

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 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.

AI. Accounting Policies

The financial statements of the Group has been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards and the requirements of Companies Act 2016 in Malaysia. The following are accounting standards, interpretations and amendments of the MFRSs 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 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*

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

- Amendment to MFRS 16, *Leases – Covid-19-Related Rent Concessions*

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

- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments Recognition and Measurement*, MFRS 7, *Financial Instruments Disclosures*, MFRS 4, *Insurance Contracts* and MFRS 16, *Leases – Interest Rate Benchmark Reform – Phase 2*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*

Notes to the Interim Financial Statements

AI. Accounting Policies (continued)

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022 (continued)

- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 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.
- from the annual period beginning on 1 October 2020 for the amendment that is effective for annual periods beginning on or after 1 June 2020;
- from the annual period beginning on 1 October 2021 for those amendments that are effective for annual periods beginning on or after 1 January 2021.
- from the annual period beginning on 1 October 2022 for those amendments that are effective for annual periods beginning on or after 1 January 2022; and
- from the annual period beginning on 1 October 2023 for the accounting standard and amendments that are effective for annual periods beginning on or after 1 January 2023, except for MFRS 17 which is not applicable to the Group.

The initial application of the abovementioned accounting standards, amendments and interpretations is not expected to have any material financial impact to the current period and prior period financial statements of the Group.

Arising from the adoption of MFRS 16, *Leases*, there are changes to the accounting policies applied to lease contracts entered into by the Group entities as compared to those applied in previous financial statements. Since the Group applied the requirements of MFRS 16 retrospectively with no cumulative effect of initial application at 1 October 2019, there are no adjustments made to the prior period comparatives.

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 Government of Malaysia has since March 2020 imposed the Movement Control Order (“MCO”) followed by the Conditional MCO and Recovery MCO in efforts to curb and contain the spread of the Coronavirus Disease 2019 (“Covid-19”). These and the recent resurgence of Covid-19 cases and targeted containment measures in most states have 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 September 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 63,000 of its issued shares from the open market, at an average price of RM0.488 per share including transaction cost. The total consideration paid was RM30,759. During the current financial year, the Company repurchased 3,996,100 of its issued shares from the open market at an average price of RM0.458 per share including transaction cost. The total consideration paid was RM1,830,994. 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 September 2020, the Company held 21,387,300 of its own shares, representing 4.19% of the total number of issued shares of the Company. These shares were being held and retained as treasury shares.

Notes to the Interim Financial Statements

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 September 2020.

A7. Dividend Paid

During the current quarter, the Company paid a first interim single-tier dividend of 1.0 sen per ordinary share in respect of the financial year ended 30 September 2020 on 28 September 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

Notes to the Interim Financial Statements

A8. Operating Segment Information (continued)

The reportable segment information for the Group is as follows:

	Trading & Services RM'000	Property Development RM'000	Investment Holding & Property Investment RM'000	Total RM'000
For the financial period ended 30 September 2020				
External revenue	280,385	92,847	5,359	378,591
Inter segment revenue	23,785	-	37,877	61,662
Total reportable revenue	304,170	92,847	43,236	440,253
Segment profit	42,631	29,754	35,795	108,180
Segment assets	424,539	429,858	438,958	1,293,355
Segment assets				1,293,355
Elimination of inter-segment transactions or balances				(456,456)
				836,899
Segment liabilities	(144,597)	(261,178)	(111,413)	(517,188)
Segment liabilities				(517,188)
Elimination of inter-segment transactions or balances				214,026
				(303,162)
<i>Reconciliation of profit</i>				
				30 Sept 2020
				RM'000
Total profit for reportable segments				108,180
Elimination of inter-segment profits				(42,450)
Depreciation				(3,360)
Interest expense				(9,122)
Interest income				2,120
				55,368

Notes to the Interim Financial Statements

A9. Events Subsequent to the end of the Financial Period

(a) Member's voluntary liquidation

Enex Sdn Bhd, a 100%-owned subsidiary of the Company, commenced members' voluntary liquidation pursuant to Companies Act 2016 on 7 October 2020.

(b) Repurchase of the Company's shares

The Company repurchased 237,100 of its issued shares from the open market at an average price of RM0.500 per share including transaction costs. The total consideration paid was RM118,591.

Other than the above, there were no other material events as at 19 November 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:

	As at 30 Sept 2020 RM'000	As at 30 Sept 2019 RM'000
Guarantees to financial institutions for facilities granted to subsidiaries	131,069 =====	153,953 =====

Notes to the Interim Financial Statements

B. Compliance with Bursa Securities Listing Requirements.

B1. Review of the Performance of the Group

	12 months ended	
	30 Sept 2020 RM'000	30 Sept 2019 RM'000
Revenue	378,591	337,412
Profit before tax	55,368	41,830

The Group recorded a higher revenue of RM378.59 million and profit before tax (“PBT”) of RM55.37 million in the current financial year compared with RM337.41 million and RM41.83 million, respectively, in the preceding financial year. Included in the Group’s current financial year’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 74.1% of the Group’s revenue in the current financial year. The segment recorded a higher revenue of RM280.38 million in the current financial year compared with RM271.73 million in the preceding financial year. Consequently, this segment recorded a higher PBT of RM41.00 million in the current financial year compared with RM36.09 million in the preceding financial year.

The property development segment contributed 24.5% of the Group’s revenue in the current financial year. The segment recorded revenue of RM92.85 million in the current financial year compared with RM60.02 million in the preceding financial year. Consequently, this segment recorded a higher PBT of RM17.12 million in the current financial year compared with PBT of RM4.38 million in the preceding financial year. The higher revenue and PBT was attributable to the disposal of land.

The investment holding and property investment segment contributed 1.4% of the Group’s revenue in the current financial year. The segment recorded a revenue of RM5.36 million compared with RM5.66 million in the preceding financial year. The lower revenue was mainly attributable to the rental reduction given to the tenants who were affected by the MCO implemented by the Government. The segment recorded loss before tax (“LBT”) of RM2.76 million in the current financial year compared with PBT of RM1.35 million in the previous financial year, mainly due to the decrease in fair value of RM4.12 million of the investment properties held.

Notes to the Interim Financial Statements

B2. Comparison with Preceding Quarter's Results

	3 months ended	
	30 Sept 2020	30 June 2020
	RM'000	RM'000
Revenue	122,582	74,195
Profit before tax	19,704	6,930

The Group recorded a higher revenue of RM122.58 million in the current quarter ended 30 September 2020 compared with RM74.20 million in the previous quarter ended 30 June 2020. Consequently, the Group recorded a higher PBT of RM19.70 million compared with RM6.93 million in the previous quarter ended 30 June 2020. The higher revenue and PBT in the current quarter were mainly due to higher contribution from both trading and services segment and property development segment.

Notes to the Interim Financial Statements

B3. Prospects

In line with the reopening of the economy from earlier Covid-19 containment measures and improving external demand conditions, the Malaysian economy recorded a smaller contraction of 2.7% in the third quarter. On a quarter-on-quarter seasonally adjusted basis, the economy turned around to register an expansion of 18.2% (2Q 2020: -16.5%).

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), recorded a smaller negative at -1.4% during the quarter (2Q 2020: -2.6%). This mainly reflected the higher domestic retail fuel prices (average RON95 petrol price per litre in 3Q 2020: RM 1.68; 2Q 2020: RM 1.37) in line with the recovery in global oil prices. Notwithstanding this, headline inflation remained negative as retail fuel prices continued to be significantly below their levels in the corresponding quarter last year.

The Monetary Policy Committee (MPC) reduced the Overnight Policy Rate (OPR) by 25 basis points to 1.75% in July 2020. The OPR reduction was intended to provide additional stimulus, in addition to the previous cumulative OPR reductions of 100 basis points earlier in the year, to accelerate the pace of economic recovery.

At the October World Economic Outlook, the IMF revised up its projection of global growth in 2020 to -4.4% (June projection: -4.9%). This was primarily due to better-than-expected growth outturns, particularly in advanced economies, where labour markets recovered more quickly than expected.

For 2021, the IMF projects the global economy to grow by 5.2%, although this outlook is highly conditional on progress in the resolution of the pandemic. The recent resurgence in Covid-19 cases across some advanced and emerging economies therefore poses a downside to the outlook.

In the third quarter, the Malaysian economy improved markedly following the gradual lifting of nationwide containment measures, as well as support from better external demand conditions. The recent resurgence of Covid-19 cases and targeted containment measures in most states could affect the momentum of the recovery in the final quarter of the year. However, as most economic sectors have been allowed to continue to operate, subject to sectoral standard operating procedures (SOPs), the impact is unlikely to be as severe as the containment measures during previous periods.

Going into 2021, growth is expected to improve further, benefitting from the recovery in global demand and spillovers onto the domestic sectors, continued policy support including the recent KITA PRIHATIN and 2021 Budget measures, as well as higher production from existing and new facilities. However, the pace of recovery will be uneven across sectors with some industries expected to remain below pre-pandemic levels, and a slower improvement in the labour market.

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

Notes to the Interim Financial Statements

B3. Prospects (continued)

With the above outlook, the Directors expect the performance for the coming financial year 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 on-going residential developments in Batu Pahat and Kota Tinggi 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 financial year 2021 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. Tax Expense

Tax expense comprises the following:

	12 months ended 30 Sept 2020 RM'000
Current tax expense	17,783
Deferred tax expense	(1,665)
	<u>16,118</u>
Prior year tax expense	1,120
	<u>17,238</u>
	<u><u>RM'000</u></u>
Profit before tax	55,368
	<u><u>13,288</u></u>
Tax at Malaysian tax rate of 24%	2,830
Non-deductible expenses and other tax effects	<u>16,118</u>
Tax expense	1,120
Prior year tax expense	<u>17,238</u>
Tax expense	<u><u>17,238</u></u>

B6. Status of Corporate Proposal

The Group has not announced any corporate proposals, which have not been completed at the date of this announcement.

Notes to the Interim Financial Statements

B7. Group Borrowings and Debt Securities

The Group's borrowings as at 30 September 2020 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-current			
<i>Repayable after 12 months</i>			
Term loan	58,111	-	58,111
	=====	=====	=====
Current			
<i>Repayable within 12 months</i>			
Term loan	15,122	-	15,122
Revolving credit	56,000	-	56,000
Bills payable	-	56,836	56,836
	-----	-----	-----
Sub-total	71,122	56,836	127,958
	=====	=====	=====
Total	129,233	56,836	186,069
	=====	=====	=====

B8. Derivatives

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

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
Chinese Yuan Renminbi	146	147	1
US Dollar	1,392	1,382	(10)
	-----	-----	-----
	1,538	1,529	(9)
	=====	=====	=====

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 RM9,000 has been recognised in the financial statements.

B9. Changes in Material Litigation

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

Notes to the Interim Financial Statements

B10. Dividend

The Directors recommend a final single tier dividend of 1.75 sen per ordinary share in respect of the financial year ended 30 September 2020, 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 2020 RM'000	12 months ended 30 Sept 2020 RM'000
Profit for the financial period attributable to owners of the Company	11,048	35,196
	'000	'000
Issued ordinary shares at 1 October 2019	510,026	510,026
Treasury shares	(21,387)	(21,387)
Weighted average number of ordinary shares at 30 September 2020	488,639	488,639
Basic earnings per share (sen)	2.26	7.20
	'000	'000
Weighted average number of ordinary shares at 30 September 2020 (basic)		
Effects of share options	-*	-*
Weighted average number of ordinary shares at 30 September 2020 (diluted)	488,639	488,639
Diluted earnings per share (sen)	2.26	7.20

* At 30 September 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.

Notes to the Interim Financial Statements

B12. Profit before tax

	12 months ended 30 Sept 2020 RM'000
Profit before tax is arrived at after charging:	
Depreciation and amortisation	3,360
Interest expense	9,122
Allowance for impairment loss for trade receivables - net	1,097
Inventories written down and written off, net	2,496
Property, plant and equipment written off	6
Loss on foreign exchange – realised and unrealised	38
	=====
and after crediting:	
Interest income	2,120
Bad debt recovery	3
Gain on disposal of property, plant and equipment	1
Gain on foreign exchange – realised and unrealised	154
Gain on derivative financial instruments – realised and unrealised	36
	=====

B13. Capital Commitments

There was no capital commitment as at 30 September 2020.

This announcement is dated 26 November 2020.