

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

Notes to the interim financial statements for the financial quarter ended 30 June 2014.

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 are not expected to have any material financial impacts to the current and prior period financial statements of the Group upon their first adoption.

The Group has subsidiaries which fall within the scope of IC Interpretation 15, *Agreement for the Construction of Real Estate*. Therefore, the Group and these subsidiaries are currently exempted from adopting Malaysian Financial Reporting Standards (“MFRSs”) and as such is referred to as a “Transitioning Entity”. Being a Transitioning Entity, the Group will adopt the MFRS and present its first set of MFRS financial statements when adoption of the MFRS is mandated by MASB.

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 30 June 2014.

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 19 February 2014, 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 30 June 2014, total number of shares purchased was 7,234,900, representing 5.0% of the total paid-up share capital of the Company. These shares were being held and retained as treasury shares.

During the current financial period, the Company issued 2,500,000 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 and current financial period ended 30 June 2014.

A7. *Dividend Paid*

During the current quarter, the Company paid:

- i) a final single-tier dividend of 5.0 sen per share in respect of the financial year ended 30 September 2013 on 4 April 2014; and
- ii) a first interim single-tier dividend of 3.0 sen per share in respect of the financial year ending 30 September 2014 on 27 June 2014.

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 30 June 2014				
External revenue	1,156	53,152	197,814	252,122
Inter segment revenue	7,468	18,833	10,737	37,038
Total reportable revenue	8,624	71,985	208,551	289,160
Segment profit	18,805	26,867	29,894	75,566
Segment assets	233,491	241,200	242,163	716,854
Segment assets				716,854
Other non-reportable segments				287
Elimination of inter-segment transactions or balances				(263,287)
				453,854

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	(37,090)	(50,675)	(70,540)	(158,305)
				=====
Segment liabilities				(158,305)
Other non-reportable segments				(8,897)
Elimination of inter-segment transactions or balances				40,629

				(126,573)
				=====
<i>Reconciliation of profit or loss</i>				
				30 June 2014
				RM'000
Total profit or loss for reportable segments				75,566
Elimination of inter-segment profits				(23,537)
Depreciation				(2,344)
Interest expense				(2,025)
Interest income				1,662

				49,322
				=====

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 13 August 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 13 August 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:

	30 June 2014	30 Sept 2013
	RM'000	RM'000
Guarantees to financial institutions for facilities granted to subsidiaries	49,564	65,421
	=====	=====

Notes to the Interim Financial Statements

B. Compliance with Bursa Malaysia Listing Requirements.

B1. Review of the Performance of the Group

	9 months ended	
	30 June 2014	30 June 2013
	RM'000	RM'000
Revenue	252,122	211,916
Profit before taxation	49,322	36,928

The Group recorded a higher revenue of RM252.122 million for the current financial period compared to RM211.916 million achieved in the preceding financial period and a higher profit before taxation ("PBT") of RM49.322 million for the current financial period as compared to RM36.928 million in the preceding financial period. The increase in revenue and PBT was mainly contributed by the property development segment.

The Group's revenue is derived primarily from the trading and services segment which contributed 78.5% of the Group's net revenue. The segment recorded a net revenue of RM197.814 million as compared to RM190.847 million recorded in the previous financial period, representing an increase of 3.7%. However, PBT recorded by this segment is RM28.280 million against PBT of RM31.887 million for the preceding financial period, representing a decrease of 11.3%. The decrease in PBT was attributable to higher operating expenses incurred in the current financial period. The current financial period's PBT of this segment represented 57.3% of the Group's PBT.

The property development segment contributed 21.1% of the Group's net revenue. The segment recorded a net revenue of RM53.152 million as compared to RM20.097 million recorded in the previous financial period, representing a growth of 164.5%. Consequently this segment recorded a higher PBT of RM19.549 million against PBT of RM3.988 million for the preceding financial period, representing a significant increase of 390.2%. The current financial period's PBT of this segment represented 39.6% of the Group's PBT. 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 30 June 2014 RM'000	Preceding quarter ended 31 March 2014 RM'000
Revenue	92,633	81,737
Profit before taxation	19,046	17,149

The Group recorded a higher revenue and PBT of RM92.633 million and RM19.046 million for the current quarter ended 30 June 2014 compared to RM81.737 million and RM17.149 million achieved in the preceding quarter ended 31 March 2014. The increase in revenue and PBT was attributable to higher revenue contribution from the trading segment for the current quarter as compared to the preceding quarter.

B3. Prospects

Global economic activity continued to expand at a moderate pace in the second quarter. The recovery in the US resumed after an unusual weather-related weakness in the first quarter. Growth in Japan was, however, affected by the implementation of the increase in the consumption tax in April. In Asia, economic activity continued to expand, albeit at a more moderate pace in most economies.

The Malaysian economy registered a strong growth of 6.4% in the second quarter of 2014 (1Q 2014: 6.2%), underpinned by higher exports and continued strength in private domestic demand. On the supply side, growth in the major economic sectors remained firm, supported by trade and domestic activity. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 1.8% (1Q 2014: 0.8%).

Going forward, the global economy is expected to continue on a moderate growth path. Recent improvements in economic activity suggest that a cyclical recovery remains underway in some advanced economies. This will continue to benefit international trade activity. In Asia, domestic demand is expected to remain supportive of growth. Nevertheless, country-specific developments may affect the overall pace of growth in these economies. The overall balance of risks for the global economy thus remains biased towards the downside due to uncertainty over policy adjustments in the key economies as well as geopolitical developments. Persistent geopolitical tensions in Eastern Europe and the Middle East could heighten financial market volatility and weigh down on the ongoing global economic recovery.

Notes to the Interim Financial Statements

B3. Prospects (continued)

For the Malaysian economy, growth of exports is expected to moderate slightly in the second half of the year, partly reflecting the significant base effect in the corresponding period in 2013. Nevertheless, leading indicators suggest that private sector activity will remain as the key driver of growth. Exports will continue to benefit from the recovery in the advanced economies and from regional demand. Going forward, the Malaysian economy is expected to remain on a steady growth path.

(Source: Economic and Financial Developments in Malaysia in the Second Quarter of 2014, Bank Negara Malaysia)

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

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 and the residential development in Kota Tinggi, Johor will contribute to the Group's revenue and profit for the financial years 2014 and 2015. The proposed development of residential and commercial properties in Johor Bahru will be launched in end August 2014 and will contribute to the Group's revenue and profit for the financial years 2015 and 2016. Other proposed commercial developments in Kuala Lumpur 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:

	Current quarter 30 June 2014 RM'000	Financial period 30 June 2014 RM'000
Current year tax expense	5,500	14,590
Deferred tax expense	(72)	(315)
	<hr/> 5,428	<hr/> 14,275
Prior year tax expense	(7)	(72)
	<hr/> 5,421	<hr/> 14,203
	<hr/> <hr/> RM'000	<hr/> <hr/> RM'000
Profit before taxation	19,046	49,322
	<hr/> <hr/>	<hr/> <hr/>
Tax at Malaysian tax rate of 25%	4,762	12,331
Other tax effects	666	1,944
	<hr/> 5,428	<hr/> 14,275
Prior year tax expense	(7)	(72)
	<hr/> 5,421	<hr/> 14,203
	<hr/> <hr/>	<hr/> <hr/>

B6. Status of Corporate Proposal

In May 2014, the Company announced that Fiamma Logistics Sdn Bhd, a wholly-owned subsidiary of Fiamma Sdn Bhd which in turn is a wholly-owned subsidiary the Company, had entered into a Sale and Purchase Agreement with a third party for the proposed acquisition of land in Bukit Raja Industrial Hub, Klang, Selangor for a total purchase consideration of RM30,092,370 (“the Acquisition”). The Acquisition is to cater for the relocation and centralisation of Fiamma and its subsidiaries’ logistic operations, with allowance for future expansion. Payment terms will be in the manner as provided for in the agreement. The Acquisition is expected to be completed in the financial year ending 30 September 2015.

Except for the above, 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 June 2014 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Current			
Repayable within 12 months			
Bank overdraft	5,627	-	5,627
Revolving credit	10,500	8,000	18,500
Bills payable	-	25,437	25,437
Total	<u>16,127</u> =====	<u>33,437</u> =====	<u>49,564</u> =====

B8. Derivatives

The details of the Group's foreign currency forward contracts as at 30 June 2014 are as follows:

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
USD (Less than 3 months)	890	891	1
	<u>890</u> =====	<u>891</u> =====	<u>1</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 RM1,000 has been recognised in the financial statements.

B9. Changes in Material Litigation

There was no impending material litigation as at 13 August 2014, being the date not earlier than 7 days from the date of this announcement.

B10. Dividend

No interim dividend was declared for current quarter under review.

Notes to the Interim Financial Statements

B11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2014 was based on the profit attributable to the owners of the Company and a weighted average number of ordinary shares outstanding, calculated as follows:

	Current quarter 30 June 2014 RM'000	Financial period 30 June 2014 RM'000
Profit for the financial period attributable to owners of the Company	12,502	32,218
	'000	'000
Number of ordinary shares issued at beginning of the period	144,085	141,572
Effects of shares repurchased	(7,235)	(7,235)
Weighted average number of ordinary shares at 30 June 2014	136,850	134,337
Effect of exercise of warrants	-	1,113
At 30 June 2014	136,850	135,450
Basic earnings per share (sen)	9.14	23.79

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2014 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:

	Current quarter 30 June 2014 '000	Financial period 30 June 2014 '000
Weighted average number of ordinary shares (basic) at 30 June 2014	136,850	135,450
Effect of exercising of warrants	15,872	15,483
Weighted average number of ordinary shares (diluted) at 30 June 2014	152,722	150,933
Diluted earnings per share (sen)	8.19	21.35

Notes to the Interim Financial Statements

B12. Profit before taxation

	Current quarter 30 June 2014 RM'000	Financial period 30 June 2014 RM'000
Profit before taxation is arrived at after charging:		
Interest expense	727	2,025
Depreciation and amortisation	782	2,344
Inventory written down and written off	433	1,395
Loss on foreign exchange – realised and unrealised	72	338
Unrealised loss on derivative financial Instruments	(21)	429
	<hr/> <hr/>	<hr/> <hr/>
and after crediting:		
Gain on foreign exchange – realised and unrealised	49	779
Interest income	602	1,662
	<hr/> <hr/>	<hr/> <hr/>

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 30 June 2014 RM'000	As at 30 Sept 2013 RM'000
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	1,747	6,600
	<hr/> <hr/>	<hr/> <hr/>

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 30 June 2014 RM'000	As at 30 Sept 2013 RM'000
Total retained earnings		
- Realised	226,982	184,113
- Unrealised	15,095	15,802
	<u>242,077</u>	<u>199,915</u>
Less: Consolidation adjustments	(91,133)	(70,567)
	<u>150,944</u>	<u>129,348</u>
	<u><u>150,944</u></u>	<u><u>129,348</u></u>

This announcement is dated 20 August 2014.