

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 2018.

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 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*

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. As a result, the Group will not be adopting the above FRSSs, interpretations and amendments.

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 30 September 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 1,065,000 of its issued share capital from the open market, at an average price of RM0.50 per share including transaction cost. The total consideration paid was RM534,257. During the current financial year, the Company repurchased 3,794,000 of its issued share capital from the open market at an average price of RM0.508 per share including transaction cost. The total consideration paid was RM1,925,888. 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 30 September 2018, the Company held 25,124,000 of its own shares, representing 4.74% of the total paid-up share capital of the Company. These shares were being held and retained as treasury shares.

Unexercised warrants of 603,516 had expired on 26 November 2018 and were delisted from Bursa Securities on 27 November 2018.

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

Trading and services	Distribution and servicing of electrical home appliances, sanitaryware, kitchen and wardrobe system and built-in furniture, other household products, bathroom accessories, home furniture, medical devices and healthcare products
Property development	Property development
Investment holding and property investment	Long term investment in unquoted shares and property investment

Notes to the Interim Financial Statements

A8. Operating Segment Information (continued)

The reportable segment information for the Group is as follows:

	Trading & Services RM'000	Property Development RM'000	Investment Holding & Property Investment RM'000	Total RM'000
For the financial period ended 30 September 2018				
External revenue	285,182	48,393	5,524	339,099
Inter segment revenue	22,506	-	12,137	34,643
Total reportable revenue	307,688	48,393	17,661	373,742
Segment profit	44,021	6,125	15,056	65,202
Segment assets	370,331	390,049	394,585	1,154,965
Segment assets				1,154,965
Other non-reportable segments				5,440
Elimination of inter-segment transactions or balances				(375,304)
				785,101
Segment liabilities	(113,931)	(242,425)	(95,821)	(452,177)
Segment liabilities				(452,177)
Other non-reportable segments				(8,405)
Elimination of inter-segment transactions or balances				166,281
				(294,301)
<i>Reconciliation of profit</i>				
				30 Sept 2018
				RM'000
Total profit for reportable segments				65,202
Elimination of inter-segment profits				(9,151)
Depreciation				(4,622)
Interest expense				(6,467)
Interest income				2,211
				47,173

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

(i) Dissolution of a subsidiary

Ebac Kitchen Sdn. Bhd., a 99.99%-owned subsidiary of Fiamma Sdn. Bhd., which in turn is a wholly-owned subsidiary of the Company, commenced members' voluntary liquidation on 18 October 2016 pursuant to Section 272(5) of the Companies Act, 1965 and was dissolved on 29 October 2018.

(ii) Repurchase of the Company's shares

Subsequent to the financial year end, the Company repurchased 630,000 of its issued share capital from the open market at an average price of RM0.50 per share including transaction costs. The total consideration paid was RM316,340.

Other than the above, there were no other material events as at 21 November 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 30 Sept 2018 RM'000	As at 30 Sept 2017 RM'000
Guarantees to financial institutions for facilities granted to subsidiaries	154,607 =====	167,722 =====

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 2018 RM'000	30 Sept 2017 RM'000
Revenue	339,099	315,607
Profit before taxation	47,173	33,864

The Group recorded a higher revenue of RM339.10 million in the current financial year compared with RM315.61 million in the preceding financial year. This was mainly due to higher contribution from trading and services segment and property development segment. Consequently, the Group recorded a higher profit before taxation ("PBT") of RM47.16 million in the current financial year compared with RM33.86 million in the preceding financial year.

The Group's revenue is derived primarily from the trading and services segment which contributed 84.1% of the Group's revenue in the current financial year. The segment recorded revenue of RM285.18 million in the current financial year compared with RM272.13 million in the preceding financial year. Consequently, this segment recorded a PBT of RM41.02 million in the current financial year compared with PBT of RM28.96 million in the preceding financial year.

The property development segment contributed 14.3% of the Group's revenue in the current financial year. The segment recorded a higher revenue of RM48.39 million in the current financial year compared with RM38.16 million in the preceding financial year. Consequently, this segment recorded a higher PBT of RM4.26 million in the current financial year compared with PBT of RM3.72 million in the preceding financial year.

The investment holding and property investment segment contributed 1.6% of the Group's revenue in the current financial year. The segment recorded a revenue of RM5.52 million and PBT of RM1.89 million in the current financial year compared with RM5.32 million and RM1.81 million respectively in the preceding financial year. 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	
	30 Sept 2018	30 June 2018
	RM'000	RM'000
Revenue	106,904	82,815
Profit before taxation	17,833	11,097

The Group recorded a higher revenue of RM106.90 million in the current quarter ended 30 September 2018 compared with RM82.82 million in the previous quarter ended 30 June 2018. The increase in revenue was due to higher contribution from both the trading and services segment and property development segment. Consequently, the Group recorded a higher PBT of RM17.83 million compared with RM11.10 million in the previous quarter ended 30 June 2018.

Notes to the Interim Financial Statements

B3. Prospects

The Malaysian economy recorded a sustained growth of 4.4% in the third quarter of 2018 (2Q 2018: 4.5%), supported by expansion in domestic demand amid a decline in net exports growth. Private sector expenditure remained the key driver of growth, expanding at a faster pace of 8.5% (2Q 2018: 7.5%), while public sector expenditure turned around to register a positive growth of 1.1% (2Q 2018: -1.4%). On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.6% (2Q 2018: 0.3%).

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), declined to 0.5% in 3Q 2018 (2Q 2018: 1.3%). The lower inflation mainly reflected the impact from the GST zerorisation. This was despite the implementation of the Sales and Services Tax (SST) beginning 1 September 2018.

Headline inflation is expected to increase going forward, primarily due to higher projected global oil prices and the prospective floating of fuel prices. Underlying inflation, which excludes the impact of consumption tax policy changes, is expected to remain contained in the absence of strong demand pressures.

The Malaysian economy is expected to remain on a steady growth path, with private consumption the main driver of growth, investment activity sustained and exports providing an additional lift to growth, albeit to a lesser extent. Underlying economic factors are providing continued support to domestic economic growth, including low unemployment and a surplus in the current account of the balance of payments.

Risks to the global growth outlook remain tilted to the downside, which could cause headwinds to the domestic economy.

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

With the above outlook, the Directors expect the performance for the coming 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, kitchen and wardrobe system and built-in furniture, medical devices and healthcare products and source for new products and business opportunities that are in synergy with the Group's products and activities.

For the property development segment, the on-going development of service apartments (East Parc @ Menjalara) in Bandar Menjalara, Kuala Lumpur and the residential developments in Batu Pahat, Johor, as well as the completed residential and commercial developments in Kota Tinggi, Johor, will contribute to the Group's revenue in the financial year 2019 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:

	12 months ended 30 Sept 2018 RM'000
Current tax expense	11,875
Deferred tax expense	(340)
	<u>11,535</u>
Prior year tax expense	(119)
	<u>11,416</u>
	<u><u>11,416</u></u>
	RM'000
Profit before taxation	47,173
	<u>47,173</u>
Tax at Malaysian tax rate of 24%	11,322
Non-deductible expenses and other tax effects	213
	<u>11,535</u>
Tax expense	11,535
Prior year tax expense	(119)
	<u>11,416</u>
Tax expense	<u><u>11,416</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.

Notes to the Interim Financial Statements

B7. Group Borrowings and Debt Securities

The Group's borrowings as at 30 September 2018 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-current			
Repayable after 12 months			
Term loan	62,101	-	62,101
	=====	=====	=====
Current			
Repayable within 12 months			
Term loan	20,477	-	20,477
Revolving credit	55,000	-	55,000
Bills payable	-	36,286	36,286
Bank overdraft	6,743	-	6,743
	-----	-----	-----
Sub-total	82,220	36,286	118,506
	=====	=====	=====
Total	144,321	36,286	180,607
	=====	=====	=====

B8. Derivatives

The details of the Group's foreign currency forward contracts as at 30 September 2018 are as follows:

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
US Dollar	675	710	35
Chinese Yuan Renminbi	4,580	4,557	(24)
	-----	-----	-----
	5,255	5,267	11
	=====	=====	=====

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 RM11,000 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 21 November 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.

The Directors recommend a final single tier dividend of 2.25 sen per ordinary share amounting to RM11,360,220 in respect of the financial year ended 30 September 2018, 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, is as follows:

	3 months ended 30 Sept 2018 RM'000	12 months ended 30 Sept 2018 RM'000
Profit for the financial period attributable to owners of the Company	12,248	32,597
	'000	'000
Weighted average number of ordinary shares net of treasury shares at 30 September 2018	504,899	504,899
Basic earnings per share (sen)	2.43	6.46

Notes to the Interim Financial Statements

B12. Profit before taxation

	12 months ended 30 Sept 2018 RM'000
Profit before taxation is arrived at after charging:	
Depreciation and amortisation	4,622
Interest expense	6,467
Allowance for impairment loss for trade receivables	901
Bad debts written off	150
Allowance for impairment loss for intangible assets	500
Inventories written down and written off, net	797
Property, plant and equipment written off	20
Loss on foreign exchange – realised and unrealised	289
	<hr/>
and after crediting:	
Interest income	2,211
Bad debt recovery	81
Reversal of allowance for impairment loss for trade receivables	771
Gain on disposal of property, plant and equipment	26
Gain on foreign exchange – realised and unrealised	180
Unrealised gain on derivative financial instruments	11
	<hr/>

B13. Capital Commitments

There was no capital commitment as at 30 September 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 30 Sept 2018 RM'000	As at 30 Sept 2017 RM'000
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	590	1,328
	<hr/>	<hr/>

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

This announcement is dated 28 November 2018.