

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

Notes on the quarterly report – 31 March 2019

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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	←			Logistics	→						
	Malaysia	Australia	Indonesia	Thailand	Vietnam	India	Sri Lanka	USA	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
Liabilities											
Segment liabilities	221,236	7,751	5,025	8,182	2,247	2,386	376	588	26,505	(139,444)	134,852
Deferred tax liabilities	24,508	-	-	-	-	-	-	-	102	-	24,610
Current tax liabilities	2,689	(23)	253	-	25	59	(1)	-	119	-	3,121
Total liabilities											<u>162,583</u>
Other segment information											
Capital expenditure	14,554	189	381	16	175	-	-	25	-	-	15,340
Depreciation	8,732	126	248	39	136	37	8	9	96	-	9,431
Amortization of Intangible assets	-	-	-	-	-	-	-	-	318	-	318
Other non-cash income	(1,771)	(149)	(76)	(23)	(18)	(99)	-	-	(270)	-	(2,406)
Other non-cash expenses other than depreciation	820	-	8	83	133	28	9	-	-	-	1,081

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A8. Segment information

Operating segments for the current financial period ended 31 March 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	283,937	34,122	26,309	10,799	10,456	8,940	6,395	6,512	8,004	(13,788)	381,686
Inter-segment revenue	(2,810)	(620)	(1,080)	(1,306)	(395)	(193)	(37)	-	(7,347)	(13,788)	-
Revenue from external customers	281,127	33,502	25,229	9,493	10,061	8,747	6,358	6,512	657	-	381,686
Results											
Segment results	22,270	1,117	2,083	(466)	(93)	163	77	(726)	7,173	(6,040)	25,558
Finance costs	(2,463)	(14)	(54)	(3)	-	(98)	-	(114)	-	62	(2,684)
Share of profit/(loss) of associates	(1,430)	-	-	-	-	-	-	-	-	-	(1,430)
Share of profit of joint ventures	-	-	-	-	-	-	-	-	551	-	551
Profit before tax	18,377	1,103	2,029	(469)	(93)	65	77	(840)	7,724	(5,978)	21,995
Tax expense	-	-	-	-	-	-	-	-	-	-	(6,103)
Profit for the period	-	-	-	-	-	-	-	-	-	-	15,892
Assets											
Segment assets	379,327	10,502	11,565	1,604	3,867	3,128	1,152	-	73,314	(104,820)	379,639
Investments in associates	506	-	-	-	-	-	-	-	13,355	-	13,861
Investments in joint ventures	-	-	-	-	-	-	-	-	2,783	-	2,783
Deferred tax assets	-	-	214	-	46	643	-	-	-	-	903
Current tax assets	621	-	(209)	1,408	-	-	-	-	(215)	-	1,605
Total assets	-	-	-	-	-	-	-	-	-	-	398,791

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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	207,091	4,544	4,926	5,993	2,481	2,952	1,037	-	25,318	(130,558)	123,784
Deferred tax liabilities	16,821	-	-	-	-	-	-	-	179	-	17,000
Current tax liabilities	3,955	90	-	-	5	16	12	-	(1)	-	4,077
Total liabilities											<u>144,861</u>
Other segment information											
Capital expenditure	8,642	64	1,162	186	33	-	3	678	-	-	10,768
Depreciation	7,814	111	244	71	180	54	14	1,273	121	-	9,882
Amortization of Intangible assets	-	-	-	-	-	-	-	-	317	-	317
Other non-cash income	(933)	(60)	(116)	(52)	-	(25)	(3)	(154)	-	-	(1,343)
Other non-cash expenses other than depreciation	2,277	95	28	69	114	-	-	105	156	-	2,844

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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	4,941
Guarantees given to financial institutions in respect of credit facilities Granted	52,190
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	57,131

A13. Capital commitments

Contracted but not provided for :

	As at 31.03.18 RM'000
Trailers & Trucks	1,368
Office equipment	111
Warehouse equipment	19
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	1,498

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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 RM6.4 million or approximately 5% higher than 3QFY18. Details of changes in each service type are as follows:-

Service Type	3QFY19	3QFY18	Changes RM mil	% change
Seafreight	80.2	78.4	1.8	2%
Airfreight	12.5	12.2	0.3	2%
3PL, Warehousing & Distribution	16.7	13.8	2.9	21%
Landfreight	4.9	4.5	0.4	9%
Supporting Services	14.0	13.0	1.0	8%
TOTAL	128.3	121.9	6.4	5%

Compared to 3QY18, all services reported growth in activities. The new Distribution Services was included under 3PL and Warehousing. This is resulted additional revenue in this segment.

As compared to 3QFY18, the Group's Profit before Tax ("PBT") decreased from RM5.7 million to RM4.4 million or 23% lower. This is mainly due to higher operating cost for 3PL & Warehousing and the initial and ongoing costs for the new Distribution Services during this financial quarter.

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B2. Variation of results against preceding quarter

Service Type	3QFY19	2QFY19	Changes	
			RM mil	% change
Seafreight	80.2	86.9	-6.7	-8%
Airfreight	12.5	16.5	-4.0	-24%
3PL, Warehousing & Distribution	16.7	15.2	1.5	10%
Landfreight	4.9	4.9	0.0	0%
Supporting Services	14.0	14.3	-0.3	-2%
TOTAL	128.3	137.8	-9.5	-7%

Revenue as compared to the preceding quarter decreased by 7% or RM9.5 million due to festive period and shorter working month in February. As compared to the preceding quarter 2QFY19, PBT for 3QFY19 decreased by 25%, the initial and ongoing costs for the new Distribution Services during this financial quarter and share of losses from an associate in tug and barge services.

B3. Current year prospects

The Group has performed positively year to-date but was affected by the poor performance in its associate in the tug and barge business and also due to the initial and ongoing costs for the new Distribution Services.

Based on the decelerating economic outlook, 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	
	Current Year	Preceding Year	Current	Preceding
	Quarter	Corresponding	Year To	Year
	31.03.2019	Quarter	Date	Corresponding
	RM'000	31.03.2018	31.03.2019	Quarter
		RM'000	RM'000	RM'000
In respect of current period:				
Income tax	1,495	2,209	6,012	6,819
Deferred tax	(325)	(148)	(900)	(402)
	<u>1,170</u>	<u>2,061</u>	<u>5,112</u>	<u>6,417</u>
In respect of prior years :				
Income tax	(186)	(96)	(186)	(96)
Deferred tax	382	(218)	382	(218)
	<u>196</u>	<u>(314)</u>	<u>196</u>	<u>(314)</u>
Total	<u>1,366</u>	<u>1,747</u>	<u>5,308</u>	<u>6,103</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

There were no corporate proposals during the date of this report.

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B7. Group borrowings

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

	As at 31.03.2019 RM'000	As at 31.03.2018 RM'000
Payable within 12 months (secured)		
Term loans and short term borrowings		
- Ringgit Malaysia	18,792	8,992
Hire purchase and lease liabilities		
- Ringgit Malaysia	4,250	2,580
- Australian Dollar (AUD26k / AUD33k)^	73	97
- Indonesia Dollar (IDR465m / IDR216m)^	126	58
- Thailand Dollar (THB233k / THB233k)^	28	27
Overdraft		
- India Dollar (INR19m / INR24m)^	1,084	1,357
	<u>24,353</u>	<u>13,111</u>
Payable after 12 months (secured)		
Term loans		
- Ringgit Malaysia	41,117	50,109
Hire purchase and lease liabilities		
- Ringgit Malaysia	11,820	6,999
- Australian Dollar (AUD96k / AUD46k)^	274	136
- Indonesia Dollar (IDR710m / IDR264m)^	193	71
- Thailand Dollar (THB579k / THB791k)^	70	92
	<u>53,474</u>	<u>57,407</u>
Total borrowings	<u><u>77,827</u></u>	<u><u>70,518</u></u>
^ Exchange rate		
- Australian Dollar	2.846	2.933
- Indonesian Rupiah	0.000272	0.000267
- Thai Baht	12.11	11.68
- Indian Rupee	0.0571	0.0576

The weighted average interest rate of Hire purchase and Term loans as at 31 March 2019 was 5.48% and 4.80% (31.03.2018: 5.60% 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

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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.

B9. Dividend

The board of Directors has declared a first interim single tier dividend of 1.0 sen per share, in respect of financial year ending 30 June 2019. The dividend will be paid on 26 July 2019 to holders of ordinary shares whose names appear in the Record of Depositors at the close of business on 28 June 2019.

B10. Trade Receivables

	As at 31.03.2019 RM'000	As at 30.06.2018 RM'000
Trade Receivables	<u>117,083</u>	<u>116,001</u>

The average credit terms of trade receivables were Sixty (60) days. As at 31 March 2019, the trade receivables has increased by 0.9% to RM1.1 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
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
Profit attributable to equity holders of the parent (RM'000)	<u>2,822</u>	<u>3,703</u>	<u>12,529</u>	<u>15,531</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)	1.01	1.33	4.49	5.56

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 31.03.19 RM'000	Preceding Year Quarter 31.03.18 RM'000	Current Year To Date 31.03.19 RM'000	Preceding Year To Date 31.03.18 RM'000
Profit for the period is arrived at after charging/(crediting) :				
Interest income	(76)	(116)	(280)	(500)
Gain on disposal of property, plant and equipment	(84)	(49)	(497)	(490)
Gain on disposal of a subsidiary	-	-	-	(1,525)
(Gain)/Loss on foreign exchange	(48)	(49)	116	159
Depreciation of property, plant and equipment	3,237	2,752	9,431	9,882
Amortization of Intangible asset	104	104	318	317
(Reversal)/Loss Impairment of trade receivables	(174)	107	(1,511)	2,285
Interest expense	947	828	2,709	2,684

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 March 2019.