Fiamma Holdings Berhad ((Registration No: 198201008992 (88716-W)) ("Fiamma" or "the Company")
Notes to the interim financial statements for the financial quarter ended 30 September 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

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).

In the previous financial years, the Group prepared its financial statements in accordance with Financial Reporting Standards ("FRSs") up to financial year ended 30 September 2018.

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.

<u>MFRS 9 Financial Instruments</u>
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.

<u>MFRS 15 Revenue from Contracts with Customers</u>
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.

A2. Accounting Policies (continued)

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.

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*

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 October 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 October 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.

A2. Accounting Policies (continued)

A2(i) Condensed Consolidated Statement of Comprehensive Income
For the 12 months ended 30 September 2018

	As previously stated RM'000	Adjustments RM'000	As restated RM'000
Revenue	339,099	(473)	338,626
Cost of sales	(230,817)	250	(230,567)
Gross profit	108,282	(223)	108,059
Operating expenses	(53,666)	(138)	(53,804)
Other operating income	4,122	-	4,122
Profit from operations	58,738	(361)	58,377
Finance costs	(6,943)	(577)	(7,520)
Depreciation and amortisation	(4,622)	-	(4,622)
Profit before taxation	47,173	(938)	46,235
Taxation	(11,416)	508	(10,908)
Profit for the period	35,757	(430)	35,327
Other comprehensive income			
Foreign exchange translation difference	(369)	-	(369)
Total comprehensive income	35,388	(430)	34,958
Profit for the period attributable to:			
Owners of the Company	32,597	(350)	32,247
Non-controlling Interest	3,160	(80)	3,080
Profit for the period	35,757	(430)	35,327
Total comprehensive income for the period attributable to:			
Owners of the Company	32,347	(350)	31,997
Non-controlling Interest	3,041	(80)	2,961
Total comprehensive income	35,388	(430)	34,958
Basic earnings per share (sen)	6.46		6.39
Diluted earnings per share (sen)	-		6.39

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	1,386	102,027
Investment properties	76,419	-	76,419
Inventories	27,815	122,330	150,145
Deferred tax assets	2,591	2,527	5,118
	207,466	126,243	333,709
Current assets			
Property development costs	221,093	(221,093)	-
Inventories	147,822	94,133	241,955
Contract assets	-	4,389	4,389
Contract costs	-	8,554	8,554
Trade and other receivables	102,246	-	102,246
Prepayments	980	-	980
Current tax assets	2,849	-	2,849
Cash and cash equivalents	102,645	-	102,645
	577,635	(114,017)	463,618
TOTAL ASSETS	**785,101**	**12,226**	**797,327**
EQUITY			
Share capital	265,028	-	265,028
Treasury shares	(13,620)	-	(13,620)
Reserves and retained earnings	216,545	10,612	227,157
Total equity attributable to owners of the Company	467,953	10,612	478,565
Non-controlling interest	22,847	(80)	22,767
TOTAL EQUITY	**490,800**	**10,532**	**501,332**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	62,101	-	62,101
Other payables	7,536	-	7,536
Deferred tax liabilities	5,802	(1,548)	4,254
	75,439	(1,548)	73,891
Current liabilities			
Loans and borrowings	118,506	-	118,506
Trade and other payables	97,183	(20,576)	76,607
Contract liabilities	-	23,818	23,818
Provision for warranties	570	-	570
Current tax liabilities	2,603	-	2,603
	218,862	3,242	222,104
TOTAL LIABILITIES	**294,301**	**1,694**	**295,995**
TOTAL EQUITY AND LIABILITIES	**785,101**	**12,226**	**797,327**
Net assets per share (RM)	**0.93**		**0.95**

A2. Accounting Policies (continued)

A2(iii) Condensed Consolidated Statement of Cash Flows
For the 12 months ended 30 September 2018

	As previously stated RM'000	Adjustments RM'000	As restated RM'000
Cash flows from operating activities			
Profit before taxation	47,173	(939)	46,234
Adjustments	11,193	578	11,771
Operating profit before changes in working capital	58,366	(361)	58,005
Changes in working capital:			
Inventories	(584)	(24,816)	(25,400)
Prepayments	58	-	58
Contract assets	-	2,462	2,462
Contract liabilities	-	7,019	7,019
Contract costs	-	388	388
Property development costs	(34,765)	34,765	-
Trade and other receivables	(87)	(5,765)	(5,852)
Trade and other payables	32,646	(3,777)	28,869
Cash and bank balance held under Housing Development Account	(5,616)	-	(5,616)
Cash generated from operations	50,018	9,915	59,933
Provision for warranties utilised	(366)	-	(366)
Tax paid net of refund	(9,727)	-	(9,727)
Net cash generated from operating activities	39,925	9,915	49,840
Cash flows from investing activities			
Additions of: -			
- property, plant and equipment	(1,850)	-	(1,850)
- investment properties	(494)	-	(494)
- inventories - land held for property development	(23)	(9,915)	(9,938)
Interest received	2,211	-	2,211
Proceeds from disposal of property, plant and equipment	26	-	26
Net cash used in investing activities	(130)	(9,915)	(10,045)
Cash flows from financing activities			
Dividends paid to non-controlling interest	(1,248)		(1,248)
Dividends paid to owners of the Company	(8,862)	-	(8,862)
Drawdown of borrowings - net	8,851	-	8,851
Interest paid	(9,425)	-	(9,425)
Purchase of own shares	(1,926)	-	(1,926)
Net cash used in financing activities	(12,610)	-	(12,610)
Net increase in cash and cash equivalents	27,185	-	27,185
Cash and cash equivalents at beginning of financial year	60,242	-	60,242
Effect of exchange rate fluctuation on cash held	(128)	-	(128)
Cash and cash equivalents at end of financial year	87,299	-	87,299
Cash and cash equivalents			
Cash and bank balance and deposits placed with licensed banks	102,645		102,645
Bank overdraft	(6,743)		(6,743)
Cash and bank balances held under Housing Development Account	(8,603)		(8,603)
	87,299		87,299

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 Cyclicality 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 30 September 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 877,000 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 RM426,312. During the current financial year, the Company repurchased 12,267,200 of its issued share capital from the open market at an average price of RM0.48 per share including transaction cost. The total consideration paid was RM5,922,500. 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.

On 17 July 2019, the Company cancelled 20,000,000 treasury shares with carrying amount of RM10,469,104.04 at an average price of RM0.52 per ordinary share.

As at 30 September 2019, the Company held 17,391,200 of its own shares, representing 3.41% 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 30 September 2019.

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, medical devices and healthcare products
Property development	Property development
Investment holding and property investment	Long term investment in unquoted shares and property investment

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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 30 September 2019				
External revenue	271,730	60,019	5,663	337,412
Inter segment revenue	25,099	-	15,441	40,540
Total reportable revenue	296,829	60,019	21,104	377,952
Segment profit	39,244	10,258	18,804	68,306
Segment assets	381,949	435,289	403,565	1,220,803
Segment assets				1,220,803
Other non-reportable segments				5,733
Elimination of inter-segment transactions or balances				(418,466)
				808,070
Segment liabilities	(113,809)	(243,685)	(89,758)	(447,252)
Segment liabilities				(447,252)
Other non-reportable segments				(6,009)
Elimination of inter-segment transactions or balances				159,195
				(294,066)

Reconciliation of profit

	30 Sept 2019 RM'000
Total profit for reportable segments	68,306
Elimination of inter-segment profits	(17,101)
Depreciation	(3,769)
Interest expense	(8,248)
Interest income	2,642
	41,830

A10. Events Subsequent to the end of the Financial Period

Subsequent to the financial quarter end, the Company repurchased 200,000 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 RM100,609.

Other than the above, there were no other material events as at 20 November 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

Itatech Sdn. Bhd., a wholly-owned subsidiary of the Company, had been struck off from the Register and dissolved following the publication of the notice of striking-off pursuant to Section 551(3) of the Companies Act 2016 in the Gazette on 1 July 2019.

Other than the above, there were no other 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 30 Sept 2019 RM'000	**As at 30 Sept 2018 RM'000**
Guarantees to financial institutions for facilities granted to subsidiaries	153,953	154,607
	======	======

B. Compliance with Bursa Securities Listing Requirements.

B1. Review of the Performance of the Group

	12 months ended	
	30 Sept 2019 RM’000	**30 Sept 2018 RM’000 Restated**
Revenue	337,412	338,626
Profit before taxation	41,830	46,369

The Group recorded a lower revenue of RM337.41 million in the current financial year compared with RM338.63 million in the preceding financial year. This was mainly due to lower contribution from trading and services segment. Consequently, the Group recorded a lower profit before taxation (“PBT”) of RM41.83 million in the current financial year compared with RM46.37 million in the preceding financial year.

The Group’s revenue is derived primarily from the trading and services segment which contributed 80.5% of the Group’s revenue in the current financial year. The segment recorded revenue of RM271.73 million in the current financial year compared with RM285.18 million in the preceding financial year. Consequently, this segment recorded a lower PBT of RM36.09 million in the current financial year compared with RM41.01 million in the preceding financial year.

The property development segment contributed 17.8% of the Group’s revenue in the current financial year. The segment recorded a higher revenue of RM60.02 million in the current financial year compared with RM48.39 million in the preceding financial year. This segment recorded PBT of RM4.38 million in the current financial year compared with PBT of RM4.26 million in the preceding financial year.

The investment holding and property investment segment contributed 1.7% of the Group’s revenue in the current financial year. The segment recorded a revenue of RM5.67 million and PBT of RM1.35 million in the current financial year compared with RM5.52 million and PBT of RM1.89 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.

B2. Comparison with Preceding Quarter's Results

	3 months ended	
	30 Sept 2019	**30 June 2019**
	RM'000	**RM'000**
Revenue	82,630	94,992
Profit before taxation	9,620	12,067

The Group recorded a lower revenue of RM82.63 million in the current quarter ended 30 September 2019 compared with RM94.99 million in the previous quarter ended 30 June 2019. 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 RM9.62 million compared with RM12.07 million in the previous quarter ended 30 June 2019.

B3. Prospects

Growth in the Malaysian economy moderated to 4.4% in the third quarter of 2019 (2Q 2019: 4.9%), primarily attributed to lower growth in key sectors and a decline in the mining and construction activities. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.9% (2Q 2019: 1.0%).

Domestic demand growth moderated to 3.5% (2Q 2019: 4.6%), with private sector expenditure remaining the key contributor to growth. Private consumption grew by 7.0% (2Q 2019: 7.8%), as household spending normalised towards its long-term trend. This partly reflected strong base effects from the tax holiday spending last year. Nevertheless, spending remained supported by continued income and employment growth, as well as selected Government measures.

Core inflation, excluding the impact of consumption tax policy changes, was steady at 1.5% (2Q 2019: 1.6%).

The global economy is expanding at a more moderate pace, with the slowdown becoming more synchronised across both the advanced and emerging economies. Going forward, geopolitical tensions, policy uncertainty and unresolved trade disputes could exacerbate financial market volatility and further weigh on the global growth outlook.

Growth of the Malaysian economy is expected to be within projections in 2019 and the pace sustained going into 2020. Growth is expected to remain anchored by firm private sector expenditure. This projection remains subject to downside risks, mainly stemming from uncertainties in global economic and financial conditions as well as weakness in commodity related sectors.

(Source: Economic and Financial Developments in Malaysia in the Third Quarter of 2019, 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 supply chain system and 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 serviced apartments (East Parc @ Menjalara) in Bandar Menjalara, Kuala Lumpur and the residential developments in Batu Pahat, Johor, the newly launched residential development and medium cost projects in Kota Tinggi, Johor and the completed residential and commercial developments in Kota Tinggi, Johor, will contribute to the Group’s revenue in the financial year 2020 and the coming financial years.

B3. Prospects (continued)

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 2019 RM'000
Current tax expense	11,377
Deferred tax expense	(34)
	11,343
Prior year tax expense	(144)
	11,199

	RM'000
Profit before taxation	41,830
Tax at Malaysian tax rate of 24%	10,039
Non-deductible expenses and other tax effects	1,304
Tax expense	11,343
Prior year tax expense	(144)
Tax expense	11,199

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 2019 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-current			
Repayable after 12 months			
Term loan	47,320	-	47,320
Current			
Repayable within 12 months			
Term loan	23,845	-	23,845
Revolving credit	63,000	-	63,000
Bills payable	-	36,122	36,122
Bank overdraft	18,667	-	18,667
Sub-total	105,512	36,122	141,634
Total	152,832	36,122	188,954

B8. Derivatives

The details of the Group's foreign currency forward contracts as at 30 September 2019 are as follows:

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
Chinese Yuan Renminbi	4,221	4,176	(45)

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 MFRS 139, the difference between the notional value and fair value of the contracts amounting to RM45,000 has been recognised in the financial statements.

B9. Changes in Material Litigation

There was no impending material litigation as at 20 November 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.

The Directors recommend a final single tier dividend of 2.00 sen per ordinary share amounting to RM9,852,714 in respect of the financial year ended 30 September 2019, 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 2019 RM'000	12 months ended 30 Sept 2019 RM'000
Profit for the financial period attributable to owners of the Company	5,876	27,718
	'000	'000
Issued ordinary shares at 1 October	530,027	530,027
Cancellation of treasury shares	(20,000)	(20,000)
Treasury shares	(17,391)	(17,391)
Effects of exercise of warrants	-	4
Weighted average number of ordinary shares at 30 September 2019	492,636	492,640
Basic earnings per share (sen)	1.19	5.63

Diluted earnings per share

	'000	'000
Weighted average number of ordinary shares at 30 September 2019 (basic)	492,636	492,640
Effects of share options	-*	-*
Weighted average number of ordinary shares at 30 September 2019 (diluted)	492,636	492,640
Diluted earnings per share (sen)	1.19	5.63

* At 30 September 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.

B12. Profit before taxation

	12 months ended 30 Sept 2019 RM'000
Profit before taxation is arrived at after charging:	
Depreciation and amortisation	3,769
Interest expense	8,248
Allowance for impairment loss for trade receivables	966
Bad debts written off	380
Inventories written down and written off, net	2,111
Property, plant and equipment written off	12
Loss on foreign exchange – realised and unrealised	152
Loss on derivative financial instruments – realised and unrealised	56
and after crediting:	
Interest income	2,642
Bad debt recovery	142
Reversal of allowance for impairment loss for trade receivables	1,010
Gain on disposal of property, plant and equipment	139
Gain on foreign exchange – realised and unrealised	221

B13. Capital Commitments

There was no capital commitment as at 30 September 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 30 Sept 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

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

This announcement is dated 27 November 2019.