*The information that appears in this Industry Overview has been prepared by EMI and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to EMI should not be considered as the opinion of EMI as to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by EMI and set out in this Industry Overview has not been independently verified by the Group, the Sponsor, [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any other party involved in the [REDACTED] and no representation is given as to its accuracy.*

## 1 EMI REPORT AND RESEARCH METHODOLOGY

The Company commissioned EMI, an independent market research company, to conduct an analysis of and produce the report on the freight forwarding and logistics industry in Malaysia. Established in 1972, EMI is a leading strategy research company for both consumer and industrial markets. It has offices around the world, analysts in 80 countries and 5,000 active clients, including 90% of the Fortune 500 companies. EMI received a total fee of US$45,500, which the Sponsor believes such reflects the market rate.

The Directors confirm that EMI, including all of its subsidiaries, divisions and units, is independent of and not connected with the Group in any way. EMI has given its consent to quote from the EMI Report and to use information contained in the EMI Report in this document.

The information contained in the EMI Report is derived by means of data and intelligence gathering methodology which includes: (i) desk research, (ii) primary research by interviewing leading industry participants and experts in Malaysia including trade associations, and (iii) the review of published sources, company reports including audited financial statements where available and independent research reports. Intelligence gathered has been analysed, assessed and validated using EMI's in-house analysis models and techniques.

The bases and assumptions for the projection in the EMI Report include the following:

- The Malaysian economy is expected to maintain steady growth over the forecast period;
- The Malaysian social, economic, and political environments are expected to remain stable during the forecast period;
- Key market drivers such as healthy trade performance and robust logistics facilities are expected to boost the development of the Malaysia's logistics and freight forwarding services market;
- Key drivers including the fruition of Malaysia's logistics sector masterplan, growing international trade performance and ongoing provision of integrated logistics solutions are likely to drive the future growth of the Malaysia's logistics and freight forwarding services market.

The research results may be influenced by the accuracy of these assumptions and the choice of these parameters. The market research commenced in December 2015 and was completed in February 2016. All statistics in the EMI Report are based on information available at the time of reporting; of which data in 2015 is estimated since official statistics for 2015 are not complete. EMI's forecast data is derived from an analysis of the historical development of the market, the economic environment, and underlying market drivers, and it is cross-checked against established industry data and trade interviews with industry experts.

## 2. DIRECTORS' CONFIRMATION

The Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the EMI Report which may qualify, contradict or have an impact on the information in this section.

## 3. OVERVIEW OF LOGISTICS INDUSTRY IN MALAYSIA

### 3.1 Market Overview

#### 3.1.1 *Malaysia has earmarked logistics development as its strategy to greater economic growth*

Malaysia's logistics industry is especially important to the country as it facilitates growth in the overall Malaysian economy in general and export heavy trade sector in particular. The government also recognises knock-on benefits from a vibrant logistics industry such as increased business investment, higher employment rates, and reduction in the cost of doing business. The result of Malaysia's strategy to focus on the logistics industry was evident from the moderately high CAGR in sea freight (as indicated by the total cargo throughput at all ports) at 4.7% over the historic period.

Land freight (comprising of both rail and road freight) in particular saw high growth rates in 2014, following a stronger domestic demand for rail freight led by private sector investment, while air freight posted a high growth rate of 7.6% in 2014.

**Table 1 Logistics Industry in Malaysia, Historic (2010–2014)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | CAGR 2010–2014 |
|---|---|---|---|---|---|---|
| Freight traffic by rail ('000 tonnes) | 5,431 | 5,914 | 6,096 | 6,622 | 7,136 | 7.1% |
| Container traffic by rail (TEUs) | 238,251 | 282,352 | 331,870 | 343,395 | 318,033 | 7.5% |
| Freight traffic by road/feeder services ('000 tonnes)* | 348,594 | 381,084 | 381,271 | 387,200 | 406,392 | 3.9% |
| Total cargo throughput at all ports ('000 tonnes) | 448,606 | 495,023 | 497,843 | 508,196 | 539,232 | 4.7% |
| — Export cargo throughput ('000 tonnes) | 182,961 | 198,290 | 197,878 | 203,063 | 210,295 | 3.5% |
| — Import cargo throughout ('000 tonnes) | 170,253 | 187,997 | 188,656 | 189,868 | 202,260 | 4.4% |
| — Transhipment cargo throughput ('000 tonnes) | 95,392 | 108,736 | 111,309 | 115,265 | 126,677 | 7.3% |
| Total cargo handled by airports (tonnes) | 926,179 | 905,265 | 890,105 | 940,775 | 1,012,397 | 2.3% |

*Source: Ministry of Transport, Malaysia*

**Source: EMI estimates*

### 3.1.2 *Malaysia's logistics sector ranks highly among ASEAN countries*

Malaysia ranked second among the ASEAN countries with a score of 3.6 out of 5 according to the World Bank's 2014 Logistics Performance Index (LPI). The LPI, which measures a country's logistics performance based on six categories namely, 1) efficiency of customs and border clearance, 2) quality of trade and transport infrastructure, 3) ease of arranging competitively priced shipments, 4) quality and competence of logistics services, 5) ability to track and trace consignments, and; 6) timeliness of consignment delivery, has been used by the government to benchmark Malaysia's logistics industry and potential trade performance against other countries in the region. Against fellow ASEAN countries except Singapore, Malaysia leads in all six measurements of the LPI.

**Table 2 Logistics Performance Index (ASEAN region and Hong Kong), Historic (2010, 2012, 2014)**

| Overall Logistics Performance Index (LPI) Score | 2010 | 2012 | 2014 |
|---|---|---|---|
| Malaysia | 3.4 | 3.5 | 3.6 |
| Cambodia | 2.4 | 2.6 | 2.7 |
| Hong Kong | 3.9 | 4.1 | 3.8 |
| Indonesia | 2.8 | 2.9 | 3.1 |
| Laos | 2.5 | 2.5 | 2.4 |
| Myanmar | 2.3 | 2.4 | 2.3 |
| Philippines | 3.1 | 3.0 | 3.0 |
| Singapore | 4.1 | 4.1 | 4.0 |
| Thailand | 3.3 | 3.2 | 3.4 |
| Vietnam | 3.0 | 3.0 | 3.2 |

*Source: The World Bank*

**Note: Overall logistics performance in Brunei is not available in The World Bank database*

### 3.1.3 *Eleventh Malaysia Plan aimed towards making Malaysia the preferred logistics gateway to Asia*

The government has pledged investments under the banner "Unleashing Growth of Logistics and Enhancing Trade Facilitation", targeting road, rail, and air services in an effort to improve productivity and efficiency. Policies under the Eleventh Malaysia Plan which is to be rolled out between 2016–2020 have therefore been charted towards new initiatives such as strengthening institutional and regulatory frameworks, improving last mile connectivity, deploying technology throughout the logistics chain, and developing human capital for the industry — all of which are geared towards making Malaysia the "preferred logistics gateway to Asia".

Malaysia is now a member of the recently concluded Trans-Pacific Partnership (TPP) consisting of 11 other countries (New Zealand, Australia, Chile, Mexico, Japan, Peru, Canada, Vietnam, Singapore, and Brunei) which together with Malaysia, represent nearly 40% of global GDP worth USD 30 trillion (RM 124 trillion).

Despite the present lacklustre activity in the logistics industry as a result of dampening international factors, industry players remain optimistic that the inception of the ASEAN Economic Community (AEC) is likely to propel growth opportunities for the logistics industry. The integration of South-east Asia's diverse economies into a single market with 625 million people and a combined gross domestic product of USD 2.5 trillion in 2014 will signify more opportunities for freight forwarding and logistics

service providers. Coupled with ASEAN members coming together to enhance infrastructure and communications connectivity, develop electronic transactions through the e-ASEAN framework, and integrate industries through promotion of regional resourcing, freight forwarding and logistics growth is hence expected to benefit and enable greater speed of delivery of goods. The opening up of the borders among the ASEAN countries and the upgrading of the railway track to the electrified double-tracking from the border of Thailand to Penang and Kuala Lumpur is expected to shorten the transportation time and reduce costs, hence opening up growth potential for increased cross border trades. With free movement of goods, services, investment, skilled labour and free flow of capital in the ASEAN region, cross border trade and services will surge, which will bode demand for logistics and freight forwarding providers. Among the strategies outlined in the masterplan which would enhance the capabilities of logistics service providers, domestically, the government is also looking to intensify the use of technology and provide better connectivity to port entry points. It is expected that the government will be looking to improve trade facilitation mechanisms such as cargo clearance systems, paperless trading and security trade documents. Industry players do however point out that such optimism remains couched against a backdrop of uncertainties and piecemeal progress at the government and interregional level which may tamper growth in the early years of the forecast period. The industry however is confident that once international and domestic frameworks have fallen into place, logistics activity is expected to rise.

## 3.2 Freight Forwarding Service in Malaysia

### 3.2.1 *Healthy revenue receipts in the logistics and freight forwarding services in Malaysia*

Overall revenue receipts of logistics services and freight forwarding services in Malaysia amounted to RM 30,104 million and RM 15,654 million in 2014, representing a CAGR of 4.7% and 3.2% respectively. Growth was mainly supported by the ongoing trend towards outsourcing of logistics to logistics and/or freight forwarding companies and growth in global trade during the historic period. Given that the core of freight forwarding operations revolves mainly around the facilitation and/or movement of goods both within and out of the country, Malaysia's logistics and freight forwarding sector typically mirrors the performance of a healthy trade environment. Overall, healthy trade performance, continued operations of Malaysia's ports, in particular, Port Klang, which remains one of Malaysia's largest container port in the country, handling about 217 million tonnes in 2014, as well as Malaysia's membership to ASEAN community (providing greater liberalisation of trade) bolstered the growth in revenues for the historic period.

**Table 3 Logistics Services and Freight Forwarding Service Segment in Malaysia, Historic (2010–2014)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | CAGR 2010–2014 |
|---|---|---|---|---|---|---|
| Revenue receipts accrued by logistics service providers (RM million) | 25,076 | 25,664 | 26,300 | 28,292 | 30,104 | 4.7% |
| Growth | — | 2.3% | 2.5% | 7.6% | 6.4% | — |
| Revenue receipts accrued by freight forwarding service providers (RM million) | 13,792 | 13,936 | 14,123 | 14,967 | 15,654 | 3.2% |
| Growth | — | 1.0% | 1.3% | 6.0% | 4.6% | — |

*Source: EMI estimates*

#### 3.2.2 *Typical business models for freight forwarders are changing to accommodate increased competition*

The most typical business model for freight forwarders in Malaysia consists of arranging or organising shipments for transport from one point to another coupled with customs brokerage services. While customs brokering is almost always done in-house, smaller companies without the necessary transport or storage assets would act solely as coordinators in the entire process. Larger industry players on the other hand could provide parts of the forwarding service in-house such as ground transport delivery, and even other logistics services such as warehousing.

However, the increasing competition in a highly fragmented market has pushed freight forwarders in Malaysia to adjust their business models towards 'one-stop' solutions, i.e. integrated logistics operations for the companies' needs. Beyond freight forwarding, these 'one-stop' logistics services offer a range of value-added services such as customs brokerage, warehousing, transportation, document managing, shipment tracking, etc., at reduced prices due to the economies of scale generated by the business model. Further, freight forwarders which operate on a non-carrier-operating model are able to reap higher revenues as they are able to provide flexibility in creating and delivering a wide range of logistics solutions at minimal capital expenditure (without fleet acquisition and maintenance costs).

## 4. COMPETITIVE LANDSCAPE

### 4.1 Malaysia's freight forwarding industry remains highly fragmented

The logistics and/or freight forwarding industry remains highly fragmented and competitive with little official oversight on the number and scale of firms throughout Malaysia. Industry players have estimated that in 2014, there had been approximately 10,000 logistics and/or freight forwarding establishments, of which only some 2,000 hold customs broker licences (and just over half this number affiliated to the Federation of Malaysian Freight Forwarders (FMFF)). While several local firms have reported sizable market returns, approximately 70% of the industry revenues the industry continues to be dominated by multinational firms such as DB Schenker, Deutsche Post DHL Group and Nippon Express who have a competitive advantage in economies of scale and wider geographical footprint. The multinational players have more business resources in securing global servicing contracts with multinational companies, and thus are able to provide comprehensive services for freight forwarding, freight tracking and monitoring, and other distribution solutions. The Malaysian government expects that the industry will move towards greater consolidation. Freight forwarding and logistics companies are encouraged to provide integration across various transport intermediaries along the logistics supply chain in Malaysia. This consolidation will allow the companies to compete with the multinational firms on a more equal footing.

Based on data provided by the Group and EMI's industry estimates, the total market size of the logistics market in Malaysia in terms of revenue receipts is estimated to be RM30,104 million in 2014, of which the Group assumes approximately 0.2% share.

### 4.2 Barriers to Entry

The main barriers to entry for a company in the logistics and/or freight forwarding segment remains largely tied to the establishment requirements set out by the Customs Act 1967. For example, establishments that wish to perform customs brokerage services must first obtain a Customs Agent licence from the Royal Malaysian Customs Department. This licence was previously only made to domestic logistics service providers until 2008 when the International Integrated Logistics Services (ILLS) scheme was introduced. It is now open to ILLS providers without any restrictions on equity, so long as they are qualified as ILLS providers as defined by the Malaysian Investment Development Authority (MIDA).

Companies wishing to operate as container haulage operators, may no longer do so. With the opening up of borders within ASEAN as part of the implementation of ASEAN Free Trade Area, the government has since stopped issuing new container haulage licence for new players, so as to be able to compete against additional foreign-based competition.

## 5. FUTURE OPPORTUNITIES AND THREATS TO THE LOGISTICS INDUSTRY

### 5.1 Key Drivers, Trends and Opportunities

#### 5.1.1 *International trade has been a staple of the logistics industry's development*

With Malaysia relying heavily on exports to drive economic growth especially in the manufacturing, and oil and gas industries, the external performance of these sectors have driven the success of the logistics and in particular the freight forwarding industry. It is within industry norms to witness a seasonal pattern of higher demand in the second half of the year (driven by the festive months), as indicated by higher volumes of export trade in Malaysia from August–January, and a slowdown of volumes of export trade in the remaining months of the year between February–July. Increase in exports in the second half of 2015 was fuelled by continued demand of manufactured goods, electrical and electronic products from neighbouring countries such as Singapore, Japan and United States. Recovery in the European region also contributed to the increase in exports. According to the monthly trade of Malaysia in 2015, total exports peaked in the month of October at RM75.81 billion, while total exports was at its low in February at RM53.17 billion. Nevertheless the performance of the logistics industry is not solely tied to exports, where in recent years, high domestic demand has played an increasingly bigger contribution to the sector. The demand of freight forwarding services is highly correlated to the volume of cargo transported inward to or outward from Malaysia. The sustainably high volume of cargo also creates demand for storage of goods, which further supports the provision of other logistics services, such as warehousing service.

#### 5.1.2 *Robust transport infrastructure key to enhancing logistics growth*

In order to facilitate growth, Malaysia has developed a robust transport infrastructure that supports the logistics and freight forwarding industry. This effort led to Malaysia being rank 14 out of 138 countries in the World Economic Forum's "Global Enabling Trade Report 2014" for availability and quality of transport infrastructure. In

another report "2016 Agility Emerging Markets Logistics Index", which ranks emerging markets based on size, business conditions, infrastructure and other factors that make them attractive to logistics providers, freight forwarders, shipping lines, air cargo carriers, Malaysia was ranked 4 out of 45 emerging markets, further recognising the government's drive to develop a world-class infrastructure and transport network. With public spending on transportation growing from RM 14 billion in 2009 to RM 18 billion in 2015 and further structural improvements to its transportation linkages in road, rail and air services, it is expected that the industry will be positively impacted. These include plans to enhance road freight transport productivity, establish freight hubs at strategic locations, improve domestic connectivity to its major ports, and improve domestic connectivity from key airports to Kuala Lumpur International Airport. It is expected that an improved transport infrastructure can bring opportunities to the freight forwarding industry.

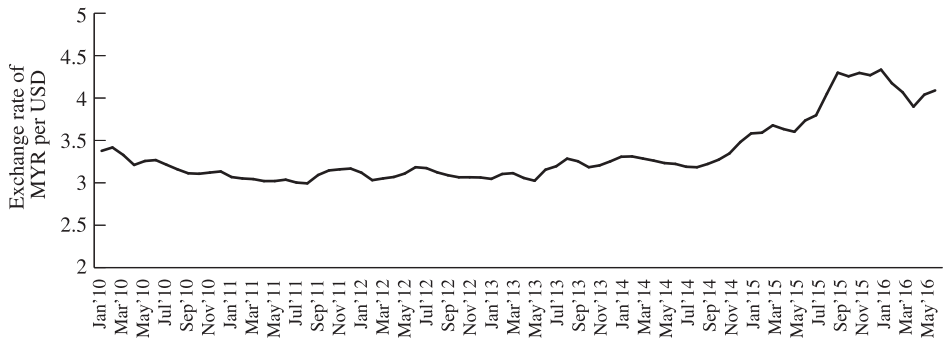
## 5.2. Market Constraints & Threats

### 5.2.1 *Weak exchange rate threaten sectoral performance*

One of the underlying constraints in the freight forwarding industry is the practice of purchasing freight space in international currency. This has become especially important for Malaysia in 2015 as it hit its record lowest rate against the US dollar in September 2015. With private sector investors shaken by the ongoing domestic uncertainties, exchange rate fluctuations continue to pose a risk for the freight forwarding industry.

Malaysia's exchange rate began its decline against the US dollar in 2011 dropping 1.9% in 2013 and a further 3.8% in 2014 due to weaker commodity prices and domestic uncertainties. While industry players note that the cheaper RM will boost demand for exports, there are also concerns that the continued weakening of RM would impact the overall revenues of freight forwarders as the price of international freight space on export-bound cargo will continue to rise, particularly in the long-haul routes (e.g. US, Europe, United Kingdom) against which countries the RM is weaker relative to. Nevertheless, it is expected that this risk is partly mitigated by passing the cost on to consumers whenever possible.

**Exchange rate of Malaysia Ringgit per USD, Historic (2010–2015)**




*Source:* Department of Statistics, Malaysia

#### 5.2.2 *Fluctuation of sea and air freight rates*

While fuel prices are among a number of other factors (including shipping cycles, overall demand for freight transport, political factors such as government regulations and restrictions, the overall growth of the world economy, and the supply of transport modes for freight purposes) affecting freight charges, industry players have reported that the sudden increase and decrease of fuel prices has increased volatility in freight rates over the historic period. There are no official quantitative sources documenting the fluctuations in freight rates. It is worthy to note however, that these costs are typically mitigated by the ability to pass on the fuel charges to its customers in the pricing of logistics services offered.

#### 5.2.3 *Regulatory and policies constraints for players*

The government has recently imposed a demerit system which will come into effect on 1 April 2016 for errant customs agents. Customs agents will have their licences revoked should they accumulate 20 demerit points for offences such as under-valuation of goods, wrong use of codes, and tax evasion. While incremental, the demerit point system would deter customs brokers from misusing the license when carrying out services for customers.

Existing players are also required to renew their licenses pertaining to freight forwarding and/or customs clearance and shipping services after 2-3 years. These are subjected to the approval of the Royal Malaysian Customs Department.

The largest constraint that hindered a faster development of the logistics industry in Malaysia during the historic period lay in the lack of coordination at the policy level among the various agencies tasked with overseeing its development. Despite the launch of the "Third Industrial Masterplan" (IMP3) in 2006 which had already earmarked logistics as a key growth sector, the Ministry of Transport (MOT) noted that it was not until the creation of the "Logistics and Trade Facilitation Masterplan" in 2015, that the industry started seeing minor improvements.

### 5.3 Future Outlook

Malaysia is an export-driven economy, with total export trade values accounting for 72.3% of GDP on average over the historic period. Malaysia's net export (exports less imports) contribution to GDP declined from 13.4% in 2011 to 8.1% in 2015, primarily led by a softer Chinese market demand and depressed oil prices.

Malaysia's export-oriented growth invariably affects the transportation and storage services sector, of which approximately 85% of the sector's performance in 2014 is contributed by the logistics and freight forwarding industry. Over the 2010–2015 period, transportation and storage services sector grew from RM28,998 million to RM37,319 million, contributing to 3.2%–3.5% of the overall GDP. The close links between Malaysia's exports

and its transportation and storage services sector is evident from their growth rates which closely mirrors each other. For example, due to a weak global demand in 2012 and 2013, transportation and storage growth dipped following a sharp drop in export growth over the same period.

With exports projected to rise over the forecast period due to Malaysia's weaker exchange rate, falling oil prices, and gradually recovering markets in Europe, Malaysia's logistics and freight forwarding industry is expected to post relatively higher growth over the forecast period with a CAGR of 6.0% and 5.1% respectively. Year-on-year (y-o-y) growth rates are also expected to be higher than the historic period as several policies from the government's logistics masterplan come into fruition, and greater consolidation takes place within the logistics sector. Nevertheless, logistics growth is expected to rise faster than freight forwarding over the forecast period as external and internal factors could possibility complicate the benefits that greater export numbers might bring to the freight forwarding industry.

**Table 5 Logistics Services and Freight Forwarding Service Segment in Malaysia, Forecast (2015–2019)**

| | 2015 | 2016 | 2017 | 2018 | 2019 | CAGR 2015–2019 |
|---|---|---|---|---|---|---|
| Revenue receipts accrued by logistics service providers (RM million) | 31,732 | 33,776 | 35,638 | 37,640 | 40,030 | 6.0% |
| Growth | 5.4% | 6.4% | 5.5% | 5.6% | 6.4% | — |
| Revenue receipts accrued by freight forwarding service providers (RM million) | 16,405 | 17,226 | 18,104 | 19,046 | 20,055 | 5.1% |
| Growth | 4.8% | 5.0% | 5.1% | 5.2% | 5.3% | — |

*Source: EMI estimates*

### 5.3.1 *Continued investments in infrastructure*

Infrastructure has been a core part of the Malaysian government's development policies and is also a key contributing factor to the success of Malaysia's logistics sector. Massive investments in recent large infrastructure projects, such as the construction of Kuala Lumpur International Airport, the East Coast Expressway and several rapid transit lines are expected to boost growth for the sector as freight forwarding companies can capitalise on these transport networks and boost Malaysia's reputation as a distribution and transhipment hub for domestic, regional and international movement of goods.

On the rail freight transport front, the government is looking to implement a new freight line to divert cargo trains from traffic congested city areas such as Kuala Lumpur Sentral in Brickfields and Kuala Lumpur to Port Klang and Seremban. The new development of an electrified double-track rail for rail freight transport is expected to bring about an increase of cargo capacity to 20 million tonnes by the year 2035 as

compared to the 5 million tonnes on average presently. Alongside other construction rail freight transport project, such as a link from Sungai Buloh to the Subang Skypark bypass line, the rail freight transport is expected to grow healthily, contributing to overall positive outlook for the overall logistics and freight forwarding industry.

Overall, the government's commitment to developing and upgrading its infrastructure is set to expand opportunities for logistics providers and freight forwarders.

**5.3.2** ***The AEC has potential to bring growth to the sector***

Malaysia's sense of urgency in bringing its logistics sector up to speed with stronger competitors in the region has largely been driven by its need to prepare the sector for the eventual AEC Blueprint 2025, which will consist mainly of guidelines toward greater economic consolidation and connectivity. This development will invariably affect the region's logistics hubs as the Blueprint is expected to bring about greater trade facilitation.

Individual ASEAN countries have already begun putting in place national policies to shore up their country's competitiveness as part of their overall development drive, and in preparation for the AEC. Such measures are likely to lead to higher volume of goods moving both within and out of the region which will have a significant impact on the growth of the Malaysian logistics and freight forwarding industry in the forecast period. Industry reports on investing in ASEAN note how in particular that high-value electronics goods have begun to take on greater emphasis in these countries' development plans. In part, this has been driven by the e-ASEAN Framework Agreement signed in 2000, which aims to grow the regional development of e-commerce, liberalise and facilitate trade in information and communications technology, among other strategic goals. Malaysia's electrical and electronics industry is leading the manufacturing sector, contributing significantly to the country's exports at 37.5% of total goods exports in 2014, highlighting its competitiveness in advanced manufacturing technologies.