

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 2019

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

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 MFRS 134, *Interim Financial Reporting*. The interim financial statements should be read in conjunction with the audited consolidated financial statements of the Group as at and for the financial year ended 30 September 2018.

A1. First Time Adoption of MFRS Framework

The Group prepared its financial statements in accordance with Financial Reporting Standards (“FRSs”) up to financial year ended 30 September 2018.

These are the Group’s unaudited interim financial statements for part of the period covered by the Group’s first MFRS framework annual financial statements and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. The comparative information in these interim financial statements have been restated to give effect to the transition to MFRSs and they are provided in Notes A2(i) to A2(iii).

A2. Accounting Policies

Except as described below, the accounting policies applied by the Group in these unaudited interim financial statements are the same as those applied by the Group in its annual financial statements as at and for the year ended 30 September 2018.

MFRS 9 Financial Instruments

MFRS 9 introduces an “expected credit loss” model on impairment. The expected credit loss model (ECL) requires impairment to be recognised on initial recognition including expected future credit losses whilst the incurred loss model only requires recognition of credit losses incurred as at the reporting date.

MFRS 15 Revenue from Contracts with Customers

The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. MFRS 15 established a five-step model to account for revenue arising from contracts with customers and it requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. MFRS 15 also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted MFRS 15 using the modified retrospective method, i.e. apply MFRS 15 to only contracts that have not been completed at the date of initial application.

Notes to the Interim Financial Statements

A2. Accounting Policies (continued)

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

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

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty Over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations - Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

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

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 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

A2. Accounting Policies (continued)

The Group plans to apply the abovementioned accounting standards, interpretations and amendments, where applicable:

- from the annual period beginning on 1 January 2019 for those accounting standard, interpretation and amendments that are effective for annual periods beginning on or after 1 January 2019; and
- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020.

The Group does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Group.

The Group is currently assessing the financial impact that may arise from the adoption of the abovementioned accounting standards, interpretations and amendments.

Notes to the Interim Financial Statements

A2. Accounting Policies (continued)

A2(i) Condensed Consolidated Statement of Comprehensive Income For the 6 months ended 31 March 2018

	As previously stated RM'000	Adjustments RM'000	As restated RM'000
Revenue	149,380	(939)	148,441
Cost of sales	(100,945)	669	(100,276)
Gross profit	48,435	(270)	48,165
Operating expenses	(26,416)	38	(26,378)
Other operating income	1,707	-	1,707
Profit from operations	23,726	(232)	23,494
Finance costs	(3,070)	(370)	(3,440)
Depreciation and amortisation	(2,413)	-	(2,413)
Profit before taxation	18,243	(602)	17,641
Taxation	(4,397)	270	(4,127)
Profit for the period	13,846	(332)	13,514
Other comprehensive income			
Foreign exchange translation difference	(931)	-	(931)
Total comprehensive income	12,915	(332)	12,583
Profit for the period attributable to:			
Owners of the Company	12,393	(290)	12,103
Non-controlling Interest	1,453	(42)	1,411
Profit for the period	13,846	(332)	13,514
Total comprehensive income for the period attributable to:			
Owners of the Company	11,711	(290)	11,421
Non-controlling Interest	1,204	(42)	1,162
Total comprehensive income	12,915	(332)	12,583
Basic earnings per share (sen)	2.45		2.39
Diluted earnings per share (sen)	2.33		2.39

Notes to the Interim Financial Statements

A2. Accounting Policies (continued)

A2(ii) Condensed Consolidated Statement of Financial Position As at 30 September 2018

	As previously stated RM'000	Adjustments RM'000	As restated RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	100,641	-	100,641
Investment properties	76,419	-	76,419
Inventories - land held for property development	27,815	122,464	150,279
Deferred tax assets	2,591	2,527	5,118
	<u>207,466</u>	<u>124,991</u>	<u>332,457</u>
Current assets			
Property development costs	221,093	(221,093)	-
Inventories	147,822	83,939	231,761
Contract assets	-	2,661	2,661
Contract costs	-	10,693	10,693
Trade and other receivables	102,246	-	102,246
Prepayments	980	-	980
Tax recoverable	2,849	-	2,849
Cash and cash equivalents	102,645	-	102,645
	<u>577,635</u>	<u>(123,800)</u>	<u>453,835</u>
TOTAL ASSETS	<u>785,101</u>	<u>1,191</u>	<u>786,292</u>
EQUITY			
Share capital	265,028	-	265,028
Treasury shares	(13,620)	-	(13,620)
Reserves and retained earnings	216,545	(2,204)	214,341
Total equity attributable to owners of the Company	<u>467,953</u>	<u>(2,204)</u>	<u>465,749</u>
Non-controlling interest	<u>22,847</u>	<u>(80)</u>	<u>22,767</u>
TOTAL EQUITY	<u>490,800</u>	<u>(2,284)</u>	<u>488,516</u>
LIABILITIES			
Non-current liabilities			
Loans and borrowings	62,101	-	62,101
Other payables	7,536	-	7,536
Deferred tax liabilities	5,802	-	5,802
	<u>75,439</u>	<u>-</u>	<u>75,439</u>
Current liabilities			
Loans and borrowings	118,506	-	118,506
Trade and other payables	97,183	(2,684)	94,499
Contract liabilities	-	6,159	6,159
Provision for warranties	570	-	570
Taxation	2,603	-	2,603
	<u>218,862</u>	<u>3,475</u>	<u>222,337</u>
TOTAL LIABILITIES	<u>294,301</u>	<u>3,475</u>	<u>297,776</u>
TOTAL EQUITY AND LIABILITIES	<u>785,101</u>	<u>1,191</u>	<u>786,292</u>
Net assets per share (RM)	<u>0.93</u>		<u>0.92</u>

Notes to the Interim Financial Statements

A2. Accounting Policies (continued)

A2(iii) Condensed Consolidated Statement of Cash Flows For the 6 months ended 31 March 2018

	As previously stated RM'000	Adjustments RM'000	As restated RM'000
Cash flows from operating activities			
Profit before taxation	18,243	(602)	17,641
Adjustments	5,448	318	5,766
Operating profit before changes in working capital	23,691	(284)	23,407
Changes in working capital:			
Inventories	5,884	(7,874)	(1,990)
Prepayments	(515)	-	(515)
Contract assets	-	7,188	7,188
Contract costs	-	(711)	(711)
Property development costs	(18,989)	18,989	-
Trade and other receivables	18,104	(5,929)	12,175
Trade and other payables	5,408	(291)	5,117
Cash and bank balance held under Housing Development Account	(1,185)	-	(1,185)
Cash generated from operations	32,398	11,088	43,486
Provision for warranties utilised	(320)	-	(320)
Tax paid net of refund	(3,815)	-	(3,815)
Net cash generated from operating activities	28,263	11,088	39,351
Cash flows from investing activities			
Additions of: -			
- property, plant and equipment	(227)		(227)
- inventories - land held for property development	-	(10,718)	(10,718)
Interest received	925	-	925
Net cash generated from / (used in) investing activities	698	(10,718)	(10,020)
Cash flows from financing activities			
Drawdown of borrowings - net	1,996	-	1,996
Interest paid	(2,795)	(370)	(3,165)
Purchase of own shares	(1,359)	-	(1,359)
Net cash used in financing activities	(2,158)	(370)	(2,528)
Net increase in cash and cash equivalents	26,803	-	26,803
Cash and cash equivalents at beginning of period	60,242	-	60,242
Effect of exchange rate fluctuation on cash held	(602)	-	(602)
Cash and cash equivalents at end of period	86,443	-	86,443
Cash and cash equivalents			
Cash and bank balance and deposits placed with licensed banks	96,581		96,581
Bank overdraft	(5,966)		(5,966)
Cash and bank balances held under Housing Development Account	(4,172)		(4,172)
	86,443		86,443

Notes to the Interim Financial Statements

A3. *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 2018 were not subject to any qualification and did not include any adverse comments made under Section 266 (3) of the Companies Act 2016.

A4. *Seasonality or Cyclicity of Interim Operations*

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

A5. *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 2019.

A6. *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 2018.

A7. *Debt and Equity Securities*

The owners of the Company, by a special resolution passed at the Annual General Meeting held on 26 February 2019, approved the Company's plan to repurchase its own shares.

During the current financial quarter, the Company repurchased 293,600 of its issued share capital from the open market, at an average price of RM0.49 per share including transaction cost. The total consideration paid was RM143,225. During the current financial period, the Company repurchased 1,532,600 of its issued share capital from the open market at an average price of RM0.49 per share including transaction cost. The total consideration paid was RM752,788. 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 31 March 2019, the Company held 26,656,600 of its own shares, representing 5.03% of the total paid-up share capital of the Company. These shares were being held and retained as treasury shares.

There were no other issuance, cancellation, resale and repayments of debt and equity securities for the current financial quarter ended 31 March 2019.

Notes to the Interim Financial Statements

A8. Dividend Paid

No dividend was paid during the current quarter.

A9. 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

A9. 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 31 March 2019				
External revenue	133,390	23,622	2,778	159,790
Inter segment revenue	11,211	-	1,000	12,211
Total reportable revenue	144,601	23,622	3,778	172,001
Segment profit	19,683	4,145	1,945	25,773
Segment assets	365,347	402,355	447,169	1,214,871
Segment assets				1,214,871
Other non-reportable segments				8,725
Elimination of inter-segment transactions or balances				(426,195)
				797,401
Segment liabilities	(93,552)	(215,591)	(132,255)	(441,398)
Segment liabilities				(441,398)
Other non-reportable segments				(9,483)
Elimination of inter-segment transactions or balances				156,439
				(294,442)
<i>Reconciliation of profit</i>				
				31 Mar 2019
				RM'000
Total profit for reportable segments				25,773
Elimination of inter-segment profits				(1,214)
Depreciation				(2,126)
Interest expense				(3,615)
Interest income				1,325
				20,143

Notes to the Interim Financial Statements

A10. Events Subsequent to the end of the Financial Period

Subsequent to the financial quarter end, the Company repurchased 1,867,500 of its issued share capital from the open market at an average price of RM0.48 per share including transaction costs. The total consideration paid was RM897,533.

Other than the above, there were no other material events as at 7 May 2019, 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 was no change 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 2019 RM'000	As at 30 Sept 2018 RM'000
Guarantees to financial institutions for facilities granted to subsidiaries	135,822 =====	154,607 =====

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 2019 RM'000	31 Mar 2018 RM'000 Restated
Revenue	159,790	148,441
Profit before taxation	20,143	17,641

The Group recorded a higher revenue of RM159.79 million in the current financial period compared with RM148.44 million in the preceding year financial period. This was mainly due to higher contribution from property development segment. Consequently, the Group recorded a higher profit before taxation (“PBT”) of RM20.14 million in the current financial period compared with RM17.64 million in the preceding year financial period.

The Group’s revenue is derived primarily from the trading and services segment which contributed 83.5% of the Group’s revenue in the current financial period. The segment recorded revenue of RM133.39 million in the current financial period compared with RM131.10 million in the preceding year financial period. Consequently, this segment recorded a higher PBT of RM18.60 million in the current financial period compared with RM17.52 million in the preceding year financial period.

The property development segment contributed 14.8% of the Group’s revenue in the current financial period. The segment recorded a higher revenue of RM23.62 million in the current financial period compared with RM14.57 million in the preceding year financial period. Consequently, this segment recorded PBT of RM0.63 million in the current financial period compared with loss before taxation of RM1.14 million in the preceding year financial period.

The investment holding and property investment segment contributed 1.7% of the Group’s revenue in the current financial period. The segment recorded a revenue of RM2.78 million and PBT of RM0.92 million in the current financial period compared with RM2.78 million and RM1.26 million respectively in the preceding year financial 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 2019	31 Dec 2018
	RM'000	RM'000
Revenue	79,643	80,147
Profit before taxation	9,038	11,105

The Group recorded a lower revenue of RM79.64 million in the current quarter ended 31 March 2019 compared with RM80.15 million in the previous quarter ended 31 December 2018. The decrease in revenue was due to lower contribution from both the trading and services segment and property development segment. Consequently, the Group recorded a lower PBT of RM9.04 million compared with RM11.11 million in the previous quarter ended 31 December 2018. The decrease in PBT was also due to higher operating expenditure in the current quarter ended 31 March 2019.

Notes to the Interim Financial Statements

B3. Prospects

The Malaysian economy grew by 4.7% in the fourth quarter of 2018 (3Q 2018: 4.4%), supported by continued expansion in domestic demand and a positive growth in net exports. Private sector expenditure remained the main driver of domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.4% (3Q 2018: 1.6%). For 2018 as a whole, the economy expanded by 4.7% (2017: 5.9%).

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), declined to 0.3% in the fourth quarter of 2018 (3Q 2018: 0.5%). For 2018 as a whole, headline inflation averaged at 1.0% (2017: 3.7%), its lowest level since 2009. The decline in headline inflation was due mainly to transport inflation turning negative (4Q 2018: -1.2%; 3Q 2018: 3.0%). The combined outcome of the zerorisation of the Goods and Services Tax (GST) and the implementation of the Sales and Services Tax (SST) continued to exert an overall downward impact to headline inflation during the quarter.

Core inflation, excluding the impact of consumption tax policy changes, edged up to 1.6% (3Q 2018: 1.4%).

The Malaysian economy is expected to remain on a steady growth path with domestic demand as the key driver of growth. Headline inflation is expected to average moderately higher in 2019. Risks to growth remain tilted to the downside. These stem mainly from further escalation of trade tensions and tightening of global financial conditions.

(Source: Economic and Financial Developments in Malaysia in the Fourth 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, 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:

	6 months ended 31 Mar 2019 RM'000
Current tax expense	5,478
Deferred tax expense	(392)
	<u>5,086</u>
Prior year tax expense	(26)
	<u>5,060</u>
	<u><u>5,060</u></u>
	RM'000
Profit before taxation	20,143
	<u>20,143</u>
Tax at Malaysian tax rate of 24%	4,834
Non-deductible expenses and other tax effects	252
	<u>5,086</u>
Tax expense	5,086
Prior year tax expense	(26)
	<u>5,060</u>
Tax expense	<u><u>5,060</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 31 March 2019 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-current			
Repayable after 12 months			
Term loan	54,658	-	54,658
	=====	=====	=====
Current			
Repayable within 12 months			
Term loan	15,611	-	15,611
Revolving credit	91,000	-	91,000
Bills payable	-	23,905	23,905
Bank overdraft	13,648	-	13,648
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Sub-total	120,259	23,905	144,164
	=====	=====	=====
Total	174,917	23,905	198,822
	=====	=====	=====

B8. Derivatives

The details of the Group's foreign currency forward contracts as at 31 March 2019 are as follows:

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
US Dollar	10,044	10,051	7
	=====	=====	=====

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 RM7,000 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 7 May 2019, 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 2019 RM'000	6 months ended 31 Mar 2019 RM'000
Profit for the financial period attributable to owners of the Company	6,000	13,427
	'000	'000
Issued ordinary shares at 1 October	530,027	530,027
Treasury shares	(26,657)	(26,657)
Effects of exercise of warrants	-	3
Weighted average number of ordinary shares at 31 March 2019	503,370	503,373
Basic earnings per share (sen)	1.19	2.67
	'000	'000
Weighted average number of ordinary shares at 31 March 2019 (basic)	503,370	503,373
Effects of share options	-*	-*
Weighted average number of ordinary shares at 31 March 2019 (diluted)	503,370	503,373
Diluted earnings per share (sen)	1.19	2.67

* At 31 March 2019, the effect on the earnings per share in respect of potential ordinary shares from the exercise of share options is anti-dilutive and therefore excluded from the calculation of diluted earnings per share.

Notes to the Interim Financial Statements

B12. Profit before taxation

	6 months ended 31 Mar 2019 RM'000
Profit before taxation is arrived at after charging:	
Depreciation and amortisation	2,126
Interest expense	3,615
Allowance for impairment loss for trade receivables	154
Inventories written down and written off, net	1,158
Property, plant and equipment written off	8
Loss on foreign exchange – realised and unrealised	48
Loss on derivative financial instruments - realised	11
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and after crediting:	
Interest income	1,325
Bad debt recovery	103
Reversal of allowance for impairment loss for trade receivables	130
Gain on disposal of property, plant and equipment	137
Gain on foreign exchange – realised and unrealised	103
Gain on derivative financial instruments - realised	7
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B13. Capital Commitments

There was no capital commitment as at 31 March 2019.

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 2019 RM'000	As at 30 Sept 2018 RM'000
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	-	590
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The above financial assistance does not have a material financial impact on the Group.

This announcement is dated 14 May 2019.