

FREIGHT MANAGEMENT HOLDINGS BHD
(Company No: 380410-P)

Notes on the quarterly report – 31 December 2018

PART A : EXPLANATORY NOTES AS PER MFRS 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting and paragraph 9.22 and Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”). The interim financial statements should be read in conjunction with the Group’s annual audited financial statements for the year ended 30 June 2018.

The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial year ended 30 June 2018.

The accounting policies and method of computation adopted by the Group in the preparation of the consolidated interim financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 30 June 2018 except for the adoption of the following amendment to MFRSs and IC Interpretation effective for annual periods beginning on or after 1 July 2018:-

MFRS 9	<i>Financial Instruments (IFRS as issued by IASB in July 2014)</i>
MFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to MFRS 1	<i>Annual Improvements to MFRS Standards 2014 – 2016 Cycle</i>
Amendments to MFRS 2	<i>Classification and Measurement of Share-based Payment Transaction</i>
Amendments to MFRS 4	<i>Application MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>
Amendments to MFRS 128	<i>Annual Improvements to MFRS Standards 2014-2016 Cycle</i>
Amendments to MFRS 140	<i>Transfers of Investment Property</i>
IC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>

The adoption of the above amendments to MFRSs and IC Interpretation do not have any significant financial impact on the results and the financial position of the Group for the current quarter other than MFRS 9.

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MFRS 9, Financial Instruments

The Group adopted MFRS 9, Financial Instruments on 1 July 2018. MFRS 9 replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, impairment of financial assets and on hedge accounting. MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

In respect of impairment of financial assets, MFRS 9 replaces the “incurred loss” model in MFRS 139 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments.

As allowed by the transitional provision of MFRS 9, the Group has applied MFRS 9 retrospectively on the initial application date of 1 July 2018 and has elected not to restate comparatives. The cumulative effect of initially applying of this Standard will be an adjustment to the opening retained profits as at 1 July 2018. The impacts of adopting MFRS 9 to opening balances of the Group as at 1 July 2018 are as follows:-

Statements of financial position

	Impact of changes in account policies		
	As previously reported RM'000	Retrospective Adjustment MFRS 9 RM'000	Restated balance RM'000
Non-current assets			
Investments in joint ventures	3,644	(61)	3,583
Current assets			
Receivables	144,739	(3,643)	141,096
Equity			
Retained earnings	123,534	(3,570)	119,964
Non-controlling interests	5,178	(134)	5,044

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A2. Qualification of Annual Financial Statements

The audit report of the Group's most recent annual audited financial statements for the year ended 30 June 2018 was not qualified.

A3. Seasonality or cyclical factors

The Group's business operation results were not materially affected by any major seasonal or cyclical factors.

A4. Unusual Items

There are no unusual items affecting assets, liabilities, equity, net income or cash flows in the financial year to date.

A5. Changes in estimates

There were no changes in estimates of amounts reported in prior interim period or financial year that have material effect in the current quarter.

A6. Changes in debts and equity securities

There were no issuance, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial year to date other than the issuance of 93,074,223 new ordinary shares on the basis of 1 Bonus share for every 2 existing shares in December 2018.

A7. Dividend paid

The interim single tier dividend of 1.5 sen per share amounting to RM2,792,229 in respect of financial year ended 30 June 2018 has been paid on 27 July 2018.

The second interim single tier dividend of 3.5 sen per share amounting to RM6,515,193 in respect of financial year ended 30 June 2018 has been paid on 14 November 2018.

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A8. Segment information

Operating segments for the current financial period ended 31 December 2018:

	← Logistics →											
	Malaysia	Australia	Indonesia	Thailand	Vietnam	India	Sri Lanka	Marine Singapore	Others	Elimination	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Revenue												
Total revenue	213,690	28,116	18,848	8,969	5,455	3,320	966	-	4,974	(10,300)	274,038	
Inter-segment revenue	(2,319)	(1,307)	(665)	(1,099)	(268)	(150)	(7)	-	(4,485)	(10,300)	-	
Revenue from external customers	211,371	26,809	18,183	7,870	5,187	3,170	959	-	489	-	274,038	
Results												
Segment results	12,988	843	2,242	(149)	(162)	196	(86)	-	474	46	16,392	
Finance costs	(1,689)	(9)	(8)	(2)	-	(54)	-	-	-	-	(1,762)	
Share of profit/(loss) of associates	(9)	-	-	-	-	-	-	-	(767)	-	(776)	
Share of profit of joint ventures	-	-	-	-	-	-	-	-	595	-	595	
Profit before tax	11,290	834	2,234	(151)	(162)	142	(86)	-	302	46	14,449	
Tax expense											(3,942)	
Profit for the period											10,507	
Assets												
Segment assets	454,810	14,804	16,003	2,816	3,167	2,400	451	-	62,674	(112,708)	444,417	
Investments in associates	519	-	-	-	-	-	-	-	11,417	-	11,936	
Investments in joint ventures	-	-	-	-	-	-	-	-	4,177	-	4,177	
Deferred tax assets	-	-	278	-	48	593	-	-	-	-	919	
Current tax assets	3,026	-	-	1,593	-	-	-	-	-	-	4,619	
Total assets											466,068	

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	← Logistics →							Marine Singapore RM'000	Others RM'000	Elimination RM'000	Total RM'000
	Malaysia RM'000	Australia RM'000	Indonesia RM'000	Thailand RM'000	Vietnam RM'000	India RM'000	Sri Lanka RM'000				
Liabilities											
Segment liabilities	226,242	8,079	5,329	7,985	2,005	2,306	486	-	26,774	(138,786)	140,420
Deferred tax liabilities	24,429	-	-	-	-	-	-	-	125	-	24,554
Current tax liabilities	5,936	158	267	-	25	40	(1)	-	176	-	6,601
Total liabilities											<u>171,575</u>
Other segment information											
Capital expenditure	11,193	183	124	7	171	-	-	-	-	-	11,678
Depreciation	5,737	79	161	26	95	25	6	-	65	-	6,194
Amortization of Intangible assets	-	-	-	-	-	-	-	-	214	-	214
Other non-cash income	(1,459)	(159)	(75)	(17)	(10)	(106)	-	-	(339)	-	(2,165)
Other non-cash expenses other than depreciation	1,023	-	2	73	131	32	17	-	-	-	1,278

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A8. Segment information

Operating segments for the current financial period ended 31 December 2017:

	←————— Logistics —————→										
	Malaysia	Australia	Indonesia	Thailand	Vietnam	India	Sri Lanka	Marine Singapore	Others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue											
Total revenue	188,617	23,236	18,403	8,297	7,354	6,818	4,388	6,512	5,625	(9,500)	259,751
Inter-segment revenue	(1,716)	(432)	(763)	(903)	(330)	(122)	(29)	-	(5,205)	(9,500)	-
Revenue from external customers	186,901	22,804	17,640	7,394	7,024	6,696	4,359	6,512	420	-	259,757
Results											
Segment results	14,828	812	1,307	(287)	24	206	48	(726)	(187)	1,678	17,703
Finance costs	(1,674)	(10)	(35)	(1)	-	(67)	-	(114)	-	45	(1,856)
Share of profit/(loss) of associates	(262)	-	-	-	-	-	-	-	-	-	(262)
Share of profit of joint ventures	-	-	-	-	-	-	-	-	680	-	680
Profit before tax	12,892	802	1,272	(288)	24	139	48	(840)	493	1,723	16,265
Tax expense											(4,356)
Profit for the period											11,909
Assets											
Segment assets	392,693	11,479	12,337	2,000	4,291	4,087	1,400	-	62,623	(103,544)	387,366
Investments in associates	496	-	-	-	-	-	-	-	14,533	-	15,029
Investments in joint ventures	-	-	-	-	-	-	-	-	2,912	-	2,912
Deferred tax assets	-	-	228	-	49	686	-	-	-	-	963
Current tax assets	1,276	-	(182)	1,354	-	-	-	-	43	-	2,491
Total assets											408,761

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	← Logistics →							Marine Singapore RM'000	Others RM'000	Elimination RM'000	Total RM'000
	Malaysia RM'000	Australia RM'000	Indonesia RM'000	Thailand RM'000	Vietnam RM'000	India RM'000	Sri Lanka RM'000				
Liabilities											
Segment liabilities	216,823	5,313	5,798	6,166	2,713	3,828	1,308	-	21,431	(129,184)	134,196
Deferred tax liabilities	16,901	-	-	-	-	-	-	-	465	-	17,366
Current tax liabilities	5,309	118	-	-	30	35	7	-	(4)	-	5,495
Total liabilities											<u>157,057</u>
Other segment information											
Capital expenditure	5,897	62	911	176	30	-	-	678	-	-	7,754
Depreciation	5,313	72	167	47	125	41	10	1,273	82	-	7,130
Amortization of Intangible assets	-	-	-	-	-	-	-	-	213	-	213
Other non-cash income	(842)	(65)	(99)	(43)	-	-	(2)	(148)	(413)	-	(1,612)
Other non-cash expenses other than depreciation	2,848	-	16	68	115	18	-	105	-	-	3,170

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A8. Segmental Information (Cont'd)

The Group comprises the following major business segments:

- i) Logistics – provision of integrated freight and logistics services such as sea freight, air freight, land freight, warehouse and distribution and logistics supporting services, which are operated by companies in Malaysia, Australia, Indonesia, Thailand, Vietnam, India and Sri Lanka.
- ii) Marine – charterers and operators of barges and tugboats, which is operated by a company in Singapore. This segment is not applicable for FY2019 as this company became as an associate company since Dec 2017.
- iii) Others – investment holdings and provision of management services, provision of IT application solutions and support services.

There have been no differences in the basis of segmentation or in the basis of measurement of segment profit and loss as compared to the last annual financial statements.

A9. Valuation of property, plant and equipment

The Group's property, plant and equipment other than land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses. Land and buildings are stated at valuation, which are the fair values at the date of revaluation.

A10. Material events subsequent to the end of the interim period

There were no material events subsequent to the end of the current quarter.

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A11. Changes in the composition of the Group

On 21 November 2018, FM Global Logistics Venture Sdn Bhd (“FMGLV”), a wholly-owned subsidiary of the Company has injected capital of USD140,000 (equivalent to RM588,280) which represents 70% of the voting interest in FM Global Logistics (USA), LLC (Federal ID Number: 83-0586403) (“FMGL(USA)LLC”). Following the aforesaid capital injection, FMGL(USA)LLC became an indirect 70%-owned subsidiary of the Company. The principal activities of FMGL(USA)LLC is integrated freight and logistics services.

A12. Contingent liabilities

As at the date of this announcement, the Directors of FMHB are not aware of any contingent liability of the Group save as disclosed below:-

	RM'000
Guarantees given to third parties in respect of trade performance of subsidiaries	4,881
Guarantees given to financial institutions in respect of credit facilities Granted	54,438
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	59,319

A13. Capital commitments

Contracted but not provided for :

	As at 31.12.18 RM'000
Prime movers	2,506
Trailers	1,605
Office equipment	111
Warehouse equipment	54
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	4,276

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PART B: ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of performance

The Group registered revenue growth of RM5.8 million or approximately 4% higher than 2QFY18. Details of changes in each service type are as follows:-

Service Type	2QFY19	2QFY18	Changes RM mil	% change
Seafreight	86.9	83.9	3.0	4%
Airfreight	16.5	12.2	4.3	35%
3PL & Warehousing	15.2	15.4	-0.2	-1%
Landfreight	4.9	5.1	-0.2	-4%
Supporting services	14.3	13.0	1.3	10%
Tug & Barge	- *	2.4	-	-
TOTAL	137.8	132.0	5.8	4%

Compared to 2QY18, all services reported growth except for 3PL & Warehousing and Landfreight. The increase in revenue is mainly due to an increase in the activities of the Group in the current quarter.

As compared to 2QFY18, the Group's Profit before Tax ("PBT") decreased from RM7.9 million to RM5.8 million or 26% lower. This is mainly due to a one-off gain on disposal of subsidiary in 2QFY18, share of losses from an associate in tug and barge services and higher operating cost for 3PL & Warehousing during this financial quarter.

* No meaningful comparison as Tug & Barge turnover was not consolidated as it became an associate entity since 19 December 2017.

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B2. Variation of results against preceding quarter

Service Type	2QFY19	1QFY19	Changes	
			RM mil	% change
Seafreight	86.9	85.5	1.4	2%
Airfreight	16.5	15.4	1.1	7%
3PL & Warehousing	15.2	16.6	-1.4	-8%
Landfreight	4.9	5.0	-0.1	-2%
Supporting services	14.3	13.7	0.6	4%
TOTAL	137.8	136.2	1.6	1%

Revenue as compared to the preceding quarter increased by 1% or RM1.6 million. As compared to the preceding quarter 1QFY19, PBT for 1QFY19 decreased by 32% due to the reversal of impairment of trade receivables in preceding quarter 1QFY19 and higher operating costs for of 3PL & Warehousing during this financial quarter.

B3. Current year prospects

The International Monetary Fund (“IMF”), in its January 2019 World Economic Outlook report, has projected global growth at 3.5% for 2019 and 3.6% growth for 2020. Similarly, IMF also projected growth in emerging and developing Asia to drop from 6.5% in 2018 to 6.3% in 2019 and 6.4% in 2020. In the domestic front, Malaysia recorded GDP growth rate of 4.7% for 4Q 2018 which was lower compared to 5.9% in the same quarter in 2017.

Based on the softening outlook above, which is partly exacerbated by the ongoing trade war between USA and China, there are uncertainties surrounding world trade. This may have an unfavourable impact on the Group’s performance. Notwithstanding, the Group will focus on expanding its customer base and improving its cost management via operational efficiencies. Barring unforeseen circumstances, the Group is cautiously optimistic on a positive performance for the financial year ending 30 June 2019.

B4. Variance of actual and forecast profit

The Group has not provided any quarterly profit forecast and therefore no variance information is available for the quarter under review.

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	Individual Quarter		Cumulative Quarter	
	Preceding		Preceding	
	Current Year	Corresponding	Current	Year
	Quarter	Quarter	Year To	Corresponding
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
Income tax	1,775	2,084	4,517	4,610
Deferred tax	(179)	(46)	(575)	(254)
	<u>1,596</u>	<u>2,038</u>	<u>3,942</u>	<u>4,356</u>
In respect of prior years :				
Income tax	-	-	-	-
Deferred tax	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u><u>1,596</u></u>	<u><u>2,038</u></u>	<u><u>3,942</u></u>	<u><u>4,356</u></u>

The Group's effective tax rate was above the statutory rate for the current quarter under review is mainly due to non-deductible expenses.

B6. Status of corporate proposal announced

On 28 November 2018, the shareholders have approved below:-

At Annual General Meeting

- (i) Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature;
- (ii) Proposed Renewal of Share Buy-Back Authority; and
- (iii) Proposed Adoption of New Constitution of the Company

At Extraordinary General Meeting

Proposed Bonus issue of 93,074,223 new ordinary shares on the basis of 1 Bonus share for every 2 existing shares.

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B7. Group borrowings

The Group's borrowings as at the end of the reporting quarter are as follows:

	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000
Payable within 12 months (secured)		
Term loans		
- Ringgit Malaysia	12,792	8,992
Hire purchase and lease liabilities		
- Ringgit Malaysia	4,021	2,040
- Australian Dollar (AUD28k / AUD35k)^	80	110
- Indonesia Dollar (IDR300m / IDR131m)^	81	37
- Thailand Dollar (THB233k / THB233k)^	28	28
Overdraft		
- India Dollar (INR17m / INR24m)^	967	1,454
	<u>17,969</u>	<u>12,661</u>
Payable after 12 months (secured)		
Term loans		
- Ringgit Malaysia	43,365	52,357
Hire purchase and lease liabilities		
- Ringgit Malaysia	11,973	6,849
- Australian Dollar (AUD100k / AUD50k)^	289	157
- Indonesia Dollar (IDR428m / -)^	116	-
- Thailand Dollar (THB633k / THB842k)^	76	99
	<u>55,819</u>	<u>59,462</u>
Total borrowings	<u>73,788</u>	<u>72,123</u>
^ Exchange rate		
- Australian Dollar	2.877	3.124
- Indonesian Rupiah	0.000271	0.000284
- Thai Baht	12.04	11.73
- Indian Rupee	0.0575	0.0615

The weighted average interest rate of Hire purchase and Term loans as at 31 December 2018 was 5.48% and 4.80% (31.12.2017: 5.61% and 4.80%).

B8. Change in material litigation

Neither FMHB nor any of its subsidiaries in the Group is engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or any of its subsidiaries in the Group and the Board of Directors of FMHB is not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or any of its subsidiaries in the Group.

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The board does not recommend any dividend for the current quarter under review.

B10. Trade Receivables

	As at 31.12.2018 RM'000	As at 30.06.2018 RM'000
Trade Receivables	<u>122,894</u>	<u>116,001</u>

The average credit terms of trade receivables were Sixty (60) days. As at 31 December 2018, the trade receivables has increased by 5.9% to RM6.9 million as compare to audited financial year ended 30 June 2018.

B11. Earnings per share

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Quarter
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Profit attributable to equity holders of the parent (RM'000)	<u>3,943</u>	<u>5,871</u>	<u>9,707</u>	<u>11,828</u>
Weighted average number of ordinary shares in issue ('000)	<u>279,222</u>	<u>279,222</u>	<u>279,222</u>	<u>279,222</u>
Basic Earnings Per Ordinary Share (sen)	1.41	2.10	3.48	4.24

Comparative data for the Individual Quarter and Cumulative preceding year have been adjusted to reflect 1 to 2 Bonus issue which was issued on 13 December 2018.

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	Current Year Quarter 31.12.18 RM'000	Preceding Year Quarter 31.12.17 RM'000	Current Year To Date 31.12.18 RM'000	Preceding Year To Date 31.12.17 RM'000
Profit for the period is arrived at after charging/(crediting) :				
Interest income	(88)	(178)	(204)	(384)
Gain on disposal of property, plant and equipment	(237)	(392)	(413)	(441)
Gain on disposal of a subsidiary	-	(1,525)	-	(1,525)
(Gain)/Loss on foreign exchange	188	(266)	164	208
Depreciation of property, plant and equipment	3,194	3,513	6,194	7,130
Amortization of Intangible asset	107	106	214	213
(Reversal)/Loss Impairment of trade receivables	(61)	1,800	(1,337)	2,178
Interest expense	899	908	1,762	1,856

Other than the above, there were no gain or loss on disposal of quoted or unquoted investments, gain or loss on derivatives and exceptional items for the current quarter and financial period ended 31 December 2018.