

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

Notes to the interim financial statements for the financial quarter ended 31 December 2013.

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

AI. Accounting Policies

The interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad (“Bursa Malaysia”) and FRS 134, *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the financial year ended 30 September 2013.

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

FRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2014

- IC Interpretation 21, *Levies*
- Amendments to FRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to FRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to FRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to FRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to FRS 136, *Recoverable Amount Disclosures for Non- Financial Assets*
- Amendments to FRS 139, *Novation of Derivatives and Consultation of Hedge Accounting*

FRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2015

- FRS 9, *Financial Instruments* (2009)
- FRS 9, *Financial Instruments* (2010)
- Amendments to FRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of FRS 9 and Transition Disclosures*

Notes to the Interim Financial Statements

A1. Accounting Policies (continued)

The Group plans to apply the abovementioned FRSs, interpretations and amendments:

- from the annual period beginning on 1 October 2013 for those FRSs, interpretations and amendments that are effective from annual periods beginning on or after 1 January 2013, except for FRS 11, FRS 128, IC Interpretation 20, Amendments to FRS 1 and Amendments to FRS 11 which are not applicable to the Group.
- from the annual period beginning on 1 October 2014 for those FRSs, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2014, except for IC Interpretation 21 and Amendments to FRS 139 which are not applicable to the Group.

The initial application of the above FRSs, interpretations and amendments is not expected to have any material financial impacts to the current and prior periods financial statements of the Group upon their first adoption.

The Group is an entity within the scope of IC Interpretation 15, *Agreement for the Construction of Real Estate* and will be exempted from adopting Malaysian Financial Reporting Standards (“MFRSs”) and as such is referred to as a “Transitioning Entity”. Being a Transitioning Entity, the Group is required to adopt MFRSs for annual period beginning on 1 January 2015.

Hence, the Group’s financial statements for annual period beginning on 1 October 2015 will be prepared in accordance with MFRSs issued by MASB and International Financial Reporting Standards (“IFRS”). As a result, the Group will not be adopting FRSs, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2015.

A2. 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 2013 were not subject to any qualification and did not include any adverse comments made under Section 174 (3) of the Companies Act, 1965.

A3. Seasonality or Cyclicity of Interim Operations

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

Notes to the Interim Financial Statements

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 and financial period ended 31 December 2013.

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 2013.

A6. *Debt and Equity Securities*

The owners of the Company, by a special resolution passed at the Annual General Meeting held on 20 February 2013, approved the Company's plan to repurchase its own shares.

During the current quarter, the Company did not purchase any shares from the open market. As at 31 December 2013, total number of shares purchased was 7,234,900, representing 5.1% of the total paid-up share capital of the Company. These shares were being held and retained as treasury shares.

During the current quarter, the Company issued 13,000 new ordinary shares of RM1.00 each, pursuant to the exercise of warrants by registered shareholders at a price of RM1.00 each per ordinary share for every warrant held.

Other than the above, there were no issuance, cancellation, resale and repayments of debt and equity securities for the current quarter ended 31 December 2013.

A7. *Dividend Paid*

No dividend was paid during the current quarter.

Notes to the Interim Financial Statements

A8. *Operating Segment Information*

The Group has 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:

Investment holding and property investment	The long term investment in unquoted shares and property investment
Property development	Property development
Trading and services	Distribution and servicing of electrical home appliances, sanitaryware, other household products, home furniture and fittings, medical devices and healthcare products.

The reportable segment information for the Group is as follows:

	Investment Holding & Property Investment RM'000	Property Development RM'000	Trading & Services RM'000	Total RM'000
For the financial period ended 31 December 2013				
External revenue	385	10,961	66,406	77,752
Inter segment revenue	2,948	4,709	3,693	11,350
Total reportable revenue	3,333	15,670	70,099	89,102
Segment profit	14,957	5,199	9,840	29,996
Segment assets	224,865	227,468	228,517	680,850
Segment assets				680,850
Other non-reportable segments				411
Elimination of inter-segment transactions or balances				(250,701)
				430,560

Notes to the Interim Financial Statements

A8. Operating Segment Information (continued)

	Investment Holding & Property Investment RM'000	Property Development RM'000	Trading & Services RM'000	Total RM'000
Segment liabilities	(23,369)	(64,220)	(68,394)	(155,983)
				=====
Segment liabilities				(155,983)
Other non-reportable segments				(6,209)
Elimination of inter-segment transactions or balances				42,056

				(120,136)
				=====
<i>Reconciliation of profit or loss</i>				
				31 Dec 2013
				RM'000
Total profit or loss for reportable segments				29,996
Elimination of inter-segment profits				(15,978)
Depreciation				(782)
Interest expense				(645)
Interest income				536

				13,127
				=====

A9. Property, Plant and Equipment

Property, plant and equipment are stated at cost/valuation less accumulated depreciation and impairment losses.

A10. Events Subsequent to the end of the Financial Period

There were no material events as at 12 February 2014, being the date not earlier than 7 days from the date of this announcement that will affect the financial results of the financial period under review.

Notes to the Interim Financial Statements

A11. Changes in Composition of the Group

There were no changes in the composition of the Group for the current quarter and the period up to 12 February 2014, including business combination, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

A12. Contingent Liabilities

Contingent liabilities of the Group are as follows:

	31 Dec 2013	30 Sept 2013
	RM'000	RM'000
Guarantees to financial institutions for facilities granted to subsidiaries	58,695	65,421
	=====	=====

Notes to the Interim Financial Statements

B. Compliance with Bursa Malaysia Listing Requirements.

B1. Review of the Performance of the Group

	3 months ended	
	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
Revenue	77,752	72,621
Profit before taxation	13,127	11,618

The Group recorded a higher revenue of RM77.752 million for the current period compared to RM72.621 million achieved in the preceding financial period and a higher profit before taxation (“PBT”) of RM13.127 million for the current period as compared to RM11.618 million in the preceding financial period. The increase in PBT was in line with the increase in revenue and mainly contributed by the trading and services and property development segments.

The Group’s revenue is derived primarily from the trading and services segment which contributed 85.4% of the Group’s net revenue. The segment recorded a net revenue of RM66.406 million as compared to RM62.068 million recorded in the previous financial period, representing a growth of 7.0%. However, PBT recorded by this segment is RM9.199 million against PBT of RM9.683 million for the preceding financial period, representing a decrease of 5.0%. The decrease in PBT was attributable to higher operating expenses incurred in the current quarter. The current financial period’s PBT of this segment represented 70.1% of the Group’s PBT.

The property development segment contributed revenue of RM10.961 million and PBT of RM3.426 million in the current period. This represented 14.1% of the Group’s net revenue and 26.1% of the Group’s PBT. This segment contributed revenue of RM10.216 million and PBT of RM1.563 million in the previous corresponding period. The revenue and PBT contribution is derived mainly from the Group’s commercial development in Jalan Tuanku Abdul Rahman, Kuala Lumpur.

Notes to the Interim Financial Statements

B2. Comparison with Preceding Quarter's Results

	Current quarter ended 31 Dec 2013 RM'000	Preceding quarter ended 30 Sept 2013 RM'000
Revenue	77,752	80,968
Profit before taxation	13,127	13,218

The Group recorded a lower revenue and PBT of RM77.752 million and RM13.127 million for the current quarter ended 31 December 2013 compared to RM80.968 million and RM13.218 million achieved in the preceding quarter ended 30 September 2013. The decrease in revenue was attributable to lower revenue from the trading and services segment for the current quarter as compared to the preceding quarter.

B3. Prospects

Global economic activity improved in the fourth quarter amid the gradual recovery in the major economies. Despite lingering fiscal uncertainties, the US economy registered stronger growth as consumption and investment improved. In the euro area, modest improvements in exports supported growth, but structural and fiscal issues weighed down domestic demand. Growth across Asia continued as moderating domestic demand was offset by better export performance. Similarly, the Malaysian economy expanded by 5.1% in the fourth quarter (3Q 2013: 5.0%) supported by private sector demand and improvements in exports. For the year 2013, the Malaysian economy grew by 4.7%.

The domestic financial system remained resilient throughout the fourth quarter, despite continued volatility in global and domestic financial markets, and a challenging operating environment. The assessments of risks to financial stability revealed that financial intermediation continued to be well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

Going forward, the global economy is expected to be on a path of moderate recovery. The sustained improvements in the advanced economies will be a positive impulse for international trade. However, ongoing uncertainties surrounding monetary and fiscal policy adjustments in the advanced economies remain a risk to growth. Growth in the Asian economies is expected to be supported by improving external conditions amid moderating domestic demand.

Notes to the Interim Financial Statements

B3. Prospects (continued)

For the Malaysian economy, domestic demand will remain supportive of growth. While domestic demand is expected to moderate following the ongoing fiscal consolidation, the external sector is expected to benefit from the improving global conditions. The growth momentum is therefore expected to remain on a steady trajectory.

(Source: Economic and Financial Developments in Malaysia in the Fourth Quarter of 2013, Bank Negara Malaysia)

With the above outlook, Fiamma expects the coming financial year to remain challenging as growth will be dependent on domestic demand as well as the external economy.

For the trading and services segment, Fiamma will remain focused on its distribution business and will continue to build on its proven core competencies and effective supply chain system 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 for its various brands of home appliances, sanitaryware products and medical devices and healthcare products.

For the property development segment, the on-going commercial development located in Kuala Lumpur, the residential development in Kota Tinggi, Johor and proposed development of residential and commercial properties in Johor Bahru will contribute to the Group's revenue and profit for the financial years 2014 and 2015. Other proposed new projects including commercial development in Kuala Lumpur and Johor Bahru are expected to contribute to the Group's future income stream once these proposed developments are launched and sold.

B4. Profit Forecast or Profit Guarantee

Not applicable.

Notes to the Interim Financial Statements

B5. Taxation

Taxation comprises the following:

	Financial period 31 Dec 2013 RM'000
Current year tax expense	3,845
Deferred tax expense	(65)
	<hr/>
	3,780
Prior year tax expense	(29)
	<hr/>
	3,751
	<hr/> <hr/>
	RM'000
Profit before taxation	13,127
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Tax at Malaysian tax rate of 25%	3,282
Other tax effects	498
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Tax expense	3,780
Prior year tax expense	(29)
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Tax expense	3,751
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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 2013 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Current			
Repayable within 12 months			
Bank overdraft	3,813	-	3,813
Revolving credit	26,648	-	26,648
Bills payable	-	28,234	28,234
Total	<u>30,461</u> =====	<u>28,234</u> =====	<u>58,695</u> =====

B8. Derivatives

The details of the Group's foreign currency forward contracts as at 31 December 2013 are as follows:

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
USD (Less than 3 months)	15,067	15,290	223
	<u>15,067</u> =====	<u>15,290</u> =====	<u>223</u> =====

The above instruments are executed with established financial institutions in Malaysia. There is no cash requirement for these contracts.

The Group uses appropriate financial instruments, such as foreign currency forward contracts, to hedge against specific exposures including foreign currency risks.

With the adoption of FRS 139, the difference between the notional value and fair value of the contracts amounting to RM223,000 has been recognised in the financial statements.

B9. Changes in Material Litigation

There was no impending material litigation as at 12 February 2014, being the date not earlier than 7 days from the date of this announcement.

Notes to the Interim Financial Statements

B10. Dividend

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

B11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2013 was based on the profit attributable to the owners of the Company and a weighted average number of ordinary shares outstanding, calculated as follows:

	Financial period 31 Dec 2013 RM'000
Profit for the financial period attributable to owners of the Company	8,330
	<u><u> </u></u>
	'000
Weighted average number of ordinary shares net of treasury shares:	
At beginning of the period	134,337
Effect of exercise of warrants	5
At 31 December 2013	<u>134,342</u>
	<u><u> </u></u>
Basic earnings per share (sen)	<u>6.20</u>

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2013 was based on the profit attributable to the owners of the Company and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

	'000
Weighted average number of ordinary shares (basic) at 31 December 2013	134,342
Effect of exercise of warrants	16,268
	<u> </u>
Weighted average number of ordinary shares (diluted) at 31 December 2013	150,610
	<u><u> </u></u>
Diluted earnings per share (sen)	<u>5.53</u>

Notes to the Interim Financial Statements

B12. Profit before taxation

	Financial period 31 Dec 2013 RM'000
Profit before taxation is arrived at after charging:	
Interest expense	645
Depreciation and amortisation	782
Inventory written down and written off	432
Loss on foreign exchange – realised and unrealised	169
Unrealised loss on derivative financial instruments	287
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and after crediting:	
Gain on foreign exchange – realised and unrealised	548
Interest income	536
Unrealised gain on derivative financial instruments	80
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B13. Provision of Financial Assistance

The amount of financial assistance provided by the Company and its subsidiaries to its non wholly-owned subsidiaries pursuant to paragraph 8.23(1) of the Listing Requirements is as follows:-

	As at 31 Dec 2013 RM'000	As at 30 Sept 2013 RM'000
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	2,003	6,600
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The above financial assistance does not have a material financial impact on the Group.

Notes to the Interim Financial Statements

B14. Retained earnings

The breakdown of the retained earnings of the Group into realised and unrealised is as follows:

	As at 31 Dec 2013 RM'000	As at 30 Sept 2013 RM'000
Total retained earnings		
- Realised	207,277	184,113
- Unrealised	15,184	15,802
	<u>222,461</u>	<u>199,915</u>
Less: Consolidation adjustments	(84,733)	(70,567)
	<u>137,728</u>	<u>129,348</u>
	<u><u>137,728</u></u>	<u><u>129,348</u></u>

This announcement is dated 19 February 2014.