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 September 2017.

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

A1. 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 accounting standards, 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*

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 accounting standards, amendments and interpretations from the annual period beginning on 1 October 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017, where applicable, from the annual period beginning on 1 October 2017.

The initial application of the accounting standards, 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.

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 then Companies Act, 1965.

A3. Seasonality or Cyclicality 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 2017.

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 3,020,000 of its issued share capital from the open market, at an average price of RM0.54 per share including transaction cost. The total consideration paid was RM1,641,945. During the current financial year, the Company repurchased 12,530,000 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 RM7,044,578. The shares repurchased are 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 September 2017, the Company held 21,330,000 of its own shares, representing 4.02% 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 September 2017.

A7. Dividend Paid

No dividend was paid during the current quarter.

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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 2017				
External revenue	5,321	38,155	272,131	315,607
Inter segment revenue	22,587	-	24,740	47,327
Total reportable revenue	27,908	38,155	296,871	362,934
Segment profit	24,794	3,374	37,210	65,378
Segment assets	393,158	347,160	342,993	1,083,311

Segment assets	1,083,311
Other non-reportable segments	4,617
Elimination of inter-segment transactions or balances	(361,674)
	726,254

A8. Operating Segment Information (continued)

	Investment Holding & Property Investment RM'000	Property Development RM'000	Trading & Services RM'000	Total RM'000
Segment liabilities	(59,397)	(137,438)	(108,615)	(305,450)

Segment liabilities	(305,450)
Other non-reportable segments	(5,893)
Elimination of inter-segment transactions or balances	52,053
	(259,290)

Reconciliation of profit

	30 Sept 2017 RM'000
Total profit for reportable segments	65,378
Elimination of inter-segment profits	(23,990)
Depreciation	(5,172)
Interest expense	(4,151)
Interest income	1,799
	33,864

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

There were no other material events as at 20 November 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

On 24 July 2017 Fiamma Development Sdn Bhd ("FDSB"), a wholly-owned subsidiary of the Company, acquired one (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 one (1) ordinary share to 250,000 ordinary shares, which FDSB subscribed for 149,999 ordinary shares. Subsequent to the share subscription, the Company's effective interest in PSSB is 60%.

Saved as disclosed 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 2017 RM'000	**As at 30 Sept 2016 RM'000**
Guarantees to financial institutions for facilities granted to subsidiaries	167,722	167,958
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B. Compliance with Bursa Securities Listing Requirements.

B1. Review of the Performance of the Group

	12 months ended	
	30 Sept 2017 RM'000	**30 Sept 2016 RM'000**
Revenue	315,607	283,813
Profit before taxation	33,864	34,134

The Group recorded a higher revenue of RM315.6 million for the current financial period compared with RM283.8 million in the preceding financial year corresponding period. This was mainly due to higher contribution from the property development segment. However, the Group recorded a lower profit before taxation ("PBT") of RM33.9 million for the current financial period compared with RM34.1 million in the preceding financial year corresponding period. The higher PBT in the financial year 2016 was attributable to the increase in fair value of investment properties of RM4.4 million.

The Group's revenue is derived primarily from the trading and services segment which contributed 86.2% of the Group's revenue during the current financial period. The segment recorded revenue of RM272 million in both the current financial period and the preceding financial year corresponding period. However, PBT decreased to RM29.0 million in the current financial period from RM32.7 million in the preceding financial year corresponding period. This was mainly attributable to higher operating expenses incurred, including allowance for impairment loss for trade receivables of RM3.6 million.

The property development segment contributed 12.1% of the Group's revenue in the current financial period. The segment recorded a revenue of RM38.2 million compared with RM6.6 million in the preceding financial year corresponding period, representing an increase of 478%. Consequently this segment recovered from a loss before tax of RM3.5 million in the preceding financial year corresponding period and recorded a PBT of RM3.7 million in the current financial period. This was mainly attributable to higher revenue contribution from the Group's ongoing developments in Johor and East Parc @ Menjalara project in Kuala Lumpur.

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 RM5.3 million compared with RM5.0 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. Despite the increase in revenue, this segment recorded a lower PBT of RM1.2 million against the PBT of RM4.9 million in the preceding financial year corresponding period. The higher PBT in the financial year 2016 was attributable to the increase in fair value of investment properties.

B2. Comparison with Preceding Quarter's Results

	3 months ended	
	30 Sept 2017 RM'000	**30 June 2017 RM'000**
Revenue	89,966	83,794
Profit before taxation	11,135	9,306

The Group recorded a higher revenue of RM90.0 million for the current quarter ended 30 September 2017 compared with RM83.8 million in the previous quarter ended 30 June 2017. Consequently, the Group recorded a higher PBT of RM11.1 million compared with RM9.3 million in the previous quarter ended 30 June 2017. The higher revenue and PBT in the current quarter was mainly attributable to improvement in performance from property development segment and trading and services segment.

B3. Prospects

Bank Negara Malaysia reported that the Malaysian economy recorded a stronger growth of 6.2% in the third quarter of 2017 (2Q 2017: 5.8%). 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 1.8% (2Q 2017: 1.3%).

Given the continued strong performance in the third quarter, the Malaysian economy is on track to register stronger growth in 2017. Looking ahead, the economy is poised to register a strong growth that is close to the upper end of the official forecast range of 5.2 – 5.7% in 2017. For 2018, domestic demand is expected to remain the key source of growth. Private consumption will remain the largest driver of growth, supported by continued improvements in income and overall labour market conditions. Overall, the assessment is for growth to remain strong in 2018.

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

With the above 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 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 (East Parc @ Menjalara) in Bandar Menjalara, Kuala Lumpur and the proposed new residential developments in Batu Pahat, Johor, will contribute to the Group's revenue and profit in financial year 2018 and the coming financial years. 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.

B4. Profit Forecast or Profit Guarantee

Not applicable.

B5. Taxation

Taxation comprises the following:

	12 months ended 30 Sept 2017 RM'000
Current year tax expense	9,620
Deferred tax expense	42
	9,662
Prior year tax expense	12
	9,674

	RM'000
Profit before taxation	33,864
Tax at Malaysian tax rate of 24%	8,127
Non-deductible expenses and other tax effects	1,535
Tax expense	9,662
Prior year tax expense	12
Tax expense	9,674

B6. Status of Corporate Proposal

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 2017 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-current			
Repayable after 12 months			
Term loan	97,534	-	97,534
Current			
Repayable within 12 months			
Term loan	19,491	-	19,491
Revolving credit	8,000	13,000	21,000
Bills payable	-	26,988	26,988
Bank overdraft	15,709	-	15,709
Sub-total	43,200	39,988	83,188
Total	140,734	39,988	180,722

B8. Derivatives

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

B9. Changes in Material Litigation

There was no impending material litigation as at 20 November 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.

The Directors recommend a final single tier dividend of 1.75 sen per ordinary share amounting to RM8,902,122 in respect of the financial year ended 30 September 2017, 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.

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 2017 RM'000	**12 months ended 30 Sept 2017 RM'000**
Profit for the financial year attributable to owners of the Company	8,135	22,508
	'000	**'000**
Weighted average number of ordinary shares of treasury shares at 30 September 2017	508,573	508,645
Basic earnings per share (sen)	1.60	4.43

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 2017	508,573	508,645
Effect of exercising of warrants	41	71
Effect of share options	26,720	26,720
Weighted average number of ordinary shares (diluted) as at 30 September 2017	535,334	535,436
Diluted earnings per share (sen)	1.52	4.20

B12. Profit before taxation

	12 months ended 30 Sept 2017 RM'000
Profit before taxation is arrived at after charging:	
Depreciation and amortisation	5,172
Interest expense	4,151
Allowance for impairment loss for trade receivables	3,560
Stocks written down and written off	2,148
Property, plant and equipment written off	355
Loss on foreign exchange – realised and unrealised	185
and after crediting:	
Interest income	1,799
Reversal of allowance for impairment loss for trade receivables	68
Gain on disposal of property, plant and equipment	284
Gain on foreign exchange – realised and unrealised	282

B13. Capital Commitments

	As at 30 Sept 2017 RM'000	**As at 30 Sept 2016 RM'000**
Property, plant and equipment		
Contracted but not provided for	-	171

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 2017 RM'000	**As at 30 Sept 2016 RM'000**
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	1,328	4,550

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

B15. Retained earnings

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

	As at 30 Sept 2017 RM'000	As at 30 Sept 2016 RM'000
Total retained earnings		
- Realised	201,757	182,396
- Unrealised	47,718	46,431
	249,475	228,827
Less: Consolidation adjustments	(96,313)	(90,417)
Total retained earnings	153,162	138,410

This announcement is dated 27 November 2017.