

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 31 March 2018.

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 2017.

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 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*

FRSs, amendments and interpretations effective for annual periods beginning on or after 1 January 2019

- IC Interpretation 23, *Uncertainty Over Income Tax Treatments*

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 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.

Notes to the Interim Financial Statements

A1. Accounting Policies (continued)

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 2017 were not subject to any qualification and did not include any adverse comments made under Section 266 (3) of the Companies Act 2016.

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 31 March 2018.

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 2017.

A6. Debt and Equity Securities

The owners of the Company, by a special resolution passed at the Annual General Meeting held on 26 February 2018, approved the Company’s plan to repurchase its own shares.

During the current financial quarter, the Company repurchased 2,380,000 of its issued share capital from the open market, at an average price of RM0.51 per share including transaction cost. The total consideration paid was RM1,214,035. During the current financial period, the Company repurchased 2,660,000 of its issued share capital from the open market at an average price of RM0.51 per share including transaction cost. The total consideration paid was RM1,358,596. 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.

Notes to the Interim Financial Statements

A6. Debt and Equity Securities (continued)

As at 31 March 2018, the Company held 23,990,000 of its own shares, representing 4.53% 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 31 March 2018.

A7. Dividend Paid

No dividend was paid during the current quarter.

A8. Operating Segment Information

The Group has three (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	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

Notes to the Interim Financial Statements

A8. *Operating Segment Information (continued)*

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 31 March 2018				
External revenue	2,773	15,508	131,099	149,380
Inter segment revenue	975	-	10,063	11,038
Total reportable revenue	3,748	15,508	141,162	160,418
Segment profit	2,628	1,095	18,676	22,399
Segment assets	412,161	361,963	348,600	1,122,724
Segment assets				1,122,724
Other non-reportable segments				5,373
Elimination of inter-segment transactions or balances				(391,028)
				737,069
Segment liabilities	(77,801)	(129,796)	(100,775)	(308,372)
Segment liabilities				(308,372)
Other non-reportable segments				(7,213)
Elimination of inter-segment transactions or balances				57,278
				(258,307)
<i>Reconciliation of profit</i>				
				31 Mar 2018 RM'000
Total profit for reportable segments				22,399
Elimination of inter-segment profits				127
Depreciation				(2,413)
Interest expense				(2,795)
Interest income				925
				18,243

Notes to the Interim Financial Statements

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 16 May 2018, 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:

	As at 31 Mar 2018 RM'000	As at 30 Sept 2017 RM'000
Guarantees to financial institutions for facilities granted to subsidiaries	142,975 =====	167,722 =====

Notes to the Interim Financial Statements

B. Compliance with Bursa Securities Listing Requirements.

B1. Review of the Performance of the Group

	6 months ended	
	31 Mar 2018	31 Mar 2017
	RM'000	RM'000
Revenue	149,380	141,847
Profit before taxation	18,243	13,423

The Group recorded a higher revenue of RM149.38 million in the current financial period compared with RM141.85 million in the preceding financial year corresponding period. This was mainly due to higher contribution from trading and services segment. Consequently, the Group recorded a higher profit before taxation (“PBT”) of RM18.24 million in the current financial period compared with RM13.42 million in the preceding financial year corresponding period.

The Group’s revenue is derived primarily from the trading and services segment which contributed 87.8% of the Group’s revenue in the current financial period. The segment recorded revenue of RM131.10 million in the current financial period compared with RM123.58 million in the preceding financial year corresponding period. Consequently, this segment recorded a PBT of RM17.52 million in the current financial period compared with PBT of RM11.79 million in the preceding financial year corresponding period.

The property development segment contributed 10.4% of the Group’s revenue in the current financial period. The segment recorded a slightly lower revenue of RM15.51 million in the current financial period compared with RM15.66 million in the preceding financial year corresponding period. This segment recorded a loss before tax of RM0.54 million in the current financial year compared with PBT of RM1.20 million in the preceding financial year corresponding period, due to higher operating expenses incurred in the current financial period.

The investment holding and property investment segment contributed 1.8% of the Group’s revenue in the current financial period. The segment recorded a revenue of RM2.77 million and PBT of RM1.26 million in the current financial period compared with RM2.60 million and RM0.43 million respectively in the preceding financial year corresponding period. The revenue is derived mainly from letting of investment properties at Wisma Fiamma in Bandar Menjalara and Menara Centara in Jalan Tuanku Abdul Rahman, both in Kuala Lumpur.

Notes to the Interim Financial Statements

B2. Comparison with Preceding Quarter's Results

	3 months ended	
	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Revenue	75,969	73,411
Profit before taxation	8,803	9,440

The Group recorded a higher revenue of RM75.97 million in the current quarter ended 31 March 2018 compared with RM73.41 million in the previous quarter ended 31 December 2017. However, the Group recorded a lower PBT of RM8.80 million compared with RM9.44 million in the previous quarter ended 31 December 2017.

The increase in revenue was contributed by property development segment, offset by the decrease in revenue contribution from trading and services segment. The drop in PBT in the current quarter was mainly attributable to lower contribution from the trading and services segment.

Notes to the Interim Financial Statements

B3. Prospects

The Malaysian economy expanded by 5.4% in the first quarter of 2018 (4Q 2017: 5.9%), driven by continued growth in private sector spending (5.2%; 4Q 2017: 7.4%) and strong growth in net exports (62.4%; 4Q 2017: 2.3%). On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.4% (4Q 2017: 1.0%).

In 2018, growth is projected to remain favourable, with domestic demand as the key driver of growth. The positive growth prospects are supported by continued spillovers from the external sector to domestic economic activity.

For 2018 as a whole, headline inflation is projected to average within the range of 2% to 3%, given expectations of a smaller contribution from global cost factors and a stronger ringgit exchange rate compared to 2017.

While inflation is expected to moderate in 2018, the trajectory will depend on future global oil prices which remain highly uncertain.

Underlying inflation, as measured by core inflation, is also expected to remain moderate in 2018, due to a smaller cost pass-through to retail prices compared to the previous year. Given the lack of persistent and broad-based wage pressures, and on-going investments for capacity expansion, demand-driven inflationary pressures are expected to be contained.

(Source: Economic and Financial Developments in Malaysia in the First Quarter of 2018, Bank Negara Malaysia)

With the above outlook, the Directors expect the performance for the current financial year to remain challenging. Nevertheless, the Group will continue to 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 network 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 and will continue to improve the operation and cost efficiency of the Group.

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 residential developments in Batu Pahat, Johor, will contribute to the Group's revenue in the 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.

Notes to the Interim Financial Statements

B4. Profit Forecast or Profit Guarantee

Not applicable.

B5. Taxation

Taxation comprises the following:

	6 months ended 31 Mar 2018 RM'000
Current tax expense	4,950
Deferred tax expense	(533)
	<hr/> 4,417
Prior year tax expense	(20)
	<hr/> 4,397
	<hr/> <hr/>
	RM'000
Profit before taxation	18,243
	<hr/> <hr/>
Tax at Malaysian tax rate of 24%	4,378
Non-deductible expenses and other tax effects	39
	<hr/> 4,417
Tax expense	4,417
Prior year tax expense	(20)
	<hr/> 4,397
Tax expense	<hr/> <hr/> 4,397

B6. Status of Corporate Proposal

The Group has not announced any corporate proposals, which have not been completed at the date of this announcement.

Notes to the Interim Financial Statements

B7. Group Borrowings and Debt Securities

The Group's borrowings as at 31 March 2018 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-current			
Repayable after 12 months			
Term loan	80,065	-	80,065
	=====	=====	=====
Current			
Repayable within 12 months			
Term loan	22,763	-	22,763
Revolving credit	24,000	13,000	37,000
Bills payable	-	27,181	27,181
Bank overdraft	5,966	-	5,966
	-----	-----	-----
Sub-total	52,729	40,181	92,910
	=====	=====	=====
Total	132,794	40,181	172,975
	=====	=====	=====

B8. Derivatives

The details of the Group's foreign currency forward contracts as at 31 March 2018 are as follows:

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
US Dollar	13,477	13,388	(89)
Chinese Yuan Renminbi	7,143	7,186	43
	-----	-----	-----
	20,620	20,574	(46)
	=====	=====	=====

The above instruments were 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 RM46,000 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 May 2018, 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.

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, is as follows:

	3 months ended 31 Mar 2018 RM'000	6 months ended 31 Mar 2018 RM'000
Profit for the financial period attributable to owners of the Company	5,868	12,393
	'000	'000
Weighted average number of ordinary shares net of treasury shares at 31 March 2018	506,033	506,033
Basic earnings per share (sen)	1.16	2.45

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 the adjustment for the effects of all dilutive potential ordinary shares, is as follows:

	'000	'000
Weighted average number of ordinary shares (basic) as at 31 March 2018	506,033	506,033
Effect of warrants	11	12
Effect of share options	26,625	26,625
Weighted average number of ordinary shares (diluted) as at 31 March 2018	532,669	532,670
Diluted earnings per share (sen)	1.10	2.33

Notes to the Interim Financial Statements

B12. Profit before taxation

	6 months ended 31 Mar 2018 RM'000
Profit before taxation is arrived at after charging:	
Depreciation and amortisation	2,413
Interest expense	2,795
Allowance for impairment loss for trade receivables	651
Stocks written down and written off, net	166
Property, plant and equipment written off	8
Loss on foreign exchange – realised and unrealised	363
Unrealised loss on derivative financial instruments	46
	<hr/>
and after crediting:	
Interest income	925
Reversal of allowance for impairment loss for trade receivables	240
Gain on foreign exchange – realised and unrealised	207
	<hr/>

B13. Capital Commitments

There was no capital commitment as at 31 March 2018.

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 31 Mar 2018 RM'000	As at 30 Sept 2017 RM'000
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	302	1,328
	<hr/>	<hr/>

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

This announcement is dated 23 May 2018.