

Fiamma Holdings Berhad (Company No: 88716-W)

(“Fiamma” or “the Company”)

Notes to the interim financial statements for the financial quarter ended 31 March 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 2012.

The following are the accounting standards, amendments and interpretation of the FRS framework that have been issued by Malaysia Accounting Standards Board (“MASB”) but have not been adopted by the Group and the Company:

FRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2013

- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits* (2011)
- FRS 127, *Separate Financial Statements* (2011)
- FRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to FRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Government Loans*
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
- Amendments to FRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*
- Amendments to FRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
- Amendments to FRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
- Amendments to FRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*

Notes to the Interim Financial Statements

A1. Accounting Policies (continued)

FRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2013 (continued)

- Amendments to FRS 10, *Consolidated Financial Statements: Transition Guidance*
- Amendments to FRS 11, *Joint Arrangements: Transition Guidance*
- Amendments to FRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

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

- Amendments to FRS 132, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

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 Date of FRS 9 and Transition Disclosures*

The Group plans to apply the abovementioned standards, amendments and interpretations from the annual period beginning on 1 October 2012 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2013, except for Amendments to FRS 1, FRS 128 and IC Interpretation 20, which are not applicable to the Group.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or retrospectively, or which requires extended disclosures, is not expected to have any material financial impacts to the current and prior periods financial statements upon their first adoption.

The Group has subsidiaries which fall within the scope of IC Interpretation 15, *Agreement for the Construction of Real Estate*. The Group and these subsidiaries will be exempted from adopting Malaysian Financial Reporting Standards (“MFRS”) 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 2014.

Hence, the Group’s financial statements for annual period beginning on 1 October 2014 will be prepared in accordance with the MFRSs issued by the MASB and International Financial Reporting Standards (“IFRSs”). 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 2014 and 1 January 2015.

Notes to the Interim Financial Statements

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 2012 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.

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 March 2013.

A5. *Material Changes in Estimates of Amounts Reported*

There were no material changes in estimates used in reporting the current year as compared to the financial statements of the Group for the financial year ended 30 September 2012.

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 March 2013, total number of shares purchased was 7,234,900, representing 5.2% 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 2,000,000 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 31 March 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, medical devices and healthcare products.

The reportable segment information for the Group is as follows:

	Investment Holding & Property Investment	Property Development	Trading & Services	Total
	RM'000	RM'000	RM'000	RM'000
For the financial period ended 31 March 2013				
External revenue	654	16,257	119,335	136,246
Inter segment revenue	17,740	-	7,992	25,732
Total reportable revenue	18,394	16,257	127,327	161,978
Segment profit	17,176	3,021	26,050	46,247
Segment assets	192,840	149,222	198,301	540,363
Segment assets				540,363
Other non-reportable segments				516
Elimination of inter-segment transactions or balances				(173,023)
				367,856

Notes to the Interim Financial Statements

A11. Changes in Composition of the Group

On 3 January 2013, Fiamma acquired 525,000 ordinary shares of RM1.00 each representing 30% of the issued and paid-up capital of Enex-Dynamic Sdn Bhd (“Enex”) from a third party for a cash consideration of RM545,391. Subsequent to this, Enex becomes a direct wholly-owned subsidiary of Fiamma.

On 26 February 2013, Fiamma acquired 2 ordinary shares of RM1.00 each representing 100% of the issued and paid-up capital of Big Idea Energy Sdn Bhd for a cash consideration of RM2. The intended business activity is property development.

On 26 February 2013, Fiamma acquired 2 ordinary shares of RM1.00 each representing 100% of the issued and paid-up capital of Sterling Skills Sdn Bhd for a cash consideration of RM2. The intended business activity is property development.

On 28 February 2013, Fiamma acquired 2,500,000 ordinary shares of RM1.00 each representing 100% of the issued and paid-up capital of Fiamma Properties Sdn Bhd (“Fiamma Properties”) from Fiamma Sdn Bhd, a wholly-owned subsidiary of Fiamma for a cash consideration of RM2,500,000. Subsequent to this, Fiamma Properties becomes a direct wholly-owned subsidiary of Fiamma.

There were no other changes in the composition of the Group for the current quarter and the period up to 9 May 2013, 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 March 2013	30 Sept 2012
	RM'000	RM'000
Guarantees to financial institutions for facilities granted to subsidiaries	36,146	43,231
	=====	=====

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Notes to the Interim Financial Statements

B. Compliance with Bursa Malaysia Listing Requirements.

B1. Review of the Performance of the Group

	Current financial period ended 31 March 2013 RM'000	Preceding financial period ended 31 March 2012 RM'000
Revenue	136,246	113,929
Profit before taxation	22,473	17,946

The Group recorded a higher revenue of RM136.246 million for the current period compared to RM113.929 million achieved in the preceding financial period and a higher profit before taxation of RM22.473 million for the current period as compared to RM17.946 million in the preceding financial period. The increase in profit before taxation was in line with the increase in revenue.

The Group's revenue is derived primarily from the trading and services segment which contributed 87.6% of the Group's net revenue. The segment recorded a net revenue of RM119.335 million as compared to RM112.109 million recorded in the previous financial period, representing a growth of 6.4%. Profit before taxation ("PBT") recorded by this segment is RM19.018 million against PBT of RM17.756 million for the preceding financial period. The current financial period's PBT of this segment represented 84.6% of the Group's PBT.

The property development segment contributed revenue of RM16.257 million and PBT of RM2.769 million in the current quarter. This represented 11.9% of the Group's net revenue and 12.3% of the Group's PBT. This was mainly attributable to the contribution from the Group's commercial development in Jalan Tuanku Abdul Rahman, Kuala Lumpur which commenced development in mid of 2012.

B2. Comparison with Preceding Quarter's Results

	Current quarter ended 31 March 2013 RM'000	Preceding quarter ended 31 Dec 2012 RM'000
Revenue	63,625	72,621
Profit before taxation	10,855	11,618

The Group recorded a lower revenue of RM63.625 million for the current quarter ended 31 March 2013 compared to RM72.621 million achieved in the preceding quarter ended 31 December 2012. This was mainly attributable to a slow down in market demand experienced during the current quarter. Consequently, the Group recorded a lower profit before taxation of RM10.855 million for the current quarter compared to RM11.618 million recorded in the preceding quarter ended 31 December 2012.

B3. Prospects

Despite the challenging global economic environment, the Malaysian economy recorded a higher growth of 6.4% (3Q: 5.3%), supported by the continued strength in domestic demand. Total investment remained robust and was the main driver of growth during the quarter. Going forward, there are emerging signs of improvements in the global economy. Latest economic indicators also suggest further stabilisation in the growth performance in Asia. For the Malaysian economy, the sustained expansion in domestic activity is expected to continue to drive growth, supported by the sustained private sector expansion. The stabilisation of external conditions is also expected to lend support to our economic growth prospects.

In 2013, based on the prospect of an improved global economy, the Malaysian economy is forecast to expand strongly between 4.5% to 5.5%.

(Source: Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2012, Bank Negara Malaysia; The 2013 Budget Speech).

With the above outlook, Fiamma expects the coming financial year to be challenging as growth will be dependent on domestic demand, public spending and investment activities as well as external conditions.

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.

Notes to the Interim Financial Statements

B3. Prospects (continued)

For the property development segment, the on-going residential development activities in Kota Tinggi, Johor will continue to contribute to the Group's bottom line with the completion of double-storey terrace houses and launching of new phases of development. The commercial development located in Jalan Tuanku Abdul Rahman Kuala Lumpur which commenced contribution to the Group's revenue and profit since the last quarter will continue contributing to the Group's revenue and profit for the financial year 2013. The proposed development of residential and commercial properties in Bandar Johor Bahru and the proposed commercial development located off Jalan Yap Kwan Seng, Kuala Lumpur is expected to contribute to the Group's future income stream once the proposed developments are launched.

B4. Profit Forecast or Profit Guarantee

Not applicable.

B5. Taxation

Taxation comprises the following:

	Current quarter 31 March 2013 RM'000	Financial period 31 March 2013 RM'000
Current year tax expense	2,917	5,785
Deferred tax expense	(87)	26
	<hr/> 2,830	<hr/> 5,811
Prior year tax expense	12	(5)
	<hr/> 2,842	<hr/> 5,806
	<hr/> <hr/> RM'000	<hr/> <hr/> RM'000
Profit before taxation	10,855	22,473
	<hr/> 2,714	<hr/> 5,618
Tax at Malaysian tax rate of 25%	116	193
Other tax effects	<hr/> 2,830	<hr/> 5,811
Tax expense	12	(5)
Prior year tax expense	<hr/> 2,842	<hr/> 5,806
Tax expense	<hr/> <hr/> 2,842	<hr/> <hr/> 5,806

Notes to the Interim Financial Statements

B6. Status of Corporate Proposal

On 24 September 2012, the Company announced that Affluent Crafts, a wholly-owned subsidiary had entered into an agreement with a third party for the proposed joint development of residential and commercial properties on 2 parcels of leasehold land in Bandar Johor Bahru. In consideration of the grant of the right to develop the land by the third party to Affluent Crafts, Affluent Crafts has agreed to pay the total sum of RM19,749,128 within 3 years from the approval of the building plans for the said development, in the manner as provided in the agreement. An amount of RM3,000,000 has been paid upon the signing of the agreement. The application of development order for 1 parcel of land is currently pending approval from the authorities.

Except for the above, 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 31 March 2013 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Current			
<i>Repayable within 12 months</i>			
Bank overdraft	2,285	-	2,285
Revolving credit	14,236	-	14,236
Bills payable	-	19,625	19,625
Total	<u>16,521</u>	<u>19,625</u>	<u>36,146</u>
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Notes to the Interim Financial Statements

B8. Derivatives

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

	Notional amount RM'000	Fair value RM'000	Difference RM'000
Foreign currency forward contracts			
USD (Less than 3 months)	787	783	(4)
	=====	=====	=====

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 RM4,000 has been recognised in the financial statements.

B9. Changes in Material Litigation

There was no impending material litigation as at 9 May 2013, being the date not earlier than 7 days from the date of this announcement, other than as disclosed in the most recent audited financial statements for the financial year ended 30 September 2012.

B10. Dividend

The Directors declared a first interim single-tier dividend of 3.0 sen per ordinary share for the financial year ending 30 September 2013, to be paid on 28 June 2013. The entitlement date for the dividend payment is 14 June 2013.

Notes to the Interim Financial Statements

B11. Earnings per share

Basic earnings per share

The basic earnings per share for the current quarter and financial period ended 31 March 2013 is calculated by dividing the Group's net profit attributable to the owners of the Company of RM7.214 million and RM15.227 million respectively, by the weighted average number of ordinary shares outstanding during the current quarter and financial period ended 31 March 2013.

	Current quarter 31 March 2013 RM'000	Financial period 31 March 2013 RM'000
Issued ordinary shares net of treasury shares at beginning of the period	129,332	129,332
Effect of exercise of warrants	711	352
At 31 March 2013	<u>130,043</u>	<u>129,684</u>
	<u>5.55</u>	<u>11.74</u>
Basic earnings per share (sen)	<u><u>5.55</u></u>	<u><u>11.74</u></u>

Diluted earnings per share

The diluted earnings per share for the current quarter and financial period ended 31 March 2013 is calculated by dividing the Group's net profit attributable to the owners of the Company of RM7.214 million and RM15.227 million respectively, by the weighted average number of ordinary shares during the current quarter and financial period ended 31 March 2013 and adjusted for the dilutive effect of all potential ordinary shares.

	Current quarter 31 March 2013 RM'000	Financial period 31 March 2013 RM'000
Weighted average number of ordinary Shares (basic) at 31 March 2013	130,043	129,684
Effect of exercising of warrants	5,464	5,551
Weighted average number of ordinary shares (diluted) at 31 March 2013	<u>135,507</u>	<u>135,235</u>
Diluted earnings per share (sen)	<u>5.32</u>	<u>11.26</u>

Notes to the Interim Financial Statements

B12. Profit before taxation

	Current quarter 31 March 2013 RM'000	Financial period 31 March 2013 RM'000
Profit before taxation is arrived at after charging:		
Interest expense	390	805
Depreciation and amortisation	731	1,458
Inventory written down and written off	422	688
	<hr/>	<hr/>
and after crediting:		
Gain on foreign exchange	30	47
Interest income	244	416
Other income	115	197
	<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 31 March 2013 RM'000	As at 30 Sept 2012 RM'000
Corporate guarantees to financial institutions for trade facilities granted to non-wholly owned subsidiaries	3,892	3,405
Advances to non-wholly owned subsidiaries	162	490
	<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 31 March 2013 RM'000	As at 30 Sept 2012 RM'000
Total retained earnings		
- Realised	173,049	155,404
- Unrealised	13,896	13,838
	<u>186,945</u>	<u>169,242</u>
Less: Consolidation adjustments	(65,316)	(63,014)
	<u>121,629</u>	<u>106,228</u>
	<u><u>121,629</u></u>	<u><u>106,228</u></u>

This announcement is dated 16 May 2013.