

## Notes to the Interim Financial Statements

### **Fiamma Holdings Berhad (Company No: 88716-W) (“Fiamma” or “the Company”) Notes to the interim financial statements for the financial quarter ended 30 June 2017.**

#### **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 2016.

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 2017***

- Amendments to FRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to FRS Standards 2014-2016 Cycle)*
- 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)*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards (Annual Improvements to FRS Standards 2014-2016 Cycle)*
- Amendments to FRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to FRS 4, *Insurance Contracts – Applying FRS 9 Financial Instruments with FRS 4 Insurance Contracts*
- Amendments to FRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to FRS Standards 2014-2016 Cycle)*
- Amendments to FRS 140, *Investment Property – Transfers of Investment Property*

## Notes to the Interim Financial Statements

### **A1. Accounting Policies (continued)**

#### ***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 2017 for those FRSs, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017, except for Amendments to FRS 4, Amendments to FRS 12, FRS 128 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”).

### **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 2016 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 June 2017.

## Notes to the Interim Financial Statements

### **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 2016.

### **A6. *Debt and Equity Securities***

The owners of the Company, by a special resolution passed at the Annual General Meeting held on 22 February 2017, approved the Company's plan to repurchase its own shares.

During the current financial quarter, the Company repurchased 3,792,000 of its issued share capital from the open market, at an average price of RM0.56 per share including transaction cost. The total consideration paid was RM2,132,339. During the current financial period to-date, the Company repurchased 9,510,000 of its issued share capital from the open market at an average price of RM0.57 per share including transaction cost. The total consideration paid was RM5,402,633. The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act, 2016. The repurchase transactions were financed by internally generated funds.

As at 30 June 2017, the Company held 18,310,000 of its own shares, representing 3.45% 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 quarter.

There were no other issuance, cancellation, resale and repayments of debt and equity securities for the current financial quarter ended 30 June 2017.

### **A7. *Dividend Paid***

During the current quarter, the Company paid a final single-tier dividend of 1.5 sen per ordinary share in respect of the financial year ended 30 September 2016 on 7 April 2017.

## 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:

	<b>Investment Holding &amp; Property Investment RM'000</b>	<b>Property Development RM'000</b>	<b>Trading &amp; Services RM'000</b>	<b>Total RM'000</b>
<b>For the financial period ended 30 June 2017</b>				
External revenue	3,933	22,849	198,859	225,641
Inter segment revenue	11,481	-	15,661	27,142
Total reportable revenue	15,414	22,849	214,520	252,783
Segment profit	11,627	1,635	24,631	37,893
Segment assets	386,109	331,657	347,078	1,064,844
Segment assets				1,064,844
Other non-reportable segments				4,811
Elimination of inter-segment transactions or balances				(365,592)
				704,063

## Notes to the Interim Financial Statements

### A8. *Operating Segment Information (continued)*

	<b>Investment Holding &amp; Property Investment RM'000</b>	<b>Property Development RM'000</b>	<b>Trading &amp; Services RM'000</b>	<b>Total RM'000</b>
Segment liabilities	(64,002)	(114,909)	(114,069)	(292,980)
Segment liabilities				(292,980)
Other non-reportable segments				(6,417)
Elimination of inter-segment transactions or balances				48,778
				(250,619)

#### *Reconciliation of profit*

	<b>30 June 2017 RM'000</b>
Total profit for reportable segments	37,893
Elimination of inter-segment profits	(9,695)
Depreciation	(3,905)
Interest expense	(2,912)
Interest income	1,348
	22,729

### 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 24 July 2017 Fiamma Development Sdn Bhd ("FDSB"), a wholly-owned subsidiary of the Company, acquired 1 ordinary share, representing 100% of the issued share capital of Pinang Sutera Sdn Bhd ("PSSB") for a total cash consideration of RM1.00 only.

Of even date, PSSB increased its issued share capital from 1 ordinary share to 250,000 ordinary shares, of which FDSB subscribed for 149,999 ordinary share. Subsequent to the share subscription, the Company's effective interest in PSSB is 60%.

## Notes to the Interim Financial Statements

### **A10. Events Subsequent to the end of the Financial Period (continued)**

On 25 July 2017, PSSB entered into a Joint Venture Agreement (“JVA”) with three (3) individual landowners (“Landowners”) for the joint development of 17 parcels of freehold lands (“Lands”) with total gross area of 7,344.1 square metres in Batu Pahat, Johor. Under the terms of the JVA, the Landowners shall contribute the Lands and PSSB shall bear the entire costs and expenses including the absolute control and management of the development.

In consideration of the grant of the right to develop the Lands by the Landowners, PSSB agrees to pay a total consideration of Ringgit Malaysia Four Million Three Hundred And Twenty Thousand (RM4,320,000.00) in the following manner: -

- a) Upon the execution of the JVA, PSSB shall pay the Landowners a sum of Ringgit Malaysia Two Million Five Hundred And Ninety-Two Thousand (RM2,592,000.00); and
- b) The balance sum of Ringgit Malaysia One Million Seven Hundred And Twenty-Eight Thousand (RM1,728,000.00) upon obtaining the certificates of completion and compliance in respect of the development.

Saved as disclosed above, there were no other material events as at 14 August 2017, 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.

### **A11. Changes in Composition of the Group**

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:

	<b>As at 30 June 2017 RM'000</b>	<b>As at 30 Sept 2016 RM'000</b>
Guarantees to financial institutions for facilities granted to subsidiaries	179,380 =====	167,958 =====

## Notes to the Interim Financial Statements

### **B. Compliance with Bursa Securities Listing Requirements.**

#### ***B1. Review of the Performance of the Group***

	9 months ended	
	30 June 2017	30 June 2016
	RM'000	RM'000
Revenue	225,641	210,520
Profit before taxation	22,729	19,607

The Group recorded a higher revenue of RM225.6 million for the current financial period compared with RM210.5 million in the preceding financial year corresponding period. This is mainly due to higher contribution from the property development segment. Consequently, the Group recorded a higher profit before taxation ("PBT") of RM22.7 million for the current financial period compared with RM19.6 million in the preceding financial year corresponding period.

The Group's revenue is derived primarily from the trading and services segment which contributed 88.2% of the Group's revenue during the current financial period. The segment recorded a slightly lower revenue of RM198.9 million as compared with RM200.2 million in the preceding financial year corresponding period. PBT decreased to RM19.7 million during the current financial period from RM21.7 million in the preceding financial year corresponding period. This was mainly attributable to lower revenue and higher operating expenses incurred.

The property development segment contributed 10.1% of the Group's revenue during the current financial period. The segment recorded a revenue of RM22.8 million as compared with RM6.6 million in the preceding financial year corresponding period, representing an increase of 246.2%. Consequently this segment recovered from a loss before tax of RM2.4 million in the preceding financial year corresponding period and recorded a PBT of RM2.3 million in the current financial period. This was mainly attributable to higher revenue contribution from the Group's ongoing developments in Johor and the launching of East Parc @ Menjalara project in Kuala Lumpur in the second quarter of financial year 2017.

The investment holding and property investment segment contributed 1.7% of the Group's revenue during the current financial period. The segment recorded a revenue of RM3.9 million as compared with RM3.8 million in the preceding financial year corresponding period. 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 slightly higher PBT of RM0.7 million against PBT of RM0.2 million for the preceding financial year corresponding period.

## Notes to the Interim Financial Statements

### **B2. Comparison with Preceding Quarter's Results**

	<b>3 months ended</b>	
	<b>30 June 2017</b>	<b>31 Mar 2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	83,794	72,578
Profit before taxation	9,306	7,325

The Group recorded a higher revenue of RM83.8 million for the current quarter ended 30 June 2017 compared with RM72.6 million in the previous quarter ended 31 March 2017. Consequently, the Group recorded a higher PBT of RM9.3 million compared with RM7.3 million in the previous quarter ended 31 March 2017. The higher revenue and PBT in the current quarter was mainly attributable to improvement in performance from the property development segment.



## Notes to the Interim Financial Statements

### **B3. Prospects**

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter of 2017 (1Q 2017: 5.6%). Private sector spending continued to be the main driver of growth. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.3% (1Q 2017: 1.8%).

Looking ahead, it is likely for the Malaysian economy to expand by more than 4.8% for the whole year of 2017. Leading indicators such as the Department of Statistics Malaysia's composite leading index, MIER Business Conditions Index and MIER Consumer Sentiments Index, suggest continued expansion of the domestic economy. Private consumption will be underpinned by continued wage and employment growth, with support from various policy measures to raise disposable income. Overall, the economy is expected to record a stronger growth in 2017.

*(Source: Economic and Financial Developments in Malaysia in the Second Quarter of 2017, Bank Negara Malaysia)*

With the above positive outlook, Fiamma will remain focused on expanding its existing core businesses.

For the trading and services segment, Fiamma will 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 work in Malaysia for its various brands of home appliances, sanitaryware, medical devices and healthcare products and source for new products and business opportunities that are in synergy with the Group's products and activities. The new integrated logistics warehouse has improved the operation and cost efficiency of the Group and 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.

For the property development segment, the on-going development of double-storey terrace houses at Taman Kota Jaya 2 in Kota Tinggi, Johor, the development of service apartments and retail space (Vida Heights) in Johor Bahru and the development of service apartments (East Parc @ Menjalara) in Bandar Menjalara, Kuala Lumpur which was launched in February 2017 will contribute to the Group's revenue and profit in financial year 2017 and the coming financial years. The proposed new residential development in Batu Pahat, Johor and the proposed residential developments in Jalan Yap Kwan Seng and 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.

## Notes to the Interim Financial Statements

### **B4. Profit Forecast or Profit Guarantee**

Not applicable.

### **B5. Taxation**

Taxation comprises the following:

	<b>9 months ended 30 June 2017 RM'000</b>
Current year tax expense	7,295
Deferred tax income	(421)
	<u>6,874</u>
Prior year tax expense	14
	<u>6,888</u>
	<u><u>RM'000</u></u>
Profit before taxation	<u>22,729</u>
Tax at Malaysian tax rate of 24%	5,455
Non-deductible expenses and other tax effects	1,419
	<u>6,874</u>
Tax expense	14
	<u>6,888</u>
	<u><u>RM'000</u></u>

### **B6. Status of Corporate Proposal**

The Group has not announced any corporate proposals, which have not been completed at the date of this announcement other than those disclosed in Note A10.

## Notes to the Interim Financial Statements

### **B7. Group Borrowings and Debt Securities**

The Group's borrowings as at 30 June 2017 are as follows:

	<b>Secured RM'000</b>	<b>Unsecured RM'000</b>	<b>Total RM'000</b>
<b>Non-current</b>			
<b>Repayable after 12 months</b>			
Term loan	101,856	-	101,856
	=====	=====	=====
<b>Current</b>			
<b>Repayable within 12 months</b>			
Term loan	15,669	-	15,669
Revolving credit	8,000	13,000	21,000
Bills payable	-	40,559	40,559
Bank overdraft	296	-	296
	=====	=====	=====
Sub-total	23,965	53,559	77,524
	=====	=====	=====
Total	125,821	53,559	179,380
	=====	=====	=====

### **B8. Derivatives**

There is no foreign currency forward contract as at 30 June 2017.

### **B9. Changes in Material Litigation**

There was no impending material litigation as at 14 August 2017, 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.

## 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:

	<b>3 months ended 30 June 2017 RM'000</b>	<b>9 months ended 30 June 2017 RM'000</b>
Profit for the financial year attributable to owners of the Company	6,379	14,373
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares of treasury shares at 30 June 2017	511,593	511,648
Basic earnings per share (sen)	1.25	2.81

#### **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:

	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares (basic) as at 30 June 2017	511,593	511,648
Effect of exercising of warrants	72	81
Effect of share options	27,060	27,060
Weighted average number of ordinary shares (diluted) as at 30 June 2017	538,725	538,789
Diluted earnings per share (sen)	1.18	2.67

## Notes to the Interim Financial Statements

### ***B12. Profit before taxation***

	<b>9 months ended 30 June 2017 RM'000</b>
Profit before taxation is arrived at after charging:	
Depreciation and amortisation	3,905
Interest expense	2,912
Allowance for impairment loss for trade receivables	2,218
Stocks written down and written off	1,811
Property, plant and equipment written off	351
Loss on foreign exchange – realised and unrealised	169
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and after crediting:	
Interest income	1,348
Gain on disposal of property, plant and equipment	285
Gain on foreign exchange – realised and unrealised	219
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### ***B13. Capital Commitments***

	<b>As at 30 June 2017 RM'000</b>	<b>As at 30 Sept 2016 RM'000</b>
<b>Property, plant and equipment</b>		
Contracted but not provided for	-	171
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### ***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:-

	<b>As at 30 June 2017 RM'000</b>	<b>As at 30 Sept 2016 RM'000</b>
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	5,737	4,550
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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:

	<b>As at 30 June 2017 RM'000</b>	<b>As at 30 Sept 2016 RM'000</b>
<b>Total retained earnings</b>		
- Realised	193,210	182,396
- Unrealised	46,785	46,431
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	239,995	228,827
Less: Consolidation adjustments	(94,968)	(90,417)
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Total retained earnings	145,027	138,410
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This announcement is dated 21 August 2017.