

Holdings Berhad (Company No: 88716-W) (“Fiamma” or “the Company”)

Notes to the interim financial statements for the financial quarter ended 30 September 2016.

A. Compliance with Financial Reporting Standards (“FRS”) 134, Interim Financial Reporting

AI. Accounting Policies

The unaudited interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad (“Bursa Securities”) and FRS 134, *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the financial year ended 30 September 2015.

The following are FRSs, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group:

FRSs, amendments and interpretations effective for annual periods beginning on or after 1 January 2016

- FRS 14, *Regulatory Deferral Accounts*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to FRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to FRS 10, *Consolidated Financial Statements*, FRS 12, *Disclosure of Interests in Other Entities* and FRS 128, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
- Amendments to FRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to FRS 101, *Presentation of Financial Statements - Disclosure Initiative*
- Amendments to FRS 116, *Property, Plant and Equipment* and FRS 138, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to FRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to FRS 127, *Separate Financial Statements - Equity Method in Separate Financial Statements*
- Amendments to FRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

Notes to the Interim Financial Statements

A1. Accounting Policies (continued)

FRSs, amendments and interpretations effective for annual periods beginning on or after 1 January 2017

- Amendments to FRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to FRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

FRSs, amendments and interpretations effective for annual periods beginning on or after 1 January 2018

- FRS 9, *Financial Instruments (2014)*

FRSs, amendments and interpretations effective for a date yet to be confirmed

- Amendments to FRS 10, *Consolidated Financial Statements* and FRS 128, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Company plan to apply the abovementioned FRSs, amendments and interpretations from the annual period beginning on 1 October 2016 for those FRSs, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for Amendments to FRS 5, Amendments to FRS 11, Amendments to FRS 12, FRS 14, Amendments to FRS 127 and Amendments to FRS 128, which are not applicable to the Company.

The initial application of the FRSs, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group.

The Group has subsidiaries which fall within the scope of IC Interpretation 15, *Agreements for the Construction of Real Estate*. Therefore, the Group and these subsidiaries are currently exempted from adopting the Malaysian Financial Reporting Standards (“MFRSs”) and is referred to as a “Transitioning Entity”.

The Group’s financial statements for annual period beginning on 1 October 2018 will be prepared in accordance with MFRSs issued by MASB and the International Financial Reporting Standards (“IFRSs”).

Notes to the Interim Financial Statements

A2. *Report of the Auditors to the Members of Fiamma*

The reports of the auditors to the members of Fiamma and its subsidiaries on the financial statements for the financial year ended 30 September 2015 were not subject to any qualification and did not include any adverse comments made under Section 174 (3) of the Companies Act, 1965.

A3. *Seasonality or Cyclicity of Interim Operations*

The business of the Group was not subject to material seasonal or cyclical fluctuations.

A4. *Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows*

The business of the Group was not affected by any significant unusual items affecting assets, liabilities, equity, net income or cash flows for the current quarter ended 30 September 2016.

A5. *Material Changes in Estimates of Amounts Reported*

There were no material changes in estimates used in reporting the current quarter as compared to the financial statements of the Group for the financial year ended 30 September 2015.

A6. *Debt and Equity Securities*

The owners of the Company, by a special resolution passed at the Annual General Meeting held on 23 February 2016, approved the Company's plan to repurchase its own shares.

During the current financial quarter, the Company repurchased 4,479,000 of its issued share capital for a total consideration of RM2,574,330.29 from the open market at an average price of RM0.57 including transaction cost. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

During the financial year, the Company repurchased 5,808,400 of its issued share capital from the open market at an average price of RM0.84 per share including transaction cost and the total consideration paid was RM4,885,797. These comprise repurchase of 1,321,800 shares at a consideration of RM2,306,823 before the share split and bonus issue and 4,486,600 shares at a consideration of RM2,578,974 after the share split and bonus issue. The repurchase transactions were financed by internally generated funds.

Notes to the Interim Financial Statements

A6. *Debt and Equity Securities (continued)*

During the financial year, the Company disposed 6,572,300 of its issued share capital held as treasury shares for a total consideration of RM13,823,684 in the open market at an average price of RM2.10 per share, before the share split and bonus issue.

As at 30 September 2016, the Company held 8,800,000 of its own shares, representing 1.66% of the total paid-up share capital of the Company. These shares were being held and retained as treasury shares. 607,713 warrants remained unexercised as at the end of the current financial year.

There were no other issuance, cancellation, resale and repayments of debt and equity securities for the current financial quarter and financial year ended 30 September 2016.

A7. *Dividend Paid*

No dividend was paid during the current quarter.

Notes to the Interim Financial Statements

A8. *Operating Segment Information*

The Group has 3 reportable segments, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed based on the Group's management and internal reporting structure. For each of the strategic business units, the Group Managing Director (the chief operating decision maker) reviews internal management reports at least on a monthly basis. The following summary describes the operations in each of the Groups' reportable segments:

Investment holding and property investment	The long term investment in unquoted shares and property investment
Property development	Property development
Trading and services	Distribution and servicing of electrical home appliances, sanitaryware, other household products, bathroom accessories, home furniture, medical devices and healthcare products.

The reportable segment information for the Group is as follows:

	Investment Holding & Property Investment RM'000	Property Development RM'000	Trading & Services RM'000	Total RM'000
For the financial period ended 30 September 2016				
External revenue	5,029	6,601	272,183	283,813
Inter segment revenue	26,244	-	19,069	45,313
Total reportable revenue	31,273	6,601	291,252	329,126
Segment profit/(loss)	28,545	(3,743)	39,348	64,150
Segment assets	372,714	312,469	337,483	1,022,666
Segment assets				1,022,666
Other non-reportable segments				4,389
Elimination of inter-segment transactions or balances				(326,396)
				700,659

Notes to the Interim Financial Statements

A8. *Operating Segment Information (continued)*

	Investment Holding & Property Investment RM'000	Property Development RM'000	Trading & Services RM'000	Total RM'000
Segment liabilities	(48,541)	(109,304)	(110,979)	(268,824)
				=====
Segment liabilities				(268,824)
Other non-reportable segments				(6,567)
Elimination of inter-segment transactions or balances				25,630

				(249,761)
				=====
<i>Reconciliation of profit or loss</i>				
				30 Sept 2016
				RM'000
Total profit or loss for reportable segments				64,150
Elimination of inter-segment profits				(23,220)
Depreciation				(4,427)
Interest expense				(5,023)
Interest income				2,654

				34,134
				=====

A9. *Property, Plant and Equipment*

Property, plant and equipment are stated at cost/valuation less accumulated depreciation and impairment losses.

A10. *Events Subsequent to the end of the Financial Period*

On 18 October 2016, Ebac Kitchen Sdn Bhd (“EKSB”), a 100%-owned subsidiary of the Company commenced Members’ Voluntary Liquidation (“MVL”) pursuant to the Companies Act, 1965. The Board of Directors of the Company, having taken into consideration all aspects of the MVL, is of the opinion that the MVL is in the best interest of the Company and its subsidiaries.

There were no other material events as at 16 November 2016, being the date not earlier than 7 days from the date of this announcement that will affect the financial results of the financial quarter under review.

Notes to the Interim Financial Statements

A11. Changes in Composition of the Group

On 19 July 2016, Fiamma Trading Sdn Bhd (“FTSB”), a 70%-owned subsidiary of the Company, which holds 80% of the equity interest of Beaulogy Sdn Bhd (“BSB”) acquired 20,000 ordinary shares of RM1.00 each, representing the remaining 20% of the issued and paid-up share capital of BSB for a cash consideration of RM1.00.

Subsequent to the above, the effective interest of the Company in BSB increased from 56% to 70%.

On 28 September 2016, the Company subscribed for 2 ordinary shares representing 100% of the issued and paid-up capital of Ebac Home Pte Ltd (“EHPL”) for a cash consideration of SGD2.00. The intended business activity of EHPL is distribution of home furniture and electrical home appliances and fittings.

Except for the above, there were no changes in the composition of the Group for the current quarter, including business combination, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

A12. Contingent Liabilities

Contingent liabilities of the Company are as follows:

	As at 30 Sept 2016 RM'000	As at 30 Sept 2015 RM'000
Guarantees to financial institutions for facilities granted to subsidiaries	167,958 =====	169,681 =====

Notes to the Interim Financial Statements

B. Compliance with Bursa Securities Listing Requirements.

B1. Review of the Performance of the Group

	12 months ended	
	30 Sept 2016 RM'000	30 Sept 2015 RM'000
Revenue	283,813	333,488
Profit before taxation	34,134	75,415

The Group recorded a lower revenue of RM283.813 million for the current financial year compared to RM333.488 million achieved in the previous financial year. This is mainly due to lower contribution from the trading and services and the property development segments. Consequently, the Group recorded a lower profit before taxation ("PBT") of RM34.134 million for the current financial year compared to RM75.415 million achieved in the previous financial year. Included in PBT is an increase in fair value of investment properties of RM4.428 million for the current financial year compared to RM24.838 million for the previous financial year.

The Group's revenue is derived primarily from the trading and services segment which contributed 95.9% of the Group's net revenue during the current financial year. The segment recorded a net revenue of RM272.183 million as compared to RM302.542 million recorded in the previous financial year, representing a decrease of 10.0%. Consequently, this segment recorded a lower PBT of RM32.732 million against PBT of RM44.770 million for the previous financial year, representing a decrease of 26.9%.

The property development segment contributed 2.3% of the Group's net revenue during the current financial year. The segment recorded a net revenue of RM6.601 million as compared to RM28.713 million recorded in the previous financial year, representing a decrease of 77.0%. Consequently, this segment recorded a loss before taxation of RM3.491 million in the current financial year against PBT of RM3.078 million for the previous financial year. There were no new launches of property for the current financial year and the revenue and PBT contribution in the previous financial year was derived mainly from the Group's commercial development in Jalan Tuanku Abdul Rahman, Kuala Lumpur, which was completed in March 2015.

Notes to the Interim Financial Statements

B1. Review of the Performance of the Group (continued)

The investment holding and property investment segment contributed 1.8% of the Group's net revenue during the current financial year. The segment recorded a net revenue of RM5.029 million as compared to RM2.233 million recorded in the previous financial year, representing an increase of 125.2%. The revenue is derived mainly from letting of investment properties at Wisma Fiamma in Bandar Manjalara and Menara Centara in Jalan Tuanku Abdul Rahman, both in Kuala Lumpur. This segment recorded a lower PBT of RM4.893 million against PBT of RM27.567 million for the previous financial year, representing a decrease of 82.3%. The lower PBT was attributable to higher finance costs incurred during the current financial year. In addition, included in PBT in the current financial year is an increase in fair value of investment properties of RM4.428 million compared to RM24.838 million for the previous financial year.

B2. Comparison with Preceding Quarter's Results

	Current quarter ended 30 Sept 2016 RM'000	Preceding quarter ended 30 June 2016 RM'000
Revenue	73,293	79,483
Profit before taxation	14,527	8,854

The Group recorded a lower revenue of RM73.293 million for the current quarter ended 30 September 2016 compared to RM79.483 million in the preceding quarter ended 30 June 2016. However, the Group recorded a higher PBT of RM14.527 million compared to RM8.854 million. The higher PBT in the current quarter was mainly attributable to an increase in fair value of investment properties of RM4.428 million recognised in the current quarter and lower operating expenses incurred.

B3. Prospects

The Malaysian economy expanded by 4.3% in the third quarter of 2016 (2Q 2016: 4.0%) underpinned mainly by continued expansion in private sector spending and additional support from net exports. On the supply side, growth continued to be driven by the major economic sectors. On a quarter-to-quarter seasonally-adjusted basis, the economy recorded a growth of 1.5% (2Q 2016: 0.7%).

The Malaysian economy is expected to expand by 4 – 4.5% in 2016. Domestic demand, particularly private sector activity will continue to be the key driver of growth. Private consumption is expected to remain supported by wage and employment growth. Private consumption is expected to remain supported by wage and employment growth, with additional impetus coming from announced Government measures to increase disposable income. Investment activity will continue to be anchored by the on-going implementation of infrastructure projects and capital spending in the manufacturing and services sectors. Overall, while domestic conditions remain resilient, uncertainties in the external environment may pose downside risks to Malaysia's growth prospects.

(Source: Economic and Financial Developments in Malaysia in the Third Quarter of 2016, Bank Negara Malaysia)

With the above outlook, Fiamma expects the performance for the coming financial year to remain challenging. Nevertheless, Fiamma will remain focused on its distribution business and continue to build on its effective supply chain system and proven core competencies to remain a market leader for its products. It will continue to invest in brand building and promotional activities to strengthen and expand its distribution network in Malaysia for its various brands of home appliances, sanitaryware products, home furniture and medical devices and healthcare products. Fiamma will continue to source for new products and business opportunities that is in synergy with the Group's products and activities.

The relocation and centralisation of the existing warehouse in Bandar Manjalara to a new and larger capacity warehouse in Bukit Raja Industrial Hub, Klang under Phase 1 and Phase 2 have been completed in October 2015 and June 2016 respectively. This will further improve the operation and cost efficiency of the Group for the coming next financial year as all the Group's logistic operations are now under one roof. The new integrated logistics warehouse will also be able to generate a recurring income stream for the Group from the provision of storage space and logistic services to third party customers, as well as cater for future expansion of the Group. Phase 3 of the warehouse when initiated and completed is expected to provide further additional capacity and storage space.

Notes to the Interim Financial Statements

B3. Prospects (continued)

For the property development segment, the on-going development of double-storey terrace houses at Taman Kota Jaya 2 in Kota Tinggi, Johor and the development of service apartments and retail space (Vida Heights) in Johor Bahru will contribute to the Group's revenue and profit for the financial year 2017. The redevelopment of the existing warehouse land in Bandar Menjalara, Kuala Lumpur into service apartments (East Parc @ Menjalara) has commenced construction in July 2016 and this project will contribute to the Group's revenue and profit in the coming financial years commencing from financial year 2017. The proposed new commercial development in Jalan Yap Kwan Seng and the proposed new mixed development in Jalan Sungai Besi, both in Kuala Lumpur are expected to contribute to the Group's future income stream once the proposed developments are launched and sold.

B4. Profit Forecast or Profit Guarantee

Not applicable.

B5. Taxation

Taxation comprises the following:

	3 months ended 30 Sept 2016 RM'000	12 months ended 30 Sept 2016 RM'000
Current year tax expense	3,507	10,222
Deferred tax expense	(562)	(1,383)
	<u>2,945</u>	<u>8,839</u>
Prior year tax expense	(21)	17
	<u>2,924</u>	<u>8,856</u>
	RM'000	RM'000
Profit before taxation	<u>14,527</u>	<u>34,134</u>
Tax at Malaysian tax rate of 24%	3,486	8,192
Increase in fair value of investment properties	(1,063)	(1,063)
Other tax effects	522	1,710
	<u>2,945</u>	<u>8,839</u>
Prior year tax expense	(21)	17
	<u>2,924</u>	<u>8,856</u>

Notes to the Interim Financial Statements

B6. Status of Corporate Proposal

Except for the implementation of share split and bonus issue that were completed on 18 April 2016 and the employee share option scheme that was completed on 12 May 2016, the Group has not announced any corporate proposals, which have not been completed at the date of this announcement.

B7. Group Borrowings and Debt Securities

The Group's borrowings as at 30 September 2016 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-current			
Repayable after 12 months			
Term loan	101,817	-	101,817
	=====	=====	=====
Current			
Repayable within 12 months			
Term loan	13,036	-	13,036
Revolving credit	9,000	13,000	22,000
Bills payable	-	31,105	31,105
	-----	-----	-----
Sub-total	22,036	44,105	66,141
	=====	=====	=====
Total	123,853	44,105	167,958
	=====	=====	=====

B8. Derivatives

The details of the Group's foreign currency forward contracts as at 30 September 2016 are as follows:

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
CNY (Less than 3 months)	2,395	2,459	(64)
	=====	=====	=====

The above instruments are executed with established financial institutions in Malaysia. There is no cash requirement for these contracts.

The Group uses appropriate financial instruments, such as foreign currency forward contracts, to hedge against specific exposures including foreign currency risks.

With the adoption of FRS 139, the difference between the notional value and fair value of the contracts amounting to RM64,000 has been recognised in the financial statements.

Notes to the Interim Financial Statements

B9. Changes in Material Litigation

There was no impending material litigation as at 16 November 2016, being the date not earlier than 7 days from the date of this announcement.

B10. Dividend

No interim dividend was declared for the current quarter under review.

The Directors recommend a final single tier dividend of 1.5 sen per ordinary share amounting to RM7,816,540 in respect of the financial year ended 30 September 2016, which is subject to the approval of the owners of the Company at the forthcoming Annual General Meeting. The proposed dividend has not been included in the financial statements.

Notes to the Interim Financial Statements

B11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share was based on the profit attributable to the owners of the Company and a weighted average number of ordinary shares outstanding, calculated as follows:

	3 months ended 30 Sept 2016 RM'000	12 months ended 30 Sept 2016 RM'000
Profit for the financial year attributable to owners of the Company	10,941	23,217
	'000	'000
Number of ordinary shares issued at beginning of the period/year	507,569	144,725
Share split	-	177,353
Bonus issue	-	175,197
Effects of shares repurchased	(4,479)	(8,800)
Weighted average number of ordinary shares at 30 September 2016	503,090	488,475
Effect of exercise of warrants	4,528	19,143
At 30 September 2016	507,618	507,618
Basic earnings per share (sen)	2.16	4.57

Diluted earnings per share

The calculation of diluted earnings per share was based on the profit attributable to the owners of the Company and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

	'000	'000
Weighted average number of ordinary shares (basic) as at 30 September 2016	507,618	507,618
Effect of exercising of warrants	90	367
Effect of share options	28,590	28,590
Weighted average number of ordinary shares (diluted) as at 30 September 2016	536,298	536,575
Diluted earnings per share (sen)	2.04	4.33

Notes to the Interim Financial Statements

B12. Profit before taxation

	3 months ended 30 Sept 2016 RM'000	12 months ended 30 Sept 2016 RM'000
Profit before taxation is arrived at after charging:		
Depreciation and amortisation	1,280	4,427
Interest expense	951	5,023
Loss on foreign exchange – realised and unrealised	33	663
Stocks written down and written off	395	1,762
	=====	=====
and after crediting:		
Gain on foreign exchange – realised and unrealised	56	675
Interest income	641	2,654
Unrealised gain on derivative financial assets	95	64
	=====	=====

B13. Capital Commitments

	As at 30 Sept 2016 RM'000	As at 30 Sept 2015 RM'000
Property, plant and equipment		
Contracted but not provided for	171	2,770
	=====	=====

B14. Provision of Financial Assistance

The amount of financial assistance provided by the Company and its subsidiaries to its non wholly-owned subsidiaries pursuant to paragraph 8.23(1) of the Listing Requirements is as follows:-

	As at 30 Sept 2016 RM'000	As at 30 Sept 2015 RM'000
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	4,550	6,985
	=====	=====

The above financial assistance does not have a material financial impact on the Group.

Notes to the Interim Financial Statements

B15. Retained earnings

The breakdown of the retained earnings of the Group into realised and unrealised is as follows:

	As at 30 Sept 2016 RM'000	As at 30 Sept 2015 RM'000
Total retained earnings		
- Realised	182,396	253,207
- Unrealised	46,431	40,469
	<hr/>	<hr/>
	228,827	293,676
Less: Consolidation adjustments	(90,417)	(85,591)
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Total retained earnings	138,410	208,085
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This announcement is dated 23 November 2016.