Fiamma Holdings Berhad ((Registration No: 198201008992 (88716-W)) ("Fiamma" or "the Company")
Notes to the interim financial statements for the financial quarter ended 30 June 2020

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.

A1. 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*

A1. 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 the Group's consolidated 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 Cyclicality 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 World Health Organisation has declared the Coronavirus Disease 2019 ("COVID-19") a pandemic on 11 March 2020. The COVID-19 outbreak has resulted in the occurrence of events including the implementation of Movement Control Order ("MCO") by the Government on 18 March 2020 to contain the spread of COVID-19. The MCO has caused disruptions to business activities nationwide and has affected the Group's operations.

Other than the above, 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 June 2020.

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 2020, approved the Company's plan to repurchase its own shares.

During the current financial quarter, the Company repurchased 1,661,200 of its issued share capital from the open market, at an average price of RM0.464 per share including transaction cost. The total consideration paid was RM770,280. During the current financial period, the Company repurchased 3,933,100 of its issued share capital from the open market at an average price of RM0.458 per share including transaction cost. The total consideration paid was RM1,800,235. 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 30 June 2020, the Company held 21,324,300 of its own shares, representing 4.18% of the total number of issued shares of the Company. These shares were being held and retained as treasury shares.

A6. Debt and Equity Securities (continued)

There were no other issuance, cancellation, resale and repayments of debt and equity securities for the current financial quarter ended 30 June 2020.

A7. Dividend Paid

During the current quarter, the Company paid a final single-tier dividend of 2.00 sen per ordinary share in respect of the financial year ended 30 September 2019 on 3 April 2020.

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

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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 June 2020				
External revenue	185,720	66,437	3,852	256,009
Inter segment revenue	16,548	-	12,744	29,292
Total reportable revenue	202,268	66,437	16,596	285,301
Segment profit	23,596	24,321	14,987	62,904
Segment assets	387,321	423,792	463,713	1,274,826
Segment assets				1,274,826
Elimination of inter-segment transactions or balances				(465,664)
				809,162
Segment liabilities	(102,674)	(246,164)	(152,002)	(500,840)
Segment liabilities				(500,840)
Elimination of inter-segment transactions or balances				220,445
				(280,395)

Reconciliation of profit

	30 June 2020 RM'000
Total profit for reportable segments	62,904
Elimination of inter-segment profits	(19,274)
Depreciation	(2,526)
Interest expense	(7,087)
Interest income	1,647
	35,664

A9. Events Subsequent to the end of the Financial Period

Subsequent to the financial quarter end, the Company repurchased 63,000 of its issued share capital from the open market at an average price of RM0.488 per share including transaction costs. The total consideration paid was RM30,759.

Other than the above, there were no other material events as at 18 August 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

On 20 May 2020, the Company announced that Beaulogy Sdn. Bhd., a 100%-owned subsidiary of Fiamma Trading Sdn Bhd, which in turn is 70%-owned by 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 26 February 2020.

Other than the above, 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:

	As at 30 June 2020 RM'000	**As at 30 Sept 2019 RM'000**
Guarantees to financial institutions for facilities granted to subsidiaries	100,247	153,953
	======	======

B. Compliance with Bursa Securities Listing Requirements.

B1. Review of the Performance of the Group

	9 months ended	
	30 June 2020 RM'000	**30 June 2019 RM'000**
Revenue	256,009	254,782
Profit before tax	35,664	32,210

The Group recorded a higher revenue of RM256.01 million and profit before tax ("PBT") of RM35.66 million in the current financial period compared with RM254.78 million and RM32.21 million, respectively, in the preceding financial year corresponding period. Included in the Group's current financial period's results are revenue and PBT arising from the disposal of land amounting to RM39.21 million and RM15.77 million respectively.

The Group's revenue is derived primarily from the trading and services segment which contributed 72.5% of the Group's revenue in the current financial period. The segment recorded a lower revenue of RM185.72 million in the current financial period compared with RM211.51 million in the preceding financial year corresponding period. Consequently, this segment recorded a lower PBT of RM21.78 million in the current financial period compared with RM29.23 million in the preceding financial year corresponding period. The lower revenue and PBT was due to the completion of projects for the supply and installation of home furniture and electrical home appliances and fittings.

The property development segment contributed 26.0% of the Group's revenue in the current financial period. The segment recorded revenue of RM66.44 million in the current financial period compared with RM39.05 million in the preceding financial year corresponding period. Consequently, this segment recorded a higher PBT of RM13.08 million in the current financial period compared with PBT of RM1.78 million in the preceding financial year corresponding period. The higher revenue and PBT was attributable to the disposal of land.

The investment holding and property investment segment contributed 1.5% of the Group's revenue in the current financial period. The segment recorded a revenue of RM3.85 million and PBT of RM0.80 million in the current financial period compared with RM4.23 million and PBT of RM1.20 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. The lower revenue and PBT was mainly attributable to the rental reduction given to the tenants who were affected by the MCO implemented by the Government.

B2. Comparison with Preceding Quarter's Results

	3 months ended	
	30 June 2020 RM'000	**31 Mar 2020 RM'000**
Revenue	74,195	106,815
Profit before tax	6,930	19,891

The Group recorded a lower revenue of RM74.20 million in the current quarter ended 30 June 2020 compared with RM106.82 million in the previous quarter ended 31 March 2020. Consequently, the Group recorded a lower PBT of RM6.93 million compared with RM19.89 million in the previous quarter ended 31 March 2020. The higher revenue and PBT in the previous quarter were mainly due to the disposal of land (see Note B1).

B3. Prospects

The Malaysian economy was confronted by concurrent supply and demand shocks arising from weak external demand conditions and strict containment measures in 2Q 2020. As a result, the economy registered its first contraction since the Global Financial Crisis (2Q 2020: -17.1%; 3Q 2009: -1.1%). On a quarter-on-quarter seasonally-adjusted basis, the economy declined by 16.5% (1Q 2020: -2.0%).

Weak growth was recorded across most economic sectors amid the imposition of the Movement Control Order (MCO), followed by the Conditional and Recovery MCO, during 2Q 2020.

Domestic demand declined by 18.7% in 2Q 2020 (1Q 2020: 3.7%), due mainly to weaker private sector expenditure. Spending by the private sector was impacted by lower income, movement restrictions and subdued consumer and business sentiments. While net exports continued to decline, the contribution of the external sector to the economy improved due mainly to the larger contraction in imports vis-à-vis the previous quarter.

The IMF revised down its projection of global growth in 2020 to -4.9% in June from its earlier estimate of -3.0% in April. The slowdown in economic conditions from the containment measures and weakness in labour market conditions were deeper than expected. Although growth is expected to recover in 2021, this is conditional on the effective curbing of the COVID-19 pandemic by the end of 2020.

Economic activity in Malaysia contracted sharply in the first half of the year (-8.3%) as the measures introduced to contain the pandemic globally and domestically resulted in a concurrent supply and demand shock to the economy. However, growth is expected to have troughed in 2Q 2020. Economic activity has resumed significantly since the economy began to reopen in early May. Monthly indicators such as wholesale and retail trade, industrial production, electricity generation, and gross exports all grew faster in June than in the period between March and May. While there is upside potential to growth, the pace and strength of the recovery remain susceptible to downside risks emanating from domestic and external factors.

(Source: Economic and Financial Developments in Malaysia in the Second Quarter of 2020, Bank Negara Malaysia)

B3. Prospects (continued)

With the above outlook, the Directors expect the performance for the remaining of financial year 2020 to be challenging. The Directors are currently unable to ascertain the impact of the COVID-19 pandemic on the Group due to the uncertainties over the economic and employment situation in the country. 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 nearing completion of serviced apartments (East Parc @ Menjalara) in Bandar Menjalara, Kuala Lumpur, the on-going residential developments in Batu Pahat and Rumah Mampu Milik Johor (RMMJ) projects in Kota Tinggi, Johor, as well as the completed and unsold residential and commercial developments, will contribute to the Group’s revenue in the remaining of financial year 2020 and the coming financial years.

The proposed residential development in Kota Tinggi, Johor, which is to be launched in the financial year 2021, and 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:

	9 months ended 30 June 2020 RM'000
Current tax expense	11,904
Deferred tax expense	(2,014)
	9,890
Prior year tax expense	(64)
	9,826

	RM'000
Profit before tax	35,664
Tax at Malaysian tax rate of 24%	8,559
Non-deductible expenses and other tax effects	1,331
Tax expense	9,890
Prior year tax expense	(64)
Tax expense	9,826

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 June 2020 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-current			
Repayable after 12 months			
Term loan	61,985	-	61,985
Current			
Repayable within 12 months			
Term loan	27,803	-	27,803
Revolving credit	74,000	-	74,000
Bills payable	-	31,459	31,459
Sub-total	101,803	31,459	133,262
Total	163,788	31,459	195,247

B8. Derivatives

The details of the Group's foreign currency forward contracts as at 30 June 2020 are as follows:

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
Chinese Yuan Renminbi	8,195	8,223	28
US Dollar	1,952	1,954	2
	10,147	10,177	30

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 RM29,550 has been recognised in the financial statements.

B9. Changes in Material Litigation

There was no impending material litigation as at 18 August 2020, being the date not earlier than 7 days from the date of this announcement.

B10. Dividend

The Directors declared a first interim single-tier dividend of 1.0 sen per ordinary share for the financial year ending 30 September 2020, to be paid on 28 September 2020. The entitlement date for the dividend payment is 10 September 2020.

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 June 2020 RM'000	9 months ended 30 June 2020 RM'000
Profit for the financial period attributable to owners of the Company	4,246	24,148
	'000	**'000**
Issued ordinary shares at 1 October 2019	510,027	510,027
Treasury shares	(21,324)	(21,324)
Weighted average number of ordinary shares at 30 June 2020	488,703	488,703
Basic earnings per share (sen)	0.87	4.94

Diluted earnings per share

	'000	'000
Weighted average number of ordinary shares at 30 June 2020 (basic)		
Effects of share options	-*	-*
Weighted average number of ordinary shares at 30 June 2020 (diluted)	488,703	488,703
Diluted earnings per share (sen)	0.87	4.94

* At 30 June 2020, 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 tax

	9 months ended 30 June 2020 RM'000
Profit before tax is arrived at after charging:	
Depreciation and amortisation	2,526
Interest expense	7,087
Allowance for impairment loss for trade receivables	1,911
Inventories written down and written off, net	762
Property, plant and equipment written off	3
Loss on foreign exchange – realised and unrealised	160
and after crediting:	
Interest income	1,647
Bad debt recovery	3
Reversal of allowance for impairment loss for trade receivables	222
Gain on disposal of property, plant and equipment	1
Gain on foreign exchange – realised and unrealised	211
Gain on derivative financial instruments – realised and unrealised	74

B13. Capital Commitments

There was no capital commitment as at 30 June 2020.

This announcement is dated 25 August 2020.