1.1 HISTORICAL FINANCIAL INFORMATION OF THE GROUP

The following table sets out a summary of the financial performance of the Group for the past 3 FYEs 31 December as well as for the 9-month financial period ended ("**FPE**") 30 September 2019 and 9-month FPE 30 September 2020:-

	Audited			**Unaudited**	
	FYE 31 December 2017	**FYE 31 December 2018**	**FYE 31 December 2019**	**9-month FPE 30 September 2019**	**9-month FPE 30 September 2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**	**(RM'000)**
Revenue	291,563	274,271	305,798	224,797	74,530
Cost of sales	(159,467)	(191,046)	(208,626)	(93,366)	(33,409)
Gross profit ("GP")	**132,096**	**83,225**	**97,172**	**131,431**	**41,121**
Other income	1,378	639	987	3,208	900
Administrative expenses	(115,506)	(86,751)	(80,591)	(123,636)	(108,939)
Impairment loss on financial instruments	(856)	(2,714)	(291)	-	-
Reversal of impairment losses on financial instruments	-	139	3,730	-	-
Other expenses	(9,961)	(111,362)	(22,279)	(7,806)	(11,132)
Profit / (loss) from operations	**7,151**	**(116,824)**	**(1,272)**	**3,197**	**(78,050)**
Finance income	-	155	852	-	-
Finance costs	(6,969)	(5,912)	(8,390)	(4,257)	(4,675)
Share of results in joint venture	496	1,436	903	922	-
Profit before tax ("PBT") / Loss before tax ("LBT")	678	(121,145)	(7,907)	(138)	(82,725)
Tax income / (expense)	(2,463)	5,152	(5,412)	(1,018)	(170)
Zakat	(383)	-	(181)	-	-
Loss after tax ("LAT")	**(2,168)**	**(115,993)**	**(13,500)**	**(1,156)**	**(82,895)**
LAT attributable to owners of the Company	(6,937)	(61,581)	(15,353)	(1,607)	(32,675)
GP margin (%)	45.31	30.34	31.78	58.47	55.17
LAT margin (%)	(0.74)	(42.29)	(4.41)	(0.51)	(111.22)
Weighted average no. of Shares in issue ('000)	236,286	236,286	236,286	236,286	236,286
Basic / diluted loss per share ("**LPS**")(1)	(2.94)	(26.06)	(6.50)	(0.68)	(13.83)

<u>Note:-</u>

(1) The Company has not issued any dilutive potential ordinary shares and hence, the diluted LPS is equal to the basic LPS.

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(i) 9-month FPE 30 September 2020 vs 9-month FPE 30 September 2019

Revenue decreased by RM150.27 million or 66.85% to RM74.53 million for the 9-month FPE 30 September 2020 from RM224.80 million for the previous corresponding period. This was mainly due to the decreased revenue from the in-flight catering business as a result of the COVID-19 pandemic where international borders remained closed. Therefore, flight activities have been substantially reduced with only local flights in operations.

In line with the decrease in revenue, GP decreased by RM90.31 million or 68.71% to RM41.12 million (GP margin of 55.17%) for the 9-month FPE 30 September 2020 from RM131.43 million (GP margin of 58.47%) for the previous corresponding period.

LAT increased by RM81.74 million or 7,046.55% to RM82.90 million for the 9-month FPE 30 September 2020 from RM1.16 million for the previous corresponding period. The increase in LAT was mainly due to:-

(a) decrease in GP by RM90.31 million in line with the decrease in revenue;

(b) decrease in other income by RM2.31 million mainly due to a decrease in interest income from fixed deposits with licensed banks;

(c) increase in other expenses by RM3.33 million mainly due to provisions provided for inventories written down; and

(d) the absence of share of profit in joint venture (9-month FPE 30 September 2019: RM0.92 million) due to the disposal of DHSB (a joint venture company of the Company principally involved in the operation of food and beverage outlets at KLIA and KLIA 2) which was completed on 29 November 2019.

Notwithstanding, the increased in LAT was partially mitigated by a decrease in by administrative expenses by RM14.70 million as a result of lower general administrative cost from the reduced business activity.

(ii) FYE 31 December 2019 vs FYE 31 December 2018

Revenue increased by RM34.53 million or 12.59% to RM305.80 million for the FYE 31 December 2019 from RM274.27 million for the previous year. This was mainly due to an increase in airlines customers secured as well as higher customer orders for in-flight meals from the in-flight catering business.

In line with the increase in revenue, GP increased by RM13.94 million or 16.75% to RM97.17 million (GP margin of 31.78%) for the FYE 31 December 2019 from RM83.23 million (GP margin of 30.34%) for the previous year.

LAT decreased by RM102.49 million or 88.36% to RM13.50 million for the FYE 31 December 2019 from RM115.99 million for the previous year. The decrease in LAT was mainly due to:-

(a) increase in GP by RM13.94 million in line with the increase in revenue;

(b) decrease in administrative expenses by RM6.16 million; and

(c) decrease in other expenses by RM89.08 million, mainly as a result of one-off impairment loss on goodwill allocated to the Company's catering business amounting to RM88.61 million provided in the previous year. The said impairment loss was mainly due to the management assessing the recoverable amount to be lower than the carrying amount of the said goodwill.

Notwithstanding, the decrease in LAT was partially mitigated by a loss on disposal of a joint venture amounting to RM10.24 million as a result of the disposal of DHSB (a joint venture company of the Company principally involved in the operation of food and beverage outlets at KLIA and KLIA 2) which was completed on 29 November 2019.

(iii) FYE 31 December 2018 vs FYE 31 December 2017

Revenue decreased by RM17.29 million or 5.93% to RM274.27 million for the FYE 31 December 2018 from RM291.56 million for the previous year. This was mainly due to the decreased revenue from the in-flight catering business as a result of lower air passenger volume, resulting in lower customer orders we well as lower average selling price achieved for the in-flight meals.

In line with the decrease in revenue, GP decreased by RM48.87 million or 36.99% to RM83.23 million (GP margin of 30.34%) for the FYE 31 December 2018 from RM132.10 million (GP margin of 45.31%) for the previous year. The decrease in GP margin was due to the lower average selling price achieved for the sale of in-flight meals for the Company's catering business.

LAT increased by RM113.82 million or 5,245.16% to RM115.99 million for the FYE 31 December 2018 from RM2.17 million for the previous year. The increase in LAT was mainly due to:-

(a) decrease in GP by RM48.87 million in line with the decrease in revenue; and

(b) one-off impairment loss on goodwill allocated to the Company's catering business amounting to RM88.61 million provided in FYE 31 December 2018. The said impairment loss was mainly due to the management assessing the recoverable amount to be lower than the carrying amount of the said goodwill.

Notwithstanding, the increased in LAT was partially mitigated by a decrease in by administrative expenses by RM28.76 million as a result of lower general administrative cost from the reduced business activity.

(iv) FYE 31 December 2017 vs FYE 31 December 2016

Revenue increased by RM25.20 million or 9.46% to RM291.56 million for the FYE 31 December 2017 from RM266.36 million for the previous year. This was mainly due to an increase in airlines customers secured as well as higher customer orders for in-flight meals from the in-flight catering business.

In line with the increase in revenue, GP increased by RM11.67 million or 9.69% to RM132.10 million (GP margin of 45.31%) for the FYE 31 December 2017 from RM120.43 million (GP margin of 45.21%) for the previous year.

LAT decreased by RM120.25 million or 98.23% to RM2.17 million for the FYE 31 December 2017 from RM122.42 million for the previous year. The decrease in LAT was mainly due to:-

(a) one-off impairment of RM7.50 million provided for the intangible assets in the previous year. The said impairment was on the Company's license to manufacture refined sugar and molasses which has an indefinite useful life. The impairment was provided for as the Company had not commenced the sugar refinery operations and the said operations had remained dormant;

(b) one-off impairment loss on goodwill allocated to the Company's catering business amounting to RM91.60 million provided in the previous year. The said impairment loss was mainly due to the management assessing the recoverable amount to be lower than the carrying amount of the said goodwill;

(c) decrease in impairment loss on trade and other receivables by RM3.49 million; and

(d) one-off provision for legal cases of RM6.90 million in the previous year.

1.2 STEPS UNDERTAKEN OR TO BE UNDERTAKEN TO IMPROVE THE FINANCIAL CONDITION OF THE GROUP

BHB has undertaken several initiatives to improve its financial condition, which includes, amongst others:-

(a) On 29 November 2019, the Board announced that the Company had entered into a sale and purchase of shares agreement with HMSHost International B.V. ("**HMSH**") for the disposal of its entire 51% equity interest in DHSB comprising 178,500 ordinary shares to HMSH for a total cash consideration of RM7,878,495.

The said disposal was undertaken as part of the Group's internal restructuring plan to divest its non-core assets, which was expected to provide immediate cash flow to be channelled towards the business operations of the Group as well as the repayment of bank borrowings. The disposal was completed on 29 November 2019.

(b) On 20 December 2019, the Board announced that the Company had entered into a Heads of Agreement ("**HOA**") with MRI VC Berhad ("**MRI**") to set out the basis of MRI's participation in the Company's regularisation plan to be formulated pursuant to its obligations under PN17 of the Listing Requirements.

Pursuant to the HOA, the fund-raising exercise forming part of the regularisation plan (including but not limited to a proposed private placement and proposed rights issue) was expected to include MRI's participation. In return, the Company shall award to MRI and/or its subsidiaries monthly contracts worth an amount in aggregate of up to RM500,000 each for a duration of 2 years (with an option to extend for further 2 years upon expiry).

On 15 September 2020, the Company announced that the HOA was terminated mutually after taking into consideration the uncertainties surrounding the Group as well as the global economy and financial markets.

(c) On 1 September 2020, the Company provided an update on its business operations in light of the impact of COVID-19 pandemic and MCO. It was stated that the main operating subsidiary of the Company, BSFS has been struggling since the MCO was announced on 18 March 2020, requiring non-essential businesses to stop operations.

With the imposition of travel bans by the Malaysian Government and international borders being closed, the production of BSFS has declined drastically. Following this, the Group undertook a MSS exercise which resulted in the number of staffs being reduced to approximately half of the initial number (over 1,400 kitchen staffs). The MSS is expected to ease BSFS cashflows and reduce its losses.

(d) On 11 November 2020, the Board announced that BSFS had entered into a HOA with FDC to collaborate and leverage off each other's business. FDC has been a major shareholder of the Company since 9 October 2020.

Through the HOA, BSFS intends to utilise the spare capacity of its flight kitchen in KLIA by preparing food to be sold through online avenues (previously BSFS only caters for in-flight meals).

The HOA was entered into by the Group with the intention to explore BHB's expansion of its non-airline catering business to reduce its dependence on its in-flight catering business.

As at LPD, the parties are in the midst of finalising a commercial agreement outlining the financials, commitment of resources, offtake agreements, potential investment quantum's and schedules of implementation of the potential collaboration.

The Group will continue to explore new opportunities and review its capital and business structure to gear itself towards the exit of PN17.

1.3 IMPACT OF THE PROPOSED PRIVATE PLACEMENT AND VALUE CREATION TO THE GROUP AND ITS SHAREHOLDERS

The Proposed Private Placement will enable the Group to raise funds without the need to secure additional bank borrowings, which may be difficult in view of its status as a PN17 affected listed issuer.

Notwithstanding this, the consolidated EPS / LPS of the Group shall be diluted as a result of the increase in the number of Shares arising from the Proposed Private Placement. Further details on the effects of the Proposed Private Placement on the NA and gearing as well as the earnings and EPS of the Company are set out in Section 6 of this Announcement.

The Proposed Private Placement is expected to aid the Group to meet its immediate working capital requirements. This is vital for the Group to ride through this difficult time of the COVID-19 pandemic whilst it is in the midst of formulating its regularisation plan.

1.4 ADEQUACY OF THE PROPOSED PRIVATE PLACEMENT IN ADDRESSING THE FINANCIAL REQUIREMENTS OF THE GROUP

Notwithstanding that the Company is classified as an affected listed issuer under PN17 of the Listing Requirements, the losses recorded in the previous financial years / periods had weakened the financial position of the Group and depleted its cash and bank balances available for operations. After due consideration and deliberation, the Company had concluded to proceed with the Proposed Private Placement as a measure to resolve its immediate funding requirements for working capital of its existing businesses.

In addition, the Proposed Private Placement will allow the Group to raise the requisite funds expeditiously without the need to secure additional bank borrowings, which may be difficult in view of its status as a PN17 affected listed issuer.

Premised on the above, the Board is of the view that the Proposed Private Placement is adequate to address its immediate funding requirement for working capital.

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