

## Notes to the Interim Financial Statements

**Fiamma Holdings Berhad ((Registration No: 198201008992 (88716-W)) (“Fiamma” or “the Company”))**

**Notes to the interim financial statements for the financial quarter ended 31 December 2019**

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

The unaudited interim financial statements have been prepared in accordance with MFRS 134, *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad (“Bursa Securities”). 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 2019.

#### **AI. Accounting Policies**

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 2019, save for the adoption of the following new and amended MFRSs and Issues Committee (“IC”) Interpretations for the financial year commencing 1 October 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*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

## Notes to the Interim Financial Statements

### ***AI. Accounting Policies (continued)***

#### ***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*

The Group plans to apply the abovementioned accounting standards, interpretations and amendments, where applicable 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 or after 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.

#### **MFRS 16, Leases**

The Group adopted MFRS 16 *Leases* on 1 October 2019. MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases - Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The initial application of MFRS 16 did not have a material impact on its consolidated financial statements.

## Notes to the Interim Financial Statements

### **A2. *Report of the Auditors to the Members of Fiamma***

The report of the auditors to the members of Fiamma and its subsidiaries on the financial statements for the financial year ended 30 September 2019 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 December 2019.

### **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 2019.

### **A6. *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 970,800 of its issued share capital from the open market, at an average price of RM0.501 per share including transaction cost. The total consideration paid was RM486,590. 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 December 2019, the Company held 18,362,000 of its own shares, representing 3.60% of the total number of issued shares 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 December 2019.

### **A7. *Dividend Paid***

No dividend was paid during the current quarter.

## Notes to the Interim Financial Statements

### **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, 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
<b>For the financial period ended 31 December 2019</b>				
External revenue	62,324	11,233	1,442	74,999
Inter segment revenue	7,136	-	498	7,634
Total reportable revenue	69,460	11,233	1,940	82,633
Segment profit	8,958	1,211	1,387	11,556
Segment assets	374,363	435,596	462,080	1,272,039
Segment assets				1,272,039
Elimination of inter-segment transactions or balances				(465,457)
				806,582
Segment liabilities	(101,089)	(239,904)	(151,303)	(492,296)
Segment liabilities				(492,296)
Elimination of inter-segment transactions or balances				205,884
				(286,412)
<i>Reconciliation of profit</i>				
				<b>31 Dec 2019</b>
				<b>RM'000</b>
Total profit for reportable segments				11,556
Elimination of inter-segment profits				(287)
Depreciation				(821)
Interest expense				(2,188)
Interest income				583
				8,843

## Notes to the Interim Financial Statements

### **A9. Events Subsequent to the end of the Financial Period**

Subsequent to the financial quarter end, the Company repurchased 15,900 of its issued share capital from the open market at an average price of RM0.510 per share including transaction costs. The total consideration paid was RM8,163.

Other than the above, there were no other material events as at 19 February 2020, 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.

### **A10. 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.

### **A11. Contingent Liabilities**

Contingent liabilities of the Company are as follows:

	<b>As at 31 Dec 2019 RM'000</b>	<b>As at 30 Sept 2019 RM'000</b>
Guarantees to financial institutions for facilities granted to subsidiaries	104,814 =====	153,953 =====

## Notes to the Interim Financial Statements

### **B. Compliance with Bursa Securities Listing Requirements.**

#### ***B1. Review of the Performance of the Group***

	3 months ended	
	31 Dec 2019 RM'000	31 Dec 2018 RM'000
Revenue	74,999	80,147
Profit before tax	8,843	11,105

The Group recorded a lower revenue of RM75.00 million in the current financial period compared with RM80.15 million in the preceding financial year corresponding period. This was mainly due to lower contribution from both trading and services segment and property development segment. Consequently, the Group recorded a lower profit before tax (“PBT”) of RM8.84 million in the current financial period compared with RM11.11 million in the preceding financial year corresponding period.

The Group’s revenue is derived primarily from the trading and services segment which contributed 83.1% of the Group’s revenue in the current financial period. The segment recorded revenue of RM62.32 million in the current financial period compared with RM66.77 million in the preceding financial year corresponding period. Consequently, this segment recorded a lower PBT of RM8.67 million in the current financial period compared with RM9.96 million in the preceding financial year corresponding period.

The property development segment contributed 15.0% of the Group’s revenue in the current financial period. The segment recorded revenue of RM11.23 million in the current financial period compared with RM12.01 million in the preceding financial year corresponding period. Consequently, this segment recorded loss before tax of RM0.05 million in the current financial period compared with PBT of RM0.38 million in the preceding financial year corresponding period.

The investment holding and property investment segment contributed 1.9% of the Group’s revenue in the current financial period. The segment recorded a revenue of RM1.44 million and PBT of RM0.22 million in the current financial period compared with RM1.37 million and PBT of RM0.76 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**

	<b>3 months ended</b>	
	<b>31 Dec 2019</b>	<b>30 Sept 2019</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	74,999	82,630
Profit before tax	8,843	9,620

The Group recorded a lower revenue of RM75.00 million in the current quarter ended 31 December 2019 compared with RM82.63 million in the previous quarter ended 30 September 2019. The decrease in revenue was due to lower contribution from the property development segment. Consequently, the Group recorded a lower PBT of RM8.84 million compared with RM9.62 million in the previous quarter ended 30 September 2019.

## Notes to the Interim Financial Statements

### **B3. Prospects**

The Malaysian economy expanded by 3.6% in the fourth quarter of 2019 (3Q 2019: 4.4%), supported by higher private sector spending (7.4%; 3Q 2019: 5.4%). On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.6% (3Q 2019: 0.9%). For 2019 as a whole, the economy expanded by 4.3% (2018: 4.7%).

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), decreased to 1.0% in 4Q 2019 (3Q 2019: 1.3%). The lower inflation outcome mainly reflected the lapse in the impact of the SST implementation. Fuel inflation continued to have a negative contribution to inflation, as domestic retail fuel price ceilings were maintained. Core inflation was stable at 1.4%, reflecting the absence of strong demand pressures in the economy, amid moderate expansion in private sector wages.

After its weakest performance since the Global Financial Crisis at 2.9% in 2019, global growth is expected to improve marginally in 2020. Trade activity will be supported by the Phase One agreement between the US and PR China. However, near-term growth prospects will be weighed by the ongoing coronavirus outbreak.

The Malaysian economy expanded by 4.3% in 2019. Going into 2020, growth, particularly in the first quarter of the year, will be affected by the coronavirus outbreak. The impact will be felt largely in tourism-related sectors, and to a certain extent, in the manufacturing sector through disruptions within the global supply chain and the expected slowdown in PR China. The overall impact on the Malaysian economy will, however, depend on the duration and spread of the outbreak as well as policy responses by authorities.

*(Source: Economic and Financial Developments in Malaysia in the Fourth Quarter of 2019, Bank Negara Malaysia)*

With the above outlook, the Directors expect the performance for the financial year 2020 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 completed and unsold residential and commercial developments as well as the newly launched residential development and Rumah Mampu Milik Johor (RMMJ) projects in Kota Tinggi, Johor, will contribute to the Group's revenue in the financial year 2020 and the coming financial years.

## Notes to the Interim Financial Statements

### **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. Tax Expense**

Tax expense comprises the following:

	<b>3 months ended 31 Dec 2019 RM'000</b>
Current tax expense	2,458
Deferred tax expense	(84)
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	2,374
Prior year tax expense	(1)
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	2,373
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	<b>RM'000</b>
Profit before tax	8,843
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Tax at Malaysian tax rate of 24%	2,122
Non-deductible expenses and other tax effects	252
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Tax expense	2,374
Prior year tax expense	(1)
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Tax expense	2,373
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### **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 December 2019 are as follows:

	<b>Secured RM'000</b>	<b>Unsecured RM'000</b>	<b>Total RM'000</b>
<b>Non-current</b>			
<b>Repayable after 12 months</b>			
Term loan	69,590	-	69,590
	=====	=====	=====
<b>Current</b>			
<b>Repayable within 12 months</b>			
Term loan	28,880	-	28,880
Revolving credit	71,000	-	71,000
Bills payable	-	27,344	27,344
	=====	=====	=====
Sub-total	99,880	27,344	127,224
	=====	=====	=====
Total	169,470	27,344	196,814
	=====	=====	=====

### **B8. Changes in Material Litigation**

There was no impending material litigation as at 19 February 2020, being the date not earlier than 7 days from the date of this announcement.

### **B9. Dividend**

No interim dividend was declared for the current quarter under review.

## Notes to the Interim Financial Statements

### **B10. 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:

	<b>3 months ended 31 Dec 2019 RM'000</b>
Profit for the financial period attributable to owners of the Company	5,768
	<b>'000</b>
Issued ordinary shares at 1 October	510,027
Treasury shares	(18,362)
Weighted average number of ordinary shares at 31 December 2019	491,665
Basic earnings per share (sen)	1.17
	<b>'000</b>
Weighted average number of ordinary shares at 31 December 2019 (basic)	491,665
Effects of share options	-*
Weighted average number of ordinary shares at 31 December 2019 (diluted)	491,665
Diluted earnings per share (sen)	1.17

\* At 31 December 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

### ***B11. Profit before tax***

**3 months ended  
31 Dec 2019  
RM'000**

Profit before tax is arrived at after charging:

Depreciation and amortisation	821
Interest expense	2,188
Inventories written down and written off, net	179
Property, plant and equipment written off	6
Loss on foreign exchange – realised and unrealised	24
Loss on derivative financial instruments – realised and unrealised	7

and after crediting:

Interest income	583
Bad debt recovery	3
Reversal of allowance for impairment loss for trade receivables	253
Gain on disposal of property, plant and equipment	1
Gain on foreign exchange – realised and unrealised	79
Gain on derivative financial instruments – realised and unrealised	38

### ***B12. Capital Commitments***

There was no capital commitment as at 31 December 2019.

This announcement is dated 26 February 2020.