimating the future cash flows, growth rate and discount rate. The calculations require the use of estimates as set out in Note 6.1.14.

(c) *Deferred Tax Assets*

Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. This involves judgement regarding the future financial performance of the particular entity in which the deferred tax asset has been recognised.

(ii) *Critical Judgements in Applying the Entity's Accounting Policies*

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Group and the Company.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 FINANCIAL RISK MANAGEMENT OBJECTIVE

The Group's and the Company's activities expose them to the following financial risks:

- (i) fair value interest rate risk – risk that the value of a financial instrument will fluctuate due to changes in market interest rates.
- (ii) currency risk – risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.
- (iii) liquidity risk (funding risk) – risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments.
- (iv) credit risk – risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Board of Directors generally oversees the Group and the Company's exposure to the abovementioned risks and there is no specific policy to manage these risks.

The Group and the Company do not have any significant exposure to any individual customers or counterparty nor does it have any major concentration of credit risk related to any financial instrument, except for trade receivables from one of the subsidiary's shareholders.

5.4 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES

There were no material changes in the significant accounting policies adopted by BLH Group during the Relevant Financial Periods other than the adoption of the new and revised FRSs, as disclosed in Section 6.1, which does not have any material financial effects on the financial statements of BLH Group for the Relevant Financial Periods.

6. AUDITED FINANCIAL STATEMENTS

The following are the audited financial statements of BLH Group for the Relevant Financial Periods.

The financial statements of BLH Group as presented in Sections 6.1 and 6.2 respectively are based on the audited financial statements, modified as appropriate, for the purpose of this report.

All information is extracted from the audited financial statements except those in italics which are prepared based on calculation, representation and explanation provided by the management.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH

6.1.1 INCOME STATEMENTS OF BLH

	Note	← The Company →			← The Group →		
		FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Revenue	6.1.5	5,773	547	44,001	293,027	285,532	271,734
Direct costs		-	-	-	(94,578)	(117,165)	(96,517)
Contribution		5,773	547	44,001	198,449	168,367	175,217
Other operating income	6.1.6	-	-	-	2,360	2,270	4,162
		5,773	547	44,001	200,809	170,637	179,379
Administrative expenses		(350)	(240)	(258)	(144,318)	(133,927)	(131,710)
Other operating expenses		-	-	-	(26,085)	(6,537)	(9,991)
Finance costs	6.1.7	(7,779)	(13,058)	(6,834)	(10,747)	(5,060)	(7,171)
(Loss)/Profit before taxation ("LBT")/("PBT")		(2,356)	(12,751)	36,909	19,659	25,113	30,507
Depreciation		-	-	-	16,504	19,579	18,994
Interest expense		7,779	13,058	6,834	10,747	5,060	7,171
Interest income		-	-	-	(245)	(1,248)	(1,705)
(Loss)/Earnings before interest, depreciation and taxation		5,423	307	43,743	46,665	48,504	54,967
Depreciation		-	-	-	(16,504)	(19,579)	(18,994)
Interest expense		(7,779)	(13,058)	(6,834)	(10,747)	(5,060)	(7,171)
Interest income		-	-	-	245	1,248	1,705
(LBT)/PBT	6.1.8	(2,356)	(12,751)	36,909	19,659	25,113	30,507
Income tax expense	6.1.9	-	-	(11,677)	(13,467)	(3,123)	(17,505)
(Loss)/Profit after taxation ("LAT")/("PAT")		(2,356)	(12,751)	25,232	6,192	21,990	13,002
ATTRIBUTABLE TO:							
Equity holders of the parent		(2,356)	(12,751)	25,232	2,364	10,303	7,199
Minority interests ("MI")		-	-	-	3,828	11,687	5,803
		(2,356)	(12,751)	25,232	6,192	21,990	13,002
Contribution margin (%)		100.0	100.0	100.0	67.7	59.0	64.5
PBT margin (%)		(40.8)	(2,331.1)	83.9	6.7	8.8	11.2
PAT margin (%)		(40.8)	(2,331.1)	57.3	2.1	7.7	4.8
Effective tax rate (%)		N/A	N/A	31.6	68.5	12.4	57.4
Interest coverage (times)		N/A	N/A	6.4	2.8	6.0	5.3
Number of ordinary shares in issue of RM1.00 each ('000)		1,000	1,000	1,000	1,000	1,000	1,000
Gross (loss)/earnings per share ("LPS")/"EPS") * (RM)		(2.36)	(12.75)	36.91	15.83	13.43	24.70
Net (LPS)/EPS * (RM)		(2.36)	(12.75)	25.23	2.36	10.30	7.20
Gross dividend rate		N/A	N/A	N/A	N/A	N/A	N/A

Note:-

- * - The Gross EPS and Net EPS were computed by dividing the PBT and PAT attributable to equity holders of the parent entity respectively by the number of ordinary shares in issue during the Relevant Financial Periods.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.1 INCOME STATEMENTS OF BLH (CONT'D)

Commentary:-

- (a) *The principal activity of the Company is investment holding.*
- (b) *There were no exceptional or extraordinary items in the Relevant Financial Years under review.*
- (c) *The consolidated income statement of BLH for FY 2004 to FY 2006 comprised mainly the results of LSGB. The commentary on the results of LSGB is set out in Section 6.2.1 of this report.*

6.1.2 BALANCE SHEETS OF BLH

Note	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
ASSETS						
NON-CURRENT ASSETS						
Investment in subsidiary	6.1.10	162,064	125,733	92,239	-	-
Property, plant and equipment	6.1.11	-	-	-	85,862	72,868
Deferred tax assets	6.1.12	-	-	-	60,078	57,151
Intangible assets	6.1.13	-	-	-	2,545	3,229
Goodwill	6.1.14	-	-	-	100,734	96,522
		162,064	125,733	92,239	249,219	229,770
CURRENT ASSETS						
Inventories	6.1.15	-	-	-	3,249	2,711
Trade receivables	6.1.16	-	-	-	8,400	9,256
Other receivables, deposits and prepayments		56	117	43,370	282	774
Amount owing by holding company		-	-	-	-	-
Amount owing by subsidiary		-	-	-	-	-
Amount owing by related companies	6.1.17	-	-	-	-	336
Amount owing by a shareholder of the subsidiary	6.1.18	-	-	-	35,191	27,309
Short term deposits with financial institutions	6.1.19	20,356	28,804	32,339	35,357	72,343
Cash and bank balances		28	8	5	2,773	294
		20,440	28,929	75,714	85,252	112,687
TOTAL ASSETS		182,504	154,662	167,953	334,471	342,457
						280,346

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.2 BALANCE SHEETS OF BLH (CONT'D)

Note	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
EQUITY AND LIABILITIES						
EQUITY						
Share capital	6.1.20	1,000	1,000	1,000	1,000	1,000
(Accumulated losses)/ Retained profits		(4,915)	(17,666)	7,566	2,086	12,389
SHAREHOLDERS' EQUITY		(3,915)	(16,666)	8,566	3,086	13,389
MINORITY INTERESTS		-	-	-	4,955	16,642
TOTAL EQUITY		(3,915)	(16,666)	8,566	8,041	30,031
NON-CURRENT LIABILITIES						
Amount owing to a shareholder	6.1.21	16,256	16,256	16,256	16,256	16,256
Amount owing to a related company	6.1.22	19,187	19,959	20,012	19,187	19,959
Long-term borrowings	6.1.23	134,000	110,000	80,000	187,355	150,105
Deferred tax liabilities	6.1.24	-	-	11,677	-	-
		169,443	146,215	127,945	222,798	186,320
						119,496
CURRENT LIABILITIES						
Trade payables	6.1.25	-	-	-	32,810	36,075
Other payables and accruals		644	648	641	4,972	7,362
Amount owing to related companies	6.1.26	279	312	428	279	1,564
Amount owing to a shareholder	6.1.27	50	150	370	50	150
Amount owing to a shareholder of the subsidiary	6.1.28	-	-	-	31,388	41,925
Amount owing to a director	6.1.29	3	3	3	3	3
Dividend payables		-	-	-	-	19,345
Provision for taxation		-	-	-	-	196
Short-term borrowings	6.1.30	16,000	24,000	30,000	34,130	38,831
		16,976	25,113	31,442	103,632	126,106
TOTAL LIABILITIES		186,419	171,328	159,387	326,430	312,426
TOTAL EQUITY AND LIABILITIES		182,504	154,662	167,953	334,471	342,457

	← The Company →			← The Group →		
	FY 2004	FY 2005	FY 2006	FY 2004	FY 2005	FY 2006
Number of ordinary shares of RM1.00 each in issue ('000)	1,000	1,000	1,000	1,000	1,000	1,000
Net tangible (liabilities)/assets ("NTL")/"NTA" (RM'000)	(3,915)	(16,666)	8,566	(100,193)	(86,362)	(85,419)
(NTL)/NTA per ordinary share (RM)	(3.92)	(16.67)	8.57	(100.19)	(86.36)	(85.42)
Inventories turnover period (months)	N/A	N/A	N/A	0.4	0.3	0.9
Trade receivables turnover period (months)	N/A	N/A	N/A	1.8	1.5	1.3
Trade payables turnover period (months)	N/A	N/A	N/A	4.2	3.7	2.9
Gearing ratio (times) *	N/A	N/A	12.8	71.8	14.1	10.3

Notes:-

- (i) * - Gearing ratio was calculated based on the Company/Group interest-bearing borrowings, divided by the shareholders' equity of the Company/Group at the balance sheet date.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.3 CASH FLOW STATEMENTS OF BLH

Note	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
CASH FLOWS (FOR)/FROM OPERATING ACTIVITIES (Loss)/Profit before taxation	(2,356)	(12,751)	36,909	19,659	25,113	30,507
Adjustments for:-						
Amortisation of goodwill	-	-	-	4,212	4,212	-
Amortisation of intangible assets	-	-	-	-	494	793
Bad debts written off	-	-	-	-	-	-
Depreciation of plant and equipment	-	-	-	16,504	19,579	18,994
Interest expense	7,779	13,058	6,834	10,747	5,060	7,171
Dividend income	-	-	(43,249)	-	-	-
Gain on disposal of plant and equipment	-	-	-	-	-	(59)
Interest income	(5,773)	(547)	(752)	(245)	(547)	(1,705)
Operating (loss)/profit before working capital changes	(350)	(240)	(258)	50,877	53,911	55,701
(Increase)/Decrease in inventories	-	-	-	(304)	538	(477)
Increase in trade and other receivables	(18)	(61)	(4)	(1,799)	(1,348)	(2,034)
Increase/(Decrease) in trade and other payables	206	4	53	20,471	5,655	(13,066)
(Increase)/Decrease in amount owing by a shareholder of subsidiary	-	-	-	(24,114)	7,882	7,392
CASH (FOR)/FROM OPERATIONS	(162)	(297)	(209)	45,131	66,638	47,516
Income tax paid	-	-	-	-	-	(492)
Interest paid	(7,779)	(6,980)	(6,841)	(8,379)	(7,666)	(7,178)
NET CASH (FOR)/FROM OPERATING ACTIVITIES CARRIED FORWARD	(7,941)	(7,277)	(7,050)	36,752	58,972	39,846

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.3 CASH FLOW STATEMENTS OF BLH (CONT'D)

Note	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
	NET CASH (FOR)/FROM OPERATING ACTIVITIES BROUGHT FORWARD					
	(7,941)	(7,277)	(7,050)	36,752	58,972	39,846
	CASH FLOWS FROM/(FOR) INVESTING ACTIVITIES					
	245	547	752	245	547	1,701
	Interest received					
	Proceeds from disposal of plant and equipment					
6.1.34	-	-	-	(1,732)	(2,229)	(2,887)
	Purchase of plant and equipment					
	Purchase of intangible assets					
	Net proceeds from redemption of redeemable preference shares in subsidiary					
	19,542	30,252	33,494	-	-	-
	Advances to related companies					
	-	-	-	-	-	(336)
	19,787	30,799	34,246	(4,032)	(2,860)	(2,512)
	NET CASH FROM/(FOR) INVESTING ACTIVITIES					
	CASH FLOWS FOR FINANCING ACTIVITIES					
	-	-	-	(8,150)	(13,196)	(14,349)
	Redemption of preference shares					
	-	-	-	-	(171)	(456)
	Repayment of finance lease					
	(672)	(15,999)	(24,000)	-	(20,932)	(24,000)
	Repayment of bank borrowings					
	-	-	-	(671)	-	-
	Repayment to a director					
	-	100	220	-	100	220
	Advances from a shareholder					
	-	-	-	-	10,537	(22,672)
	Advances from a shareholder of subsidiary					
	-	805	116	-	2,057	(615)
	Advances from a related company					
	(672)	(15,094)	(23,664)	(8,821)	(21,605)	(61,872)
	NET CASH FOR FINANCING ACTIVITIES					
	NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
	11,174	8,428	3,532	23,899	34,507	(24,538)
	CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR					
	9,210	20,384	28,812	14,231	38,130	72,637
	CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR					
6.1.35	20,384	28,812	32,344	38,130	72,637	48,099

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.4 STATEMENTS OF CHANGES IN EQUITY OF BLH

The Group	Share Capital RM'000	Retained Profits RM'000	Total Shareholders' Equity RM'000	Minority Interests RM'000	Total Equity RM'000
Balance at 1.1.2004	1,000	(278)	722	1,127	1,849
Profit attributable to shareholders	-	2,364	2,364	3,828	6,192
Balance at 31.12.2004/ 1.1.2005	1,000	2,086	3,086	4,955	8,041
Profit attributable to shareholders	-	10,303	10,303	11,687	21,990
Balance at 31.12.2005/ 1.1.2006	1,000	12,389	13,389	16,642	30,031
Dividend	-	(6,000)	(6,000)	(13,345)	(19,345)
Profit attributable to shareholders	-	7,199	7,199	5,803	13,002
Balance at 31.12.2006	1,000	13,588	14,588	9,100	23,688

The Company	Share Capital RM'000	Accumulated Losses RM'000	Total Equity RM'000
Balance at 1.1.2004	1,000	(2,559)	(1,559)
Loss for the financial year	-	(2,356)	(2,356)
Balance at 31.12.2004/1.1.2005	1,000	(4,915)	(3,915)
Loss for the financial year	-	(12,751)	(12,751)
Balance at 31.12.2005/1.1.2006	1,000	(17,666)	(16,666)
Loss for the financial year	-	25,232	25,232
Balance at 31.8.2006	1,000	7,566	8,566

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.5 REVENUE

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Sale of goods and services	-	-	-	292,782	284,985	270,982
Interest income	5,773	547	752	245	547	752
Dividend income	-	-	43,249	-	-	-
	<u>5,773</u>	<u>547</u>	<u>44,001</u>	<u>293,027</u>	<u>285,532</u>	<u>271,734</u>

6.1.6 OTHER OPERATING INCOME

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Short-term deposit interest income	-	-	-	179	701	953
Write-back of allowance for doubtful debts	-	-	-	1,261	245	-
Cafeteria profits	-	-	-	555	626	460
Gain on foreign exchange	-	-	-	-	145	149
Recovery of freight charges	-	-	-	-	-	1,500
Sundry income	-	-	-	365	553	1,100
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,360</u>	<u>2,270</u>	<u>4,162</u>

6.1.7 FINANCE COSTS

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Dividend on redeemable preference shares ("RPS")	-	6,078	-	2,369	-	-
Reversal of dividend on RPS	-	-	-	-	(2,605)	-
Interest expense:						
- bank overdraft	-	-	-	383	285	97
- term loan	7,779	6,980	6,834	7,779	6,980	6,834
- revolving credit	-	-	-	216	283	-
- finance lease payable	-	-	-	-	117	240
	<u>7,779</u>	<u>13,058</u>	<u>6,834</u>	<u>10,747</u>	<u>5,060</u>	<u>7,171</u>

6. AUDITED FINANCIAL STATEMENTS (CONT'D)
6.1 BLH (CONT'D)
6.1.8 (LOSS)/PROFIT BEFORE TAXATION

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Amortisation of intangible assets	-	-	-	-	494	793
Amortisation of goodwill	-	-	-	4,212	4,212	-
Audit fee	15	15	15	115	115	95
Cost of contract workers	-	-	-	-	4,842	4,429
Depreciation of property, plant and equipment	-	-	-	16,504	19,579	18,994
Dividend on RPS	-	-	-	2,369	-	-
Interest expense:						
- bank overdrafts	-	-	-	383	285	97
- finance lease payable	-	-	-	-	117	240
- revolving credit	-	-	-	216	283	-
- term loans	7,779	6,980	6,834	7,779	6,980	6,834
Net foreign exchange loss	-	-	-	-	115	33
Plant and equipment written off	-	-	-	226	-	-
Reversal of dividend income on RPS	-	6,078	-	-	-	-
Staff costs	-	-	-	61,471	63,774	61,175
Gain on disposal of property, plant and equipment	-	-	-	-	-	(59)
Interest income	(5,773)	(547)	(752)	(245)	(1,248)	(1,705)
Rental income	-	-	-	-	(975)	(1,077)
Reversal of dividend on RPS	-	-	-	-	(2,605)	-

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.9 INCOME TAX EXPENSE

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Current tax expense						
- for the financial year	-	-	-	-	196	267
- underprovision in the previous financial year	-	-	-	-	-	59
	-	-	-	-	196	326
Deferred tax expense (Section 7.1.12)						
- for the financial year	-	-	12,110	13,467	9,459	10,199
- (over)/underprovision in previous financial year	-	-	-	-	(6,532)	5,458
- change on tax rate	-	-	(433)	-	-	1,522
	-	-	11,677	13,467	2,927	17,179
	-	-	11,677	13,467	3,123	17,505

A reconciliation of income tax expense applicable to the (loss)/profit for the financial year at the statutory tax rate to income tax expense at the effective tax rate of the BLH is as follows:-

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
(Loss)/Profit before taxation	(2,356)	(12,751)	36,909	19,659	25,113	30,507
Tax at the statutory tax rate	(660)	(3,570)	10,335	5,505	7,032	8,542
Tax effects:-						
Non-taxable gains	-	(153)	(211)	-	(888)	(211)
Non-deductible expenses	660	3,723	1,986	7,962	3,511	2,163
Expenses subject to special deduction	-	-	-	-	-	(28)
(Over)/Underprovision in the previous financial year:						
- current tax expense	-	-	-	-	-	59
- deferred tax expense	-	-	-	-	(6,532)	5,458
Differential in tax rates	-	-	(433)	-	-	1,522
Tax for the financial year	-	-	11,677	13,467	3,123	17,505

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.10 INVESTMENT IN SUBSIDIARY

	← The Company →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Unquoted shares, at cost	155,985	125,733	92,239
Accrued finance income on Redeemable Preference Shares issued by a subsidiary	6,079	-	-
	162,064	125,733	92,239

Details of the subsidiary, which is incorporated in Malaysia, are as follows:-

Name of Company	Effective Equity Interest FY 2004 to 2006	Principal Activities
LSGB Sky Chefs-Brahim's Sdn. Bhd.	70%	Catering related services.

On 1 December 2003, the Company completed the acquisition of a 70% each in the equity interest and the Redeemable Preference Shares ("RPS") in LSG Sky Chefs-Brahim's Sdn. Bhd. ("LSGB"). As a result, LSGB became a subsidiary of the Company.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.11 PROPERTY, PLANT AND EQUIPMENT

The Group	At 1.1.2006 RM'000	Additions RM'000	Reclassification RM'000	Depreciation Charge RM'000	At 31.12.2006 RM'000
Net book value					
Plant and equipment	51,531	691	(4,401)	(14,830)	32,991
Furniture and fittings	875	95	-	(255)	715
Motor vehicles	4,313	91	-	(218)	4,186
Computer equipment	1,414	588	-	(442)	1,560
Catering equipment	14,695	1,126	-	(3,203)	12,618
Communication equipment	40	296	-	(46)	290
	72,868	2,887	(4,401)	(18,994)	52,360

The Group	At 1.1.2005 RM'000	Additions RM'000	Reclassification RM'000	Depreciation Charge RM'000	At 31.12.2005 RM'000
Net book value					
Plant and equipment	67,079	1	-	(15,549)	51,531
Furniture and fittings	1,215	-	(89)	(251)	875
Motor vehicles	285	4,356	-	(328)	4,313
Computer equipment	909	795	89	(379)	1,414
Catering equipment	16,338	1,419	-	(3,062)	14,695
Communication equipment	36	14	-	(10)	40
	85,862	6,585	-	(19,579)	72,868

The Group	At 1.1.2004 RM'000	Additions RM'000	Depreciation Charge RM'000	At 31.12.2004 RM'000
Net book value				
Plant and equipment	82,521	29	(15,471)	67,079
Furniture and fittings	1,199	278	(262)	1,215
Motor vehicles	53	355	(123)	285
Computer equipment	599	773	(463)	909
Catering equipment	16,259	239	(160)	16,338
Communication equipment	3	58	(25)	36
	100,634	1,732	(16,504)	85,862

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.11 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
At 31.12.2006			
Plant and equipment	140,236	(107,245)	32,991
Furniture and fittings	2,904	(2,189)	715
Motor vehicles	23,788	(19,602)	4,186
Computer equipment	2,904	(1,344)	1,560
Catering equipment	51,758	(39,140)	12,618
Communication equipment	792	(502)	290
	222,382	(170,022)	52,360
The Group	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
At 31.12.2005			
Plant and equipment	154,620	(103,089)	51,531
Furniture and fittings	2,809	(1,934)	875
Motor vehicles	23,697	(19,384)	4,313
Computer equipment	2,316	(902)	1,414
Catering equipment	50,632	(35,937)	14,695
Communication equipment	496	(456)	40
	234,570	(161,702)	72,868
The Group	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
At 31.12.2004			
Plant and equipment	154,619	(87,540)	67,079
Furniture and fittings	2,908	(1,693)	1,215
Motor vehicles	19,341	(19,056)	285
Computer equipment	2,247	(1,338)	909
Catering equipment	49,213	(32,875)	16,338
Communication equipment	482	(446)	36
Net book value	228,810	(142,948)	85,862

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.11 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The following property, plant and equipment were acquired under hire purchase and lease terms:-

	2004 RM'000	2005 RM'000	2006 RM'000
Net book value:-			
Motor vehicles	-	4,150	4,012

6.1.12 DEFERRED TAX ASSETS

The Group	Property, plant and equipment and intangible assets RM'000	Unabsorbed losses RM'000	Allowance for doubtful debts RM'000	Total RM'000
<u>2006</u>				
At 1 January	16,104	40,816	231	57,151
Transfer (to)/from income statement (Section 6.1.9)	(13,243)	(4,453)	517	(17,179)
At 31 December	2,861	36,363	748	39,972
<u>2005</u>				
At 1 January	22,202	37,710	166	60,078
Transfer (to)/from income statement (Section 6.1.9)	(6,098)	(3,426)	65	(9,459)
Overprovision of deferred tax liabilities in the previous financial year	-	6,532	-	6,532
At 31 December	16,104	40,816	231	57,151
<u>2004</u>				
At 1 January	35,669	37,710	166	73,545
Transfer (to)/from income statement (Section 6.1.9)	(13,467)	-	-	(13,467)
At 31 December	22,202	37,710	166	60,078

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The deferred tax assets have been adjusted to take into account the reduction in tax rate to 27% in Year of Assessment 2007, 26% in Year of Assessment 2008 and thereafter, adjustments are made based on amounts of temporary differences expected to be reversed in the prospective years.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)
6.1 BLH (CONT'D)
6.1.13 INTANGIBLE ASSETS

The Group	Computer Software RM'000
Net book value	
At 1.1.2004	-
Additions	2,545
Amortisation	-
At 31.12.2004/1.1.2005	2,545
Additions	1,178
Amortisation	(494)
At 31.12.2005/1.1.2006	3,229
Additions	1,049
Amortisation	(793)
At 31.12.2006	3,485
The Group	Computer Software RM'000
At 31.12.2004	
At cost	2,545
Accumulated amortisation	-
Net book value	2,545
At 31.12.2005	
At cost	4,548
Accumulated amortisation	(1,319)
Net book value	3,229
At 31.12.2006	
At cost	5,597
Accumulated amortisation	(2,112)
Net book value	3,485

The remaining amortisation period of computer software at the end of the financial year ranged from 1 to 5 years.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.14 GOODWILL

	← FY 2004 RM'000	The Group FY 2005 RM'000	FY 2006 RM'000 →
At cost	105,297	105,297	105,297
Less: Accumulated amortisation	(4,563)	(8,775)	(8,775)
	100,734	96,522	96,522

The carrying amounts of goodwill allocated to the Group's cash-generating units ("CGUs") are as follows:-

	← FY 2004 RM'000	The Group FY 2005 RM'000	FY 2006 RM'000 →
Investment in LSGB	100,734	96,522	96,522

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets/forecast approved by the Directors covering a five-year period. Cash flows beyond the five-year period are assumed to remain the same from year five to infinity.

The cash flow projections are derived on a number of key factors including the past performance and the management's expectations of the market developments. The discount rate used in determining the business segment is 7.50%. The 7.50% discount rate is pre-tax and reflects risks relating to the relevant CGUs.

No impairment charge was required for goodwill arising from all the business segments. Management believes that any reasonable possible change to the assumptions applied is not likely to cause the recoverable amount of all the business segments to be lower than its carrying amount.

6.1.15 INVENTORIES

	← FY 2004 RM'000	The Group FY 2005 RM'000	FY 2006 RM'000 →
At cost:-			
Catering stores	3,233	2,685	2,864
General stores	16	26	7
Maintenance store	-	-	4,717
	3,249	2,711	7,588

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.16 TRADE RECEIVABLES

	← FY 2004 RM'000	The Group FY 2005 RM'000	FY 2006 RM'000 →
Trade receivables	11,828	9,387	9,062
Allowance for doubtful debts:-			
At January 2004/2005/2006	(4,403)	(3,428)	(131)
Write-off	975	3,297	131
At December 2004/2005/2006	(3,428)	(131)	-
	<u>8,400</u>	<u>9,256</u>	<u>9,062</u>

The normal trade credit terms range from payment in advance to 60 days.

The foreign currency exposure profile of the trade receivables is as follows:-

	← FY 2004 RM'000	The Group FY 2005 RM'000	FY 2006 RM'000 →
United States Dollar	-	261	144

The trade receivables ageing analysis of BLH Group for FY 2006 is set out below:-

	0 to 30 Days RM'000	31 to 60 Days RM'000	61 to 90 Days RM'000	> 90 Days RM'000	Gross RM'000
Balance as at 31.12.2006	4,810	3,018	764	470	9,062
% of trade receivables	53.1	33.3	8.4	5.2	100.0

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.17 AMOUNT OWING BY RELATED COMPANIES

The amount owing is trade in nature and the normal trade credit terms range from payment in advance to 60 days.

6.1.18 AMOUNT OWING BY A SHAREHOLDER OF THE SUBSIDIARY

	← FY 2004 RM'000	The Group FY 2005 RM'000	FY 2006 RM'000 →
Amount owing by a shareholder of the subsidiary	35,191	28,001	20,050
Allowance for doubtful debts:-			
At January 2004/2005/2006	-	-	(692)
Additions during the year	-	(692)	-
Write-off	-	-	559
At December 2004/2005/2006	-	(692)	(133)
	<u>35,191</u>	<u>27,309</u>	<u>19,917</u>

The normal trade credit term granted to the shareholder was 60 days.

The ageing analysis for the FY 2006 is set out below:-

	0 to 30 Days RM'000	31 to 60 Days RM'000	61 to 90 Days RM'000	> 90 Days RM'000	Gross RM'000	Allowance For Doubtful Debts RM'000	Net RM'000
Balance as at 31.12.2006	18,144	765	592	549	20,050	(133)	19,917
% of trade receivables	91.1	3.8	3.0	2.8	100.7	(0.7)	100.0

6.1.19 SHORT-TERM DEPOSITS WITH FINANCIAL INSTITUTIONS

The weighted average effective interest rates per annum and the remaining maturity period for the deposits with financial institutions are as follows:-

	← The Company →			← The Group →		
	FY 2004	FY 2005	FY 2006	FY 2004	FY 2005	FY 2006
Weighted average effective interest rate per annum	3.1%	3.1%	2.2%	2.2%	2.2%	2.2%
Average maturity period (days)	335	335	335	214	214	214

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.20 SHARE CAPITAL

	← The Group/The Company →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
AUTHORISED:			
4,990,000 ordinary shares of RM1 each	4,990	4,990	4,990
1,000,000 Redeemable preference shares of RM0.01 each	10	10	10
ISSUED AND FULLY PAID-UP:			
1,000,000 ordinary shares of RM1 each	1,000	1,000	1,000

6.1.21 AMOUNT OWING TO A SHAREHOLDER

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

6.1.22 AMOUNT OWING TO A RELATED COMPANY

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

6.1.23 LONG-TERM BORROWINGS

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Term loans (Note 6.1.31)	134,000	110,000	80,000	134,000	110,000	80,000
Finance lease payables (Note 6.1.32)	-	-	-	-	3,701	3,228
Redeemable preference shares (Note 6.1.33)	-	-	-	53,355	36,404	-
	<u>134,000</u>	<u>110,000</u>	<u>80,000</u>	<u>187,355</u>	<u>150,105</u>	<u>83,228</u>

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.24 DEFERRED TAX LIABILITIES

	← The Company →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
At 1 January	-	-	-
Transfer to income statement (Note 6.1.9)	-	-	11,677
At 31 December	-	-	11,677

The deferred tax liabilities have been adjusted to take into account the reduction in tax rate to 27% in Year of Assessment 2007, 26% in Year of Assessment 2008 and thereafter, adjustments are made based on amounts of temporary differences expected to be reversed in the prospective years.

6.1.25 TRADE PAYABLES

The normal trade credit terms granted to BLH Group range from cash terms to 45 days.

The foreign currency exposure profile of trade payables is as follows:-

	← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
EURO	196	731	-
Australian Dollar	158	242	-
Singapore Dollar	4	184	-
Japanese Dollar	129	110	2

The trade payables ageing analysis of BLH Group for FY 2006 is set out below:-

	0 to 45 Days RM'000	46 to 90 Days RM'000	91 to 135 Days RM'000	> 135 Days RM'000	Total RM'000
Balance as at 31.12.2006	23,519	16	12	37	23,584
% of trade payables	99.7%	0.1%	0.1%	0.1%	100%

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.26 AMOUNT OWING TO RELATED COMPANIES

	← The Company →			← The Group →		
	FY 2004	FY 2005	FY 2006	FY 2004	FY 2005	FY 2006
Trade	-	-	-	-	1,252	521
Non-trade	279	312	428	279	312	428
	<u>279</u>	<u>312</u>	<u>428</u>	<u>279</u>	<u>1,564</u>	<u>949</u>

The normal trade credit terms granted by the related companies range from cash terms to 45 days.

The non-trade amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

6.1.27 AMOUNT OWING TO A SHAREHOLDER

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

6.1.28 AMOUNT OWING TO A SHAREHOLDER OF THE SUBSIDIARY

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

6.1.29 AMOUNT OWING TO A DIRECTOR

The amount owing is unsecured advances, interest-free and not subject to fixed terms of repayment.

6.1.30 SHORT-TERM BORROWINGS

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Revolving credit	-	-	-	4,935	-	-
Term loans (Note 6.1.31)	16,000	24,000	30,000	16,000	24,000	30,000
Finance lease payables (Note 6.1.32)	-	-	-	-	484	484
Redeemable preference shares (Note 6.1.33)	-	-	-	13,195	14,347	36,402
	<u>16,000</u>	<u>24,000</u>	<u>30,000</u>	<u>34,130</u>	<u>38,831</u>	<u>66,886</u>

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.30 SHORT-TERM BORROWINGS (CONT'D)

The revolving credit is secured on a 'Negative Pledge' by the Company. The foreign currency exposure profile of the short-term borrowings is as follows:-

	← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
United States Dollar	4,935	-	-

The weighted average effective interest rates per annum as at 31 December 2004 for the revolving credit is 3.0% per annum.

6.1.31 TERM LOANS

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Current:						
- not later than one year (Note 6.1.30)	16,000	24,000	30,000	16,000	24,000	30,000
Non-current:						
- later than one year and not later than five years	117,000	107,000	80,000	117,000	107,000	80,000
- later than five years	17,000	3,000	-	17,000	3,000	-
Total non-current (Note 6.1.23)	134,000	110,000	80,000	134,000	110,000	80,000
	150,000	134,000	110,000	150,000	134,000	110,000

The term loan is secured by way of a charge on the Company's investments in LSGB. The RPS and shareholders' advances are unsecured.

The weighted average effective interest rates per annum are as follows:-

	← The Company →			← The Group →		
	FY 2004	FY 2005	FY 2006	FY 2004	FY 2005	FY 2006
Effective interest rates (per annum)	5.20%	4.90%	4.90%	5.20%	4.90%	4.90%

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.32 FINANCE LEASE PAYABLES

	← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Future minimum finance lease payables:			
- not later than one year	-	757	757
- later than one year and not later than five years	-	3,026	3,026
- later than five years		2,757	2,000
	-	6,540	5,783
Less: Future finance charges	-	(2,355)	(2,071)
Present value of finance lease payables	-	4,185	3,712
The net finance lease payables are repayable as follows:-			
Current:			
- not later than one year (Section 6.1.30)	-	484	484
Non-current:			
- later than one year and not later than five years	-	1,936	1,936
- later than five years	-	1,765	1,292
Total non-current (Section 6.1.23)	-	3,701	3,228
	-	4,185	3,712

The finance lease payables at the balance sheet date are subject to interest rate at 6.30% per annum.

6.1.33 REDEEMABLE PREFERENCE SHARES

	← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Current (Section 6.1.30)	13,195	14,347	36,402
Non-current (Section 6.1.23)	53,355	36,404	-
	66,550	50,751	36,402

Please refer to Section 6.2.26 for the RPS detailed information.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.34 PURCHASE OF PLANT AND EQUIPMENT

	← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Cost of plant and equipment purchased	1,732	6,585	2,887
Amount financed through finance lease	-	(4,356)	-
Cash disbursed for the purchase of property, plant and equipment	<u>1,732</u>	<u>2,229</u>	<u>2,887</u>

6.1.35 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statements, cash and cash equivalents comprise the following:-

	← The Company →			← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Short-term deposits with financial institutions	20,356	28,804	32,339	35,357	72,343	41,339
Cash and bank balances	28	8	5	2,773	294	6,760
	<u>20,384</u>	<u>28,812</u>	<u>32,344</u>	<u>38,130</u>	<u>72,637</u>	<u>48,099</u>

6.1.36 EMPLOYEE INFORMATION

	← The Company →			← The Group →		
	FY 2004	FY 2005	FY 2006	FY 2004	FY 2005	FY 2006
Staff costs (RM'000)	-	-	-	61,471	63,774	61,175
Number of employees	-	-	-	1,882	1,783	1,666

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.37 SIGNIFICANT RELATED PARTY TRANSACTIONS

	← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Net sales to a shareholder of subsidiary, MAS [^]	246,925	241,753	223,409
Expenses charged by a shareholder of subsidiary, MAS:			
- rental	19,219	19,219	19,219
- communication	8,260	198	-
- maintenance	6,339	5,403	4,048
- supply of water	5,060	6,339	7,927
- other expenses	11,572	7,380	10,748
Purchases of supplies from a company related to a director*, Dewina Host Sdn. Bhd.	22	389	738

Note:-

[^] - Malaysian Airline System Berhad.

* - A company owned by Datuk Ibrahim bin Haji Ahmad.

The directors are of the opinion that the above transactions have been entered into in the normal course of business on terms mutually agreed between the parties.

6.1.38 SIGNIFICANT RELATED COMPANY TRANSACTIONS

	← The Group →		
	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Expenses charged by/(recovery of cost from) LSG Catering Hong Kong Limited:			
- technical fees	2,000	1,000	-
- aviation insurance premium	-	428	473
- payroll and related staff costs	-	179	(78)
- travelling expenses	-	-	24

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.39 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events which occurred during the financial year are as follows:-

- (a) On 30 November 2004, the Board of Directors ("Board") of the subsidiary agreed that the subsidiary should consider issuing private debt securities to refinance the Redeemable Preference Shares ("RPS").
- (b) On 11 January 2006, the Board of the subsidiary approved the private debt issuance in principle.
- (c) On 30 May 2006, the Board of the subsidiary approved the redemption of all its RPS at a redemption price of RM240.32 per RPS. The redemption will be funded via term loans from bankers.

The management of the subsidiary has recognised this as an adjusting event subsequent to the year end and wrote back the dividends accrued on RPS amounting to RM2,605,000.

6.1.40 SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

Subsequent events after the balance sheet date are as follows:-

- (a) On 17 April 2007, the subsidiary received the Letter of Offer from AmInvestment Bank Berhad to refinance the redemption of RPS. The financing package consists of RM120 million term loan facility and RM40 million revolving credit facility. The RPS will be redeemed by mid 2007 upon full drawdown of the facilities.
- (b) On 25 May 2007, an agreement was signed between Brahim's International Franchises Sdn. Bhd. ("BIFSB") and LSG Asia GmbH ("LSGAG"), the shareholders of the Company, acknowledging that all major decisions of the Company are to be made jointly by both BIFSB and LSGAG as shareholders of the Company. Subsequently, the Company became a jointly controlled entity of BIFSB and LSGAG and the Directors neither regard any of these two companies as the holding company nor the ultimate holding company.
- (c) On 6 June 2007, the subsidiary completed the signing of the financing package agreement. On 12 June 2007, RM120 million from the term loan facility was successfully received by the subsidiary.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 BLH (CONT'D)

6.1.41 FOREIGN EXCHANGE RATES

The principal closing exchange rates used in translation of foreign currency amounts are as follows:-

	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
1 United States Dollar	3.8000	3.7800	3.5270
1 Australian Dollar	2.9589	2.7724	2.7806
1 EURO	5.1729	4.4867	4.6545
1 Singapore Dollar	2.3258	2.2714	2.2995
100 Japanese Yen	3.7026	3.2229	2.9633

6.1.42 FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities of the Group and the Company at the balance sheet date approximately their fair values.

6.1.43 DIVIDENDS

At the forthcoming Annual General Meeting, a final gross dividend in respect of the financial year ended 31 December 2006 of RM27.40 per share, less income tax of 27%, amounting to RM20,000,000 will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will be accrued as a liability in the financial year ending 31 December 2007 when approved by shareholders.

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 LSGB

6.2.1 INCOME STATEMENTS OF LSGB

	Note	FY 2004 RM'000	FY 2005 RM'000	FY 2006 RM'000
Revenue	6.2.5	292,782	284,984	270,982
Direct costs		(94,578)	(117,165)	(96,517)
Contribution		198,204	167,819	174,465
Other income	6.2.6	2,360	2,270	4,162
		200,564	170,089	178,627
Administrative expenses		(140,106)	(129,715)	(131,710)
Other expenses		(25,735)	(6,293)	(9,733)
Finance costs	6.2.7	(8,498)	7,998 [^]	(337)
Profit before taxation ("PBT")		26,225	42,079	36,847
Depreciation		16,504	19,579	18,994
Interest expense		8,498	(7,998)	337
Interest income		(179)	(701)	(953)
Earnings before interest, depreciation and taxation		51,048	52,959	55,225
Depreciation		(16,504)	(19,579)	(18,994)
Interest expense		(8,498)	7,998	(337)
Interest income		179	701	953
PBT	6.2.8	26,225	42,079	36,847
Income tax expense	6.2.9	(13,467)	(3,123)	(17,505)
Profit after taxation ("PAT")		12,758	38,956	19,342
<i>Contribution margin (%)</i>		67.7	58.9	64.4
<i>PBT margin (%)</i>		9.0	14.8	13.6
<i>PAT margin (%)</i>		4.4	13.7	7.1
<i>Effective tax rate (%)</i>		51.4	7.4	47.5
<i>Interest coverage (times)</i>		4.1	62.4	110.3
<i>Number of ordinary shares in issue of RM1.00 each ('000)</i>		78,000	78,000	78,000
<i>Gross earnings per share ("EPS")* (RM)</i>		0.34	0.54	0.47
<i>Net EPS* (RM)</i>		0.16	0.50	0.25

6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 LSGB (CONT'D)

6.2.1 INCOME STATEMENTS OF LSGB (CONT'D)

Notes:-

* - The Gross EPS and Net EPS were computed by dividing the PBT and PAT respectively by the number of ordinary shares in issue during the Relevant Financial Years.

^ - Comprise the following:-

	RM'000
Interest expense	685
Reversal of dividend on RPS	(8,683)
	<u>(7,998)</u>

Commentary:-

(a) Revenue increased by approximately RM125.3 million or 74.8% during the FY 2004 as compared to the previous financial year mainly due to the increase in sales to MAS attributed to a Catering Agreement signed between MAS and LSGB effective from 2 December 2003.

The increase in PBT during the FY 2004 by approximately RM61.8 million was due to higher contribution margin, although it was partially mitigated by lower other income and higher operating overheads by approximately RM4.2 and RM37.1 million respectively.

(b) Revenue decreased by approximately RM7.8 million or 2.7% during the FY 2005 mainly attributable to the lower sales to MAS.

The contribution margin for FY 2005 decreased by 8.8% mainly due to the pricing adjustment made which resulted in a reduction of the average price per meal by approximately 17.7%.

However, PBT increased due to lower operating overheads and finance costs by approximately RM30 million and RM16 million respectively. This was mainly due to the reversal of overprovision of upkeep, repair and maintenance expenses as well as the cost savings from the installation of LSGB's own communication network. The lower finance costs incurred were mainly due to the RPS dividend reversal which was accrued in the previous financial years.