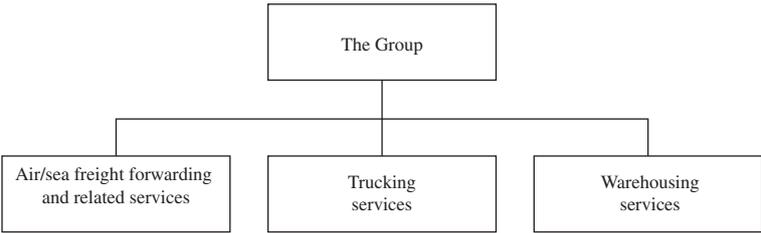

BUSINESS

1. OVERVIEW

The Group is a well-established integrated logistics solution provider founded in Malaysia with over 15 years of history. It principally provides comprehensive international freight services, transportation services as well as warehousing services to customers worldwide. The Group’s services can be presented as follows:



- Air/sea freight forwarding and related services : providing import and export international freight services by air and sea, arranging customs clearance, preparation of freight documentation and cargo handling at ports as well as supporting transportation (includes trucking, haulage and value-added services) and warehousing services as part of the comprehensive services.

- Trucking services : transport cargo from designated locations in Malaysia to ports for exports, and vice versa for imports. It includes general trucking, bonded trucking and value added services such as tracking and tracing of cargo.

- Warehousing services : providing warehousing services in free commercial zone to customers. Value-added services such as providing supply chain management, picking and packing will also be provided upon request by customers.

With an emphasis on customer service, the Company believes in establishing close relationships with its customers in a professional way via effective communication and a comprehensive understanding of the customers’ needs. To support customers’ international business, the Group expands its reach to different parts of the world by being a member of several international freight forwarding networks. Please refer to paragraph 5 of this section for further details.

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Over the years, the Group has built relationships with customers in a spectrum of industries, including electrical and electronic products, automotive, oil and gas, heavy equipment, medical equipment, food supplements, telecommunications, furniture, consumer-related products, and general cargo.

Led by an experienced management team and guided by the Group’s mission statement of “Service with Security”, the Group has grown into an international freight forwarding and logistics services provider in Malaysia. Equipped with more than 150 employees, vehicle fleet and information technology support, the Group is able to handle a considerable amount of customer orders, high value products as well as products that need special handling such as notebooks and passports.

The Directors believe that the Group is well positioned to capture the growth opportunities in the freight forwarding and logistics services market and will benefit from the growing demand for relevant services from its potential clients, particularly with the inception of AEC on 31 December 2015. With free movement of goods, services, investment, skilled labour and freer flow of capital in the ASEAN region, cross border trade and services will increase, which will bode well for the demand for the Group’s services.

The Directors believe that the trade facilitation mechanism such as cargo clearance system, paperless trading and security trade documents expected to be used by the Malaysian government will speed up the entire customs clearance process and hence improve efficiency and timeliness of the deliveries and services provided to the Group’s customers.

Massive investments in new large infrastructure projects which were completed in recent years, such as 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 transshipment hub for domestic, regional and international movement of goods. 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 five million tonnes on average presently. Overall, the Malaysian government’s commitment to developing and upgrading the infrastructure is set to expand opportunities for logistics providers and freight forwarders.

2. COMPETITIVE ADVANTAGES

The Directors believe that the following competitive advantages are the key factors to the Group’s success and will enable the Group to further develop its business in the future.

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2.1 The Group offers a wide range of services, enabling its customers to engage the Group as its logistics partner for their various logistics needs

The Group offers a comprehensive and wide range of services to meet its customers’ needs, including air/sea freight forwarding and related services, trucking and warehousing related services. In addition, the Group provides value-added services such as supply chain management services including pick & pack, distribution and stock & inventory report, security escort services and tracking services. These services are complementary to one another, and provide customers a wide range of services with cost savings. The Directors believe that the Group’s range of services can give it an edge over the local service providers in Malaysia that only offer limited types of freight forwarding and logistics services.

Other than the above, the Group also assists customers in managing their costs through customs advisory services. The Group’s experience in the freight forwarding industry allows it to (i) service the customers to move their cargo at competitive rates; and (ii) cope better with the new demerit point system effective from April 2016 in relation to the custom clearance process. Please refer to paragraph 5.2.2 of the section headed “Industry Overview” in this document for further details.

The Group believes that its ability to provide a wide range of services not only allows it to support its customers with customised logistics solutions, but also lead to enhanced collaborations and relationships with its customers so as to grow in the logistics industry.

2.2 The Group’s emphasis on quality and reliable services and has built up a reputation in the industry

The Group’s focus on customer services and effective communication enables it to retain existing customers and obtain new customers through referral and word of mouth. The Group takes a holistic approach in its service provisions by discussing with its customers in relation to (i) their delivery plan, including the points of delivery and delivery schedule; (ii) their warehousing plan, including the storage requirements; and (iii) their other logistics requirements such as just-in-time delivery services. Through communications with its customers, the Group can better serve its customers so that their needs can be satisfied and their problems can be resolved.

Reputation takes time and effort to build up. In June 2012, Port Klang Authority of Malaysia issued a letter of support recommending the Group to other companies for its professional services. Further, it is stated in the letter of support that the Group has demonstrated an in-depth industry know-how and competency in just in time delivery particularly for time sensitive cargo.

Since incorporation and up to the Latest Practicable Date, the Group has only one settled cargo theft claim amounting to RM\$7,970 in 2007, therefore, the Directors are of the view that the Group has a low cargo theft record. It is due to the Group’s commitment to risk management and providing service with security, together with its experience in moving high value and theft attractive cargo. This is a niche area with high demand and such cargos often have the risk to theft. The Group implemented standard operating procedures and guidelines for prevention of cargo theft

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for its drivers and employees to comply with. The drivers are advised to plan routes to ensure truck stops and rest areas are reputable and well-lit, back trailer doors up against buildings and fences to make it difficult for thieves to open trailer doors. In the event of emergency, the drivers are required to call the police and their superior immediately. The Directors believe that such trust placed on it by customers is testament to the Group’s service quality. This could also lead to new business opportunities through referrals from existing customers.

2.3 The Group’s management team has extensive experience and in-depth knowledge

The Group’s management team has extensive experience, in-depth knowledge and strong expertise in the logistics service industry. In particular, Mr. Lee, the chairman of the Group, has more than 25 years of relevant experience, and his expertise has led him to be awarded the Brand Laureate SMEs Brand Leadership Award in the category of Logistic Man of the Year in 2014. Mr. Chin, chief executive officer of the Group, with more than 17 years of relevant experience, has knowledge and understanding of the industry which has helped the Group to grow its sales department. Mr. Chin continuously equips himself with knowledge on the requirements imposed by relevant authorities in connection with the logistics industry. For example, he attended a customs agent course organised by Royal Malaysian Customs Academy in 2015. The executive Directors keep themselves abreast of the industry developments and their business philosophies are “Professionalism with Sincerity” and “Success with Prudence”. The Directors value people and it is their wish to see the employees grow with the Group.

2.4 The Group has a people-oriented management culture and emphasis on professionalism

The Directors believe that the Group’s success relies on the industry expertise of the employees, and on the familiarity with the nature of the international freight forwarding services and in-depth know-how about the tariffs for different cargo across different countries based on various free trade agreements, as well as awareness of changes in the rules and regulations in the industry globally. Hence, the Group invests resources in building up the competency of its employees, which it likens to human capital. The Group’s management also puts an effort into establishing the employees’ sense of belonging to the Group and fostering a strong corporate culture by organising bonding activities from time to time.

The majority of the Group’s employees are trained in logistics management, and have experience in the logistics service industry. This is further strengthened by the Group’s practice of exposing its employees to cargo handling at port terminals and through external training such as the dangerous goods regulations training. The regular training sessions provided by the Group to its staff also aim to build their competencies to be critical thinkers and problem solvers. For example, in case when a customer needs to move its cargo to a specific destination within a given time frame at low cost, the staff will reach out to the airliners and ocean liners to come up with multiple logistics options (either through air, sea or a combination of both) at the most competitive rates for each option before advising the customer on the available solutions to meet its requirements.

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2.5 The Group maintains a diversified customer base

The Group has experience in providing logistics services to the electronics industry and the small and medium-sized enterprise sector. In 2010, the Group was appointed as an agent to Company F, an international freight forwarding service provider and a group member of a listed company in US. Leveraging on Company F’s extensive network and the Group’s experience in import/export of sea and air freight cargos to/from Malaysia, the Group expanded its business to multinational corporations. Apart from the electronics industry, the Group had successfully built up a diversified customer base across various industries including healthcare, automotive, oil and gas, food, telecommunications, furniture, consumer-related products, and general cargo. The Group has a sizeable customer database comprising both freight forwarder customers and direct customers, including international conglomerates. As at the Latest Practicable Date, the Group has maintained business relationship with its largest customer, Company F, for over six years. Please refer to paragraph 8 of this section for further details.

The Group believes that it is vital to continue expanding its customer base and, at the same time, maintain long standing relationships with its customers from different industries by understanding the changing needs and providing solutions to cater to the unique requirements from customers of different industries. Therefore, the customer service department communicates with the customers and gathers feedback for the Group’s continual improvement. The Group is therefore able to maintain continued business relationships with its customers. In particular, it has maintained business relationships ranging from three to 16 years with its five largest customers during the Track Record Period. The Group believes that this is an indication of the customers’ loyalty and recognition of its service quality and it considers this recognition as a key factor leading to the Group’s success in the freight forwarding and logistics industry in Malaysia.

2.6 The Group has a close working relationship with its suppliers

The Directors believe that one of the key factors to the Group’s expansion is the close working relationships with suppliers such as shipping liners, airlines, overseas freight forwarders and trucking companies.

The Group’s five largest suppliers during the Track Record Period have established business relationship with the Group for periods ranging from about three to 16 years. In order to maximise flexibility, the Group has not entered into any fixed-term or exclusive agreements with its suppliers. The Directors believe that effective communication is the key to maintaining a long-term relationship with its suppliers. The Group views its suppliers as partners and believes that they share a common goal of growing together in the logistics industry.

2.7 The Group is ISO certified

The Group has been awarded the ISO 9001:2008 (UKAS, DSM) Quality Management System Standards Certificate in provision of air freight, sea freight, trucking and warehousing (logistics) services since 2009. The Directors believe that this certification can boost its customers’ confidence on the services provided by the Group.

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Being in a service industry, the Group emphasises on consistently upholding the quality of its services. To this end, the Group has in place a quality management team which carries out checks on different departments’ processes on an annual basis, to determine the effectiveness of implementing the quality management system against the requirements of ISO 9001:2008 and the Group’s established requirements. The quality management team is headed by Ms. Tan Yeot Theng, senior vice president of operations, and supported by Ms. Ng Wat Lee, senior customer service manager. As at the Latest Practicable Date, they lead a team of eight internal auditors in carrying out the internal audit checks.

3. BUSINESS STRATEGIES

The Group aims to strengthen its position as an integrated logistics solution service provider in Malaysia. To achieve this, the Group intends to focus on the following strategies:

3.1 Further expand its business in major gateways of Malaysia

The Group’s presence in major gateways of Malaysia is characterised by representatives or branch offices in major trade hubs such as Port Klang, Kuala Lumpur International Airport, Penang, Johor and Malacca. In recent years, the Malaysian government has announced several plans to develop areas such as Batu Kawan, Iskandar and Malacca.

- (i) Batu Kawan in Penang is a major and new industrial and commercial area chosen by the Malaysian government to develop into a bustling industrial hub. Foreseeing business opportunities, the Group will continue to put in more resources to expand its branch office in Penang. Leveraging on the in-depth knowledge in logistics business in Malaysia, the Group has become one of the multinational manufacturers’ regular forwarding and logistics solution providers with the support of its business partners such as Company F. Since 2011, the Penang branch has grown from one employee to 49 employees with international customers to support its growth. So far as the Directors are aware, many companies are in the process of constructing their manufacturing plants in Batu Kawan. The Directors expect there are still ample business opportunities in Penang to cultivate multinational companies as customers.
- (ii) Iskandar is the main southern development corridor in Johor. There are two sea ports in Johor, namely Johor Port and Port of Tanjung Pelepas. According to the Iskandar Regional Development Authority, since 2006 until November 2015, Iskandar-Malaysia has recorded about RM187.96 billion in total cumulative committed investments. The Group foresaw increasing business activities and demand of logistics service in Johor, therefore branch office was set up in 2014 to provide supporting services for the integrated logistics solution services. This gives the Group an edge by improving the efficiency of the Group in providing services to its customers and overseas freight forwarders in Johor.

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(iii) Malacca is located in the southern region of Malay Peninsula next to the Straits of Malacca. In February 2015, the Malaysia Transport Minister announced that the existing port in Malacca would be expanded to become an international shipping port after China identified Malacca as part of its 21st Century Maritime Silk Route economic belt. In September 2015, a memorandum of understanding was signed between Malacca and Guangdong Province of China to develop a Maritime Industrial Park, the Guangdong-Malacca Industrial Estate for manufacture of electrical consumer goods, the construction of a deep-sea port in Malacca and the provision of land-use areas for purposes of trade and commerce. The Directors envision great potential of Malacca being transformed into the largest port in South East Asia once the huge investment brought by the Chinese materialises. The Directors have put their foresight into action and set up an office in Malacca in October 2015.

In November 2015, the Transport Minister of Malaysia announced that China’s investment of USD10 billion in Malacca Gateway project can further spur the growth of seaports in the country to be on par with harbours in the region.

3.2 Expand the scope of services to cover cross border trucking, haulage and rail freight

As a freight forwarding and logistics provider, the Group is well-positioned to provide logistics services to its customers in Thailand and other ASEAN countries in light of the formation of AEC on 31 December 2015.

The integration of Southeast Asia’s diverse economies into a single market with 625 million people and a combined gross domestic product of USD2.5 trillion in 2014 will signify more opportunities for the Group. Coupled with ASEAN members, they come together to:

- enhance infrastructure and communications connectivity;
- develop electronic transactions through e-ASEAN framework; and
- integrate industries through promotion of regional sourcing, etc.

AEC will transform the ASEAN economy into a region with free movement of goods, services, investment, skilled labour and freer flow of capital. The Directors believe that 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 will shorten the transportation time and reduce costs and open up growth potential for cross border trades. In view of this, the Group intends to expand its trucking and haulage services to the southern part of Thailand and provide logistics services using railway so as to capture the growing opportunities in the demand for this service. Warehouses are expected to be set up in Penang and Padang Besar, Perlis, located at the border of Thailand, as distribution centres.

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The Directors believe that rail freight can provide synergy for the Group’s existing freight forwarding business. The rail freight can reach out to customers along the Singapore-Kunming Rail Link, e.g. customers in Thailand and Singapore. In other words, the Group intends to position itself to transporting goods (i) between the countries along the rail link and Malaysia; and (ii) to or from the countries along the rail link via Malaysia to the rest of the world. Between the countries along the rail link and Malaysia, the goods can be transported via rail freight forwarding services, and trucking services for the last mile delivery. From Malaysia to the rest of the world via air/sea freight forwarding services.

Based on EMI’s report, the rail cargo capacity will increase from 5 million tonnes on average presently to about 20 million tonnes by the year 2035 with the new development of the electrified double-track rail, the Directors believe that more land freight (rail and truck) is expected along the Singapore-Kunming Rail Link and expect that the transit time from Bangkok to Port Klang (where the Group’s self-owned warehouse is located) by rail will shorten by half as compared with that of sea freight.

3.3 Further strengthen the information technology systems

The Group intends to consolidate, upgrade and maintain the information technology systems across various functions, and is in discussion with programmers to finalise the web-based *Freight Management 3000* system. The system will allow the Group to integrate the functions of customer service, operations, warehousing and accounting into one centralised system. At the same time, the system will allow customers to track and trace their cargo, and monitor the level of inventory they have placed for storage at the Group’s warehouses.

3.4 Attract and retain talented and experienced employees

The Directors believe that the Group’s success depends on its ability to hire and cultivate experienced, motivated and well-trained employees. The Group will continue to offer its employees competitive welfare packages and the opportunity to grow with the business. In 2015, the Group embarked on its recruitment drive by joining a career fair organised by the Northern University of Malaysia. This underpins the Group’s commitment to attract young talents to join the Group.

3.5 Grow the business strategically through business acquisitions or business collaboration

The Group has a global network of agents to support its regional freight forwarding business expansion. It will continue to maintain its performance within the industry and enhance its competitiveness. The Directors believe that, apart from expanding the scope of the services to cover cross border trucking and haulage, rail transport, seeking collaborations with or acquisitions of appropriate service providers will be critical in enabling the Group to achieve economies of scale, enlarge its customer base and expand its service offerings to the market. The Directors believe that the future business partners or acquisition targets should be able to create synergy with the business of the Group and located in other countries such as Singapore, in which the Directors understand that it allows foreign ownership to operate in the logistics industry. As at the Latest Practicable Date, the Group had not identified any business partners or acquisition targets and will only

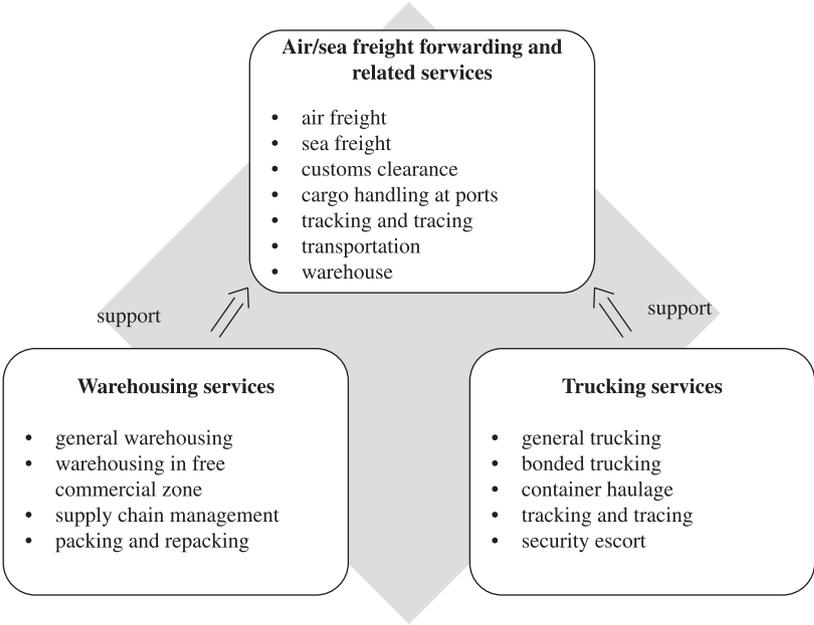
BUSINESS

commence identifying potential targets after [REDACTED]. The Company will conduct background checks on the target and its management team upon identifying the same. The Directors will select business partners or acquisition targets base on (i) its growth potential; (ii) its ability to create synergy with the Group’s existing business in term of market share and value creation/cost savings; (iii) experience of its management team with not less than five years experience; (iv) its reputation and (v) track record period of at least three years. Currently, the Group intends to target small and medium-sized enterprise in Singapore with less than 100 employees.

4. SERVICES AND OPERATIONS

The Group offers a wide range of freight forwarding and integrated logistics services to meet its customers’ needs, as shown below. The scope of services that the Group provides to its customers varies and depends on their specific needs and requests. Its mission statement of “Service with Security” clarifies the Group’s focus on helping customers to manage their cargo in a secure manner, so as to minimise the risk of theft and loss. The Group’s management team members have equipped themselves with risk management knowledge by attending risk management training, such as understanding ISO 9001:2000 quality management system. The Group has also formulated and implemented security policies and procedures as well as setting up a security task force headed by Mr. Chin to ensure compliance of such policies and procedures. Moreover, the Group will also try its best to provide customers with options on better and more cost effective means to transport their cargo.

The following sets out the Group’s principal services:



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The following table sets out the revenue by types of services typically offered by the Group during the Track Record Period:

| Type of service | Year ended 31 December 2014 | | Year ended 31 December 2015 | |
|---|--------------------------------|------|--------------------------------|------|
| | RM'000 | % | RM'000 | % |
| 1. Air freight forwarding and related services ⁽¹⁾ | 27,101 | 44.9 | 47,243 | 56.9 |
| 2. Sea freight forwarding and related services ⁽²⁾ | 30,931 | 51.2 | 32,744 | 39.4 |
| 3. Trucking and warehousing related services ⁽³⁾ | 2,343 | 3.9 | 3,057 | 3.7 |
| | 60,375 | 100 | 83,044 | 100 |

Notes:

- (1) Air freight forwarding and related services represent comprehensive services which includes import & export air freight, customs and clearance, local trucking and haulage to and from airport and customers/warehouse, other services related to air freight.
- (2) Sea freight forwarding and related services represent comprehensive services which includes import & export sea freight, customs and clearance, local trucking and haulage to and from seaport and customers/warehouse, other services related to sea freight.
- (3) The amounts represented the trucking and warehouse services which did not involve air freight or sea freight services.

4.1 Air/sea freight forwarding and related services

The Group is principally involved in the following:

- obtaining cargo space from airlines, shipping lines or relevant agents;
- arranging customs clearance and cargo handling at ports in Malaysia on behalf of direct customers or freight forwarders customers, including paying customs duties on behalf of customers;
- delivering the consigned shipments to the destinations requested by direct customers or freight forwarders customers; and
- storage of goods.

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The Group is a member of six freight forwarding networks, and the connection with a wide range of network freight forwarders from different parts of the world boosts the Group’s capability to meet its customers’ needs. The Group will engage overseas freight forwarders to handle logistics services overseas. The overseas freight forwarders will also engage the Group to handle logistics services in Malaysia. Please refer to paragraph 5 of this section for further details.

The following charts set out the general provision of international freight services by the Group for exports and imports respectively:

Chart 1: Exports out of Malaysia

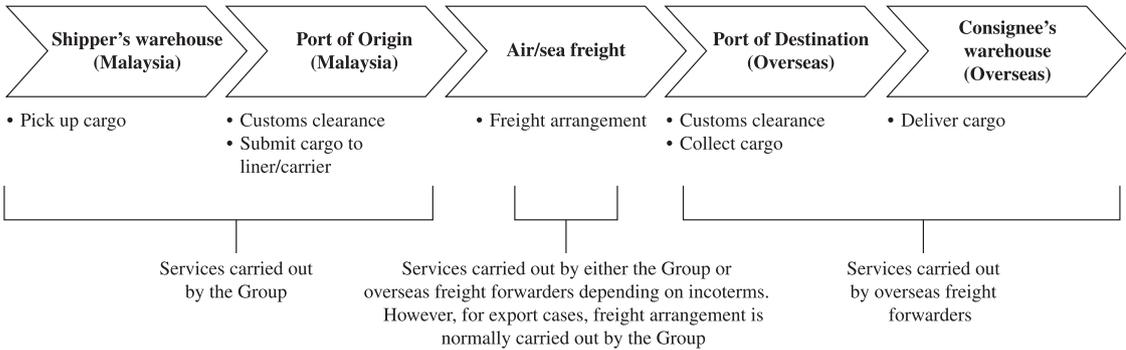
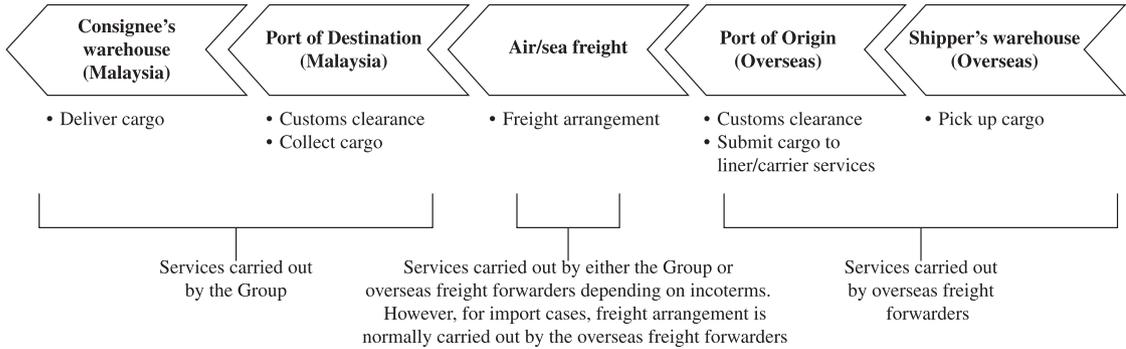


Chart 2: Imports into Malaysia



The Group provides value-added services in conjunction with international freight services such as cost management: (i) the Group advises customers on the correct customs codes to be used for their cargo when completing customs clearance forms to avoid additional costs incurred due to wrong code being filed; and (ii) the Group also assesses overseas freight rates from different carriers/liners in order to provide a better and cost efficient solution that tailors to the customers’ requirement. The Group also liaises with shippers and consignees with respect to monitoring the cargo shipments from booking of freight services till delivery of the cargo.

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In some cases, the Group offers to station its staff at its customers’ workplace to provide timely assistance to fulfill its customers’ needs and to resolve and answer forwarding and logistics issues and queries on the spot. For further details, please refer to paragraph 6 of this section. The Directors believe that the wide scope of value-added services provided by the Group is one of the competitive advantages that the Group enjoys.

4.1.1. Air freight forwarding and related services

Air freight forwarding and related services make up the largest business segment of the Group for the year ended 31 December 2015.

For export shipment, it involves cargo pick up, obtaining cargo space, document preparation, engaging overseas freight forwarders for the customs clearance and delivery at destination. The Group normally obtains cargo space from the airlines or its appointed agents directly.

For import shipment, it involves checking of the estimated date of arrival and preparing of the documentation for customs clearance upon receiving the pre-alert notification from overseas freight forwarders or customers. Goods will be delivered upon receiving the instruction from overseas freight forwarders or customers.

The Group purchases cargo space from airlines for its services. Air freight charges represented approximately 32% to 44% whereas sea freight charges represented approximately 7% to 9% of the Group’s cost of sales during the Track Record Period. Please refer to paragraph 5.2 of the section headed “Financial Information” in this document for further information.

4.1.2. Sea freight forwarding and related services

The Group’s provision of sea freight forwarding and related services is the second largest of its business segments for the year ended 31 December 2015 and involves organising shipments for customers and overseas freight forwarders, and managing bookings for cargo space for these shipments. For export cargo, the Group usually obtains cargo space from shipping agents who are responsible for selling cargo space of the shipping lines in their service regions. For import cargo, the freight arrangements are usually handled by the shippers or overseas freight forwarders appointed by the Group. The Group also assists customers and overseas freight forwarders on customs clearance at the port customs.

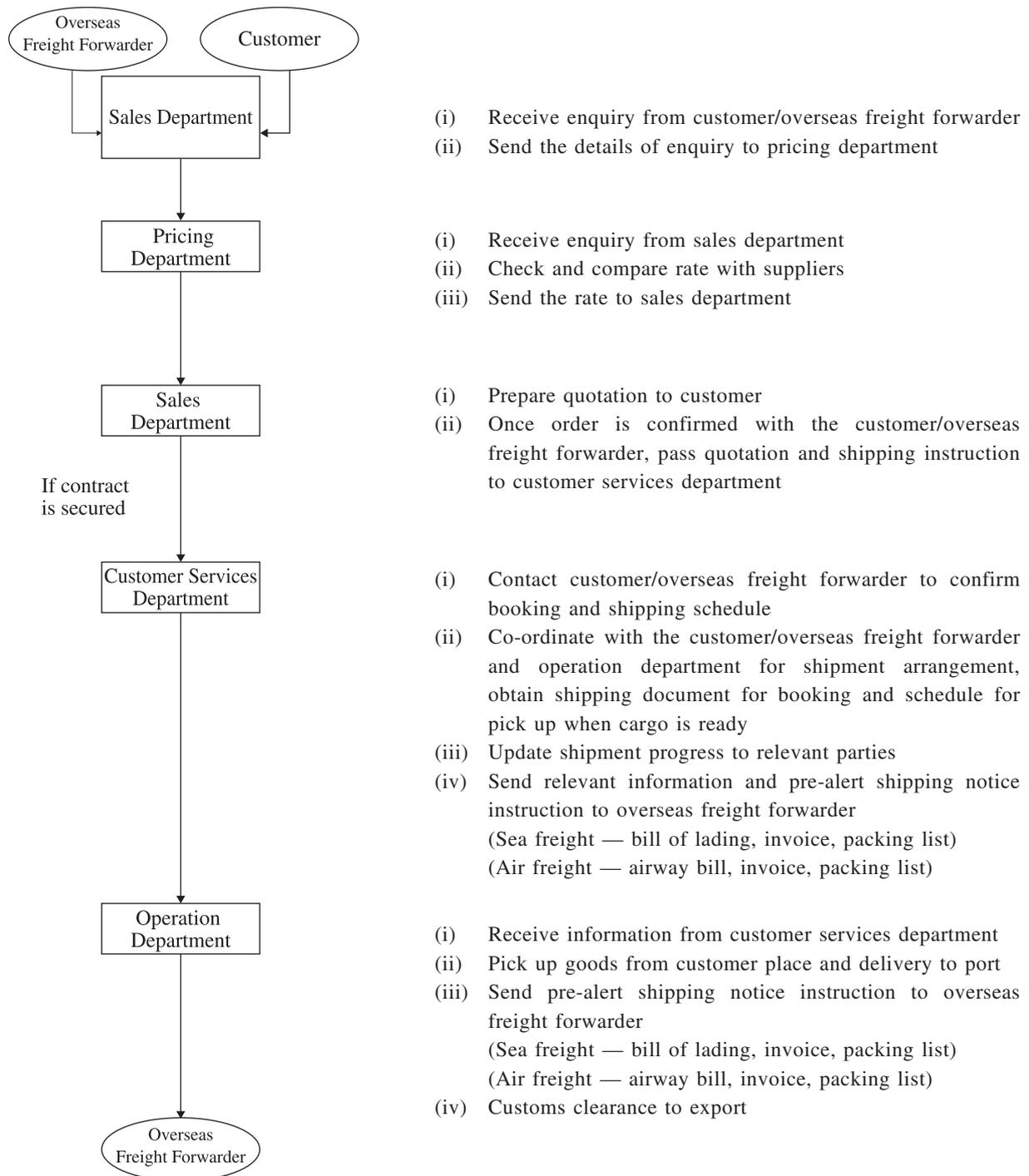
The sea freight services provided by the Group include the following:

- LCL (Less than Container Load) service;
- FCL (Full Container Load) service; and
- Over-sized project cargo which does not fit into a standard shipping container.

The following charts set out the workflows of exports and imports freight services provided by the Group, respectively.

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Chart 3: Workflow of export freight services⁽¹⁾

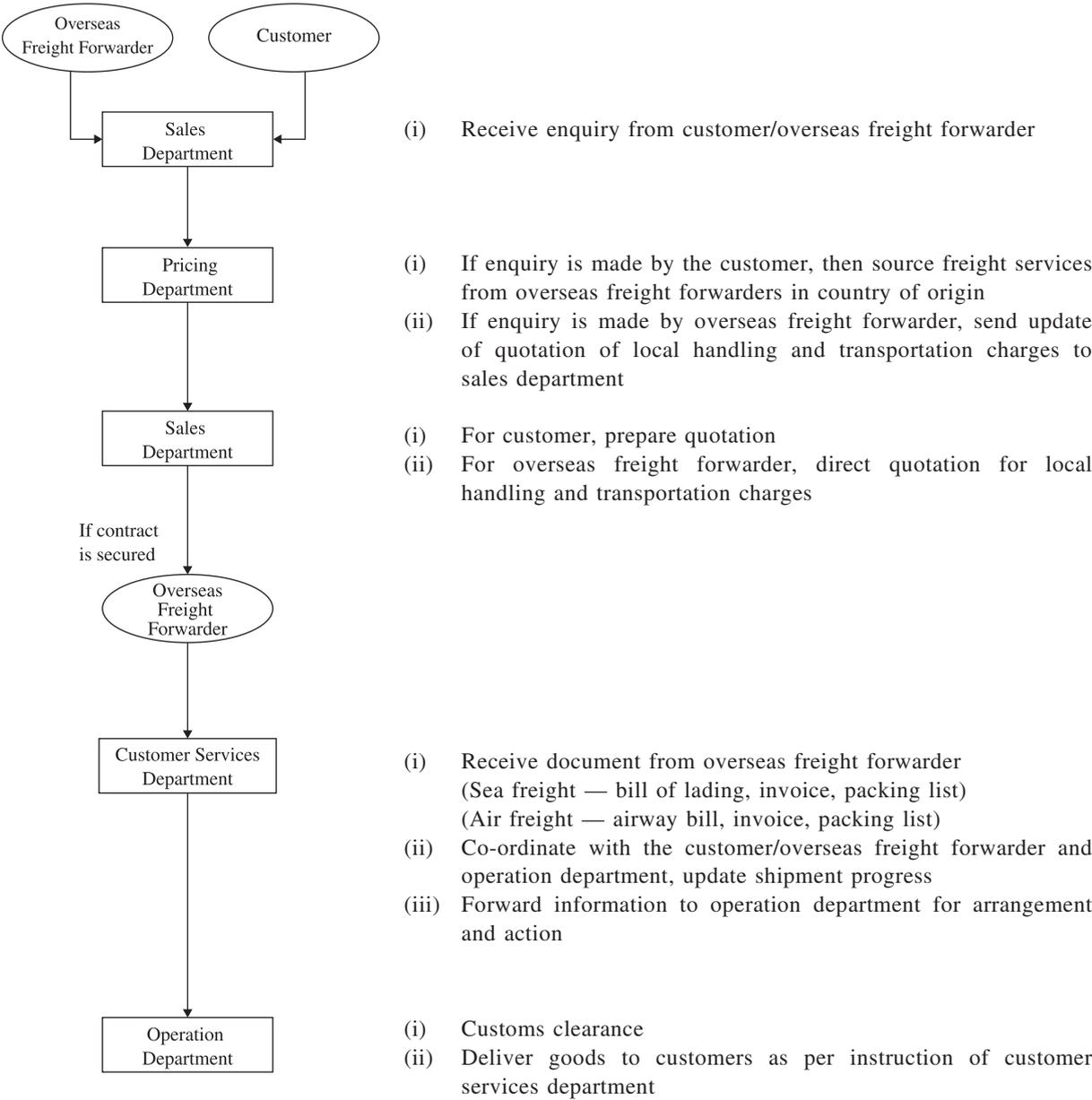


Note:

- (1) This flowchart of export freight services is based on the general arrangement with customer/overseas freight forwarder. There will be some variation of workflow for different incoterms.

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Chart 4: Workflow of import freight services⁽¹⁾



Note:

(1) This flowchart of import freight services is based on general arrangement with customer/overseas freight forwarder. There will be some variation of workflow for different incoterms.

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4.2 Trucking and related services

To support its international freight business, the Group offers trucking and related services, comprising transporting cargo from warehouses or designated locations to ports and vice versa. As at 31 December 2015, the Group owned a fleet of 25 trucks, 10 prime movers and 69 trailers to support transportation of containers and loose cargo. The vehicles are of various sizes and tonnages to support its trucking and haulage activities. Trucks are also fitted with GPS, an indication of the Group’s commitment to its mission statement of “Service with Security”. As at 31 December 2015, the Group had 25 employees responsible for trucking and haulage services, led by four supervisors and managers.

The Group provides the following trucking and related services:

- General trucking — transporting general merchandise that does not require refrigeration, controlled humidity, or other special handling.
- Bonded trucking — transporting cargo with unpaid duty. To operate bonded trucks in free commercial zone across Malaysia, approval from the Royal Malaysian Customs Department is required. The cargo is sealed by a customs officer before leaving the free commercial zone, and is removed by a customs officer when the bonded cargo reaches its destination (which is another free commercial zone).
- Container haulage — moving containerised cargo over land.

The Directors believe that risk management is important, particularly with high value cargo like laptops and sensitive cargo like passports. Staff are trained to carry out checks on cargo to ensure they are not tampered with. Trucks are equipped with GPS (to monitor cargo on real-time basis), immobilisers (to cut the engine), panic buttons for drivers in case of hijacking. The Group also provides security escort services especially for high-value cargo that is prone to hijacking.

In order to increase the flexibility and cost effectiveness in carrying out its transportation service, the Group will also engage independent subcontractors where the need arises. Please refer to paragraph 7.1 of this section for more details.

4.3 Warehousing and related services

The Group offers warehousing services to its customers as part of the integrated logistics solutions services. During the Track Record Period, the Group mainly engaged Independent Third Parties to provide its warehousing services in Port Klang, Kuala Lumpur International Airport and Penang Airport.

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In September 2015, the Group rented a warehouse in Port Klang and provided its own general warehousing services. The goods stored by the Group for its customers were general merchandise including electronics and electrical products, medical products, food supplements, telecommunications, furniture, consumer-related products, and general cargo. The warehouse was in temporary use and has terminated upon shifting to its owned warehouse. In March 2016, the Group’s owned warehouse in Port Klang with the gross floor area of approximately 6,366 sq.m. (total land area of approximately 11,466 sq.m.) was set up for operations.

In October 2015 and February 2016, the Group rented warehouses in the free commercial zone area in Penang airport and Kuala Lumpur International Airport, respectively. These warehouses are in operation since April 2016 to support its international freight services. The warehouses in the airports can be served as temporary storage places for goods in transit or transport to consignees in Malaysia. As the warehouses are located at free commercial zone, goods can be stored without paying duties on them. Duties will come due only when the goods are released for sale. If the goods are for re-export, duties will not be incurred. For laws and regulations related to free commercial zone, please refer to the section headed “Regulatory Overview” in this document for further details.

The Group has obtained the certificate of membership from TAPA (Transported Asset Protection Association) as a registered Corporate Lite Member of TAPA Asia Pacific from 1 January 2016 to 31 December 2016. TAPA is a global forum that unites global manufacturers, logistics providers, freight carriers, law enforcement agencies and other stakeholders with the common aim of reducing losses from international supply chains. TAPA certified companies must pass a detailed independent physical premises audit to ensure compliance with numerous Facility Security Requirements (FSRs). The FSRs specify the minimum standards for security throughout the supply chain and the methods used to maintain those standards.

Additional warehousing services provided by the Group are:

- Supply chain management, such as pick & pack, distribution, stock & inventory reports to facilitate efficient and effective monitoring and coordination of flow of goods from manufacturers, warehouses, transporters, and customers.
- Packing and re-packaging services — sorting, wrapping, sealing and labelling customer’s goods for transport and distribution.

As at Latest Practicable Date, spreading over three locations in Kuala Lumpur International Airport, Penang airport, and Port Klang (located near the two sea ports (west port and north port) in Port Klang), the Group is providing warehousing services in the warehouses equipped with closed circuit surveillance systems.

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5. FREIGHT FORWARDING NETWORKS

To support the air/sea freight forwarding and related services, the Group joined six global freight forwarding networks. The members of the networks are freight forwarders from more than 186 countries which cover developed countries in US, Europe, Australia, Asia as well as countries in Africa, Latin America and Middle East. As at 31 December 2015, the total number of network members are more than 6,000.

The Directors believe that the benefits of joining the networks include the following:

- the Group has access to quality freight forwarding partners in various parts of the world, whom it can rely on to carry out customs clearance and cargo handling at the overseas ports for both imports and exports;
- there are more opportunities for the Group to find new freight forwarding partners and attract new business through these partners;
- the Group can rely on high standards of service provided by the freight forwarding partners as the network organisations will normally assess the freight forwarders carefully and conduct background and credibility check before accepting them as the member of the networks; and
- the Group can utilize the worldwide freight forwarding networks to provide a complete range of international freight forwarding services which allows its customers to obtain point-to-point pick-up and delivery services from worldwide origins to Malaysia and from Malaysia to worldwide destinations.

Apart from network overseas freight forwarders, the Group also engaged Independent Third Party non-network overseas freight forwarders which are usually recommended by the Group’s existing customers or suppliers. The Group will check and evaluate the non-network overseas freight forwarders’ background prior to any business cooperation. It is also the Group’s policy to request payment from the freight forwarder prior to releasing of shipment or shipment documents for first time cooperation. The Group will follow up and monitor the shipment closely to ensure that the overseas logistics services are satisfactorily carried out.

For all business transactions between the Group and the overseas freight forwarders, the Group will handle the freight, local transportation and customs clearance in Malaysia, whilst the overseas freight forwarders will provide similar services in their countries.

As the network overseas freight forwarders are governed by the terms imposed by respective networks, no agreement is signed except where agreements are requested by these overseas freight forwarders for approval of payment purposes. A summary of the key terms generally included and imposed by the six global freight forwarding networks are set out below:

- to work closely and support network members;
- 50/50 profit split from air or ocean freight revenues;

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- 30 days from the invoice date or 15 days from the receipt of a statement of account covering the previous month's transactions;
- to follow up in a timely manner for all sales and operation communication;
- to comply with the rules and regulations set by any other national or international shipping, forwarding or maritime association; and
- the party performing the service shall bear the risk of loss or damage. Further, each party shall indemnify each other against any claims or liabilities which are brought against one party on account of negligence, wrongful misconduct, loss of or damage to property and breach of the agreement by the other party.

In some cases, agreement may also be signed with the non-network overseas freight forwarders. Below are the key terms generally included in such agreement:

- to provide each other with sales leads and/or specific instruction on purchase orders;
- to follow up in a timely manner for all sales and operation communication;
- profit will be shared on a 50/50 basis for secured shipments that are mutually sold and/or mutually routed freight; and
- the non-network overseas freight forwarders will indemnify the Group against all reasonable claims, damages or costs occasioned by, any acts or default of the non-network overseas freight forwarders or their officers, employees, agents and representatives.

During the Track Record Period, the revenue derived from overseas freight forwarders amounted to approximately 32.3% and 46.0% of the Group's revenue for the financial years ended 31 December 2014 and 2015 respectively. Out of which, the Group estimated that overseas non-network freight forwarders contributed to less than 4% of the Group's revenue during the Track Record Period. Please refer to the table as disclosed in paragraph 6 of this section for further details. In the absence of a duly signed agreement between the Group and some of the non-network overseas freight forwarders, the transactions entered with the Group is governed by the Standard Trading Condition of Federation of Malaysia Freight Forwarders which limits the liability of the Group in the event that claims raising against the Group due to the Group or its appointed overseas freight forwarders negligence or wrong doing. Furthermore, in accordance with the Group's insurance policy for marine comprehensive combined transit liability, the Group will only be legally liable to pay compensation for goods under its care, custody and control. The Group has signed written agreements with approximately 70% of its non-network overseas freight forwarders prior to the [REDACTED]. The remaining approximately 30% of the non-network overseas freight forwarders are inactive and have not been actively involved in the Group's business for the two months immediately prior to the Latest Practicable Date. Please refer to paragraph 18 of this section for further details. During the Track Record Period, the Group has not experienced any failure on the part of its non-network overseas freight forwarders to properly discharge of obligations in providing freight forwarding services to the Group.

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Going forward, the Group intends to sign written agreements with all non-network overseas freight forwarders to effectively safeguard its interests in the event that such non-network overseas freight forwarders fail to properly discharge their obligations in providing freight forwarding services to the Group containing clauses that stipulate that non-network overseas freight forwarders shall indemnify and warrant the Group against any claims or liabilities which are brought against the Group on account of negligence, fault or breach of the agreement by the non-network overseas freight forwarders. In addition, the Group will also ensure that all written agreements and relevant documents will contain the Group’s standard terms and conditions to ensure adequate protection in all cases.

Please refer to charts 1 and 2 of paragraph 4.1 of this section which shows the parties normally in charge of handling the freight arrangements for exports and imports.

The responsibilities of the Group and the overseas freight forwarders are defined by the incoterm of each shipment transactions. According to the incoterm, the overseas freight forwarders will provide logistics services overseas, the Group will be responsible for the logistics services in Malaysia. For air/sea freight arrangement, the responsibilities of the Group and the overseas freight forwarders may vary depending on the incoterm of each transaction.

6. CUSTOMERS

The Group’s customers comprise direct customers and freight forwarder customers. During the Track Record Period, none of the Directors, their close associates or any Shareholder (who or which, to the knowledge of the Directors own more than 5% of the issued share capital of the Company as at the Latest Practicable Date) has any interest in any of the top five largest customers, all of which are Independent Third Parties. Some of the Group’s customers during the Track Record Period are also its suppliers as they are freight forwarders whom the Group relied on for their freight forwarding services.

The Group’s turnover by customer category during the Track Record Period is set out as below:

| | Year ended 31 December 2014 | | Year ended 31 December 2015 | |
|---|--------------------------------|--------------|--------------------------------|--------------|
| | RM’000 | % | RM’000 | % |
| 1 Freight Forwarding and Logistics | 22,808 | 37.8 | 40,287 | 48.5 |
| (a) Overseas network freight forwarders | 17,729 | 29.4 | 35,408 | 42.6 |
| (b) Overseas non-network freight forwarders | 1,764 | 2.9 | 2,792 | 3.4 |
| (c) Local freight forwarders | 3,315 | 5.5 | 2,087 | 2.5 |
| 2 Direct Customers | 37,567 | 62.2 | 42,757 | 51.5 |
| (a) Electrical and Electronics | 16,186 | 26.8 | 19,964 | 24.0 |
| (b) Others ⁽¹⁾ | 21,381 | 35.4 | 22,793 | 27.5 |
| | <u>60,375</u> | <u>100.0</u> | <u>83,044</u> | <u>100.0</u> |

Note:

(1) Others includes industries such as medicals and furniture.

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The Group works with customers to develop logistics solutions that meet their unique requirements. For example, in respect of its provision of integrated logistics solution services to one of its customers in Penang, the Group places its employees at the customers’ workplace to act as a one point contact. The Directors believe that such arrangement can allow the Group to provide immediate response to the customers’ request and further enhance the efficiency of the Group’s services.

The Group does not any have long term contracts with its customers, or those which restrict the customers to use its services for specific durations or to fulfil a minimum volume of shipments over any duration. The Group operates in a competitive industry, and the quotations to its customers contain terms and conditions which it believes to be in line with the industry practice.

For each of the two years ended 31 December 2014 and 2015, the Group’s five largest customers accounted for approximately 44.1% and 52.9% of its revenue, respectively, and the largest customer accounted for approximately 18.9% and 32.0% of its revenue, respectively.

The following tables set forth the details of the Group’s five largest customers during the Track Record Period:

For the year ended 31 December 2014:

| <u>Customer</u> | <u>Background</u> | <u>Approximate length of relationship with the Group as at the Latest Practicable Date</u> | <u>Approximate percentage of total revenue</u> |
|-------------------------|--|--|--|
| Company F | An international freight forwarder and a group member of a company listed on the New York Stock Exchange | 6 years | 18.9% |
| Company B | A Malaysian company manufacturing electronic goods | 3 years | 13.8% |
| Iris Corporation Berhad | A Malaysian listed company specialising in digital identity and electronic passports | 16 years | 5.2% |
| Altratec Sdn. Bhd. | A Malaysian-based manufacturer of dry food-based products | 11 years | 3.8% |
| Company G | A Malaysian-based company specialising in connectivity for fixed and mobile wireless networks | 11 years | 2.5% |

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For the year ended 31 December 2015:

| <u>Customer</u> | <u>Background</u> | <u>Approximately length of relationship with the Group as at the Latest Practicable Date</u> | <u>Approximate percentage of total revenue</u> |
|-------------------------|--|--|--|
| Company F | An international freight forwarder and a group member of a company listed on the New York Stock Exchange | 6 years | 32.0% |
| Company B | A Malaysian company manufacturing electronics goods | 3 years | 13.4% |
| Iris Corporation Berhad | A Malaysian listed company specialising in digital identity and electronic passports | 16 years | 2.9% |
| Altratec Sdn. Bhd. | A Malaysian-based manufacturer of dry food-based products | 11 years | 2.5% |
| Company H | A freight forwarder in Canada | 5 years | 2.0% |

For the Group’s business relationship with its largest customer, Company F, please refer to paragraph 8 of the section headed “Business” in this document for more information. The Group’s second largest customer, Company B, is a Malaysian manufacturing arm of a renowned international electronic company in Penang. The Group assigned dedicated employee to station at the Company B’s manufacturing plant to provide timely assistance to fulfill Company B’s requests and to resolve forwarding and logistics issues on the spot. For the third to the fifth largest customers during the Track Record Period, the Group has business relationship with them ranging from 5 to 16 years.

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6.1 Pricing Policy

The Group’s pricing policy by types of services:

| | |
|---|--|
| Air freight forwarding and related services | Cost-plus: The Group will charge its customers based on three types costs plus a reasonable profit margin: (i) Local charges such as handling charges, trucking and haulage charges, documentation charges, customs clearance charges etc. (ii) Air freight charges (iii) Overseas logistics charges |
| Sea freight forwarding and related services | Cost-plus: The Group will charge its customers based on three types costs plus a reasonable profit margin: (i) Local charges such as handling charges, trucking and haulage charges, documentation charges, customs clearance charges etc. (ii) Sea freight charges (iii) Overseas logistics charges |
| Trucking services | Market rate: Rate based on destination, nature of the goods, weight and volume |
| Warehouse services | Market rate: Rate based on nature of the goods, weight and volume |

Freight rate charged by the Group to its customers is based on the freight rate charged by airline or liner plus a reasonable profit margin. Freight rate varies depending on the shipment origin and destination, the nature of cargo, weight of the cargo and volume of the cargo. The Group may offer discounts to its long-term customers.

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The approximate price ranges for the Group’s services during the Track Record Period are indicated in the following table:

| <u>Types of services</u> | <u>RM</u> |
|---|--------------------------------|
| Air freight forwarding and related services | |
| (a) Export | 400–320,000 |
| (b) Import | 400–84,000 |
| Sea freight forwarding and related services | |
| (a) Export | 200–110,000 |
| (b) Import | 400–38,000 |
| Trucking and related services | 100–3,500 |
| Warehouse and related services | 1.2–6.4 per sq. feet per month |

The wide price range for the Group’s services was mainly attributable to the significant variation in the scope of services required by its customers. For example, the approximate fee for air freight forwarding and related services can range from RM400 to RM320,000 per transaction, the price difference is mainly due to the shipment origin and destination, the weight/volume of goods and the types of value-added services requested.

In particular, notwithstanding whether the transaction is export or import, the weight/volume of good and the shipment origin and destination are the key determinants of the price charged per transaction if the customer requested for full range of services. The particulars of the transactions with maximum prices charged by the Group for its freight forwarding and related services during the Track Record Period are set out below:

| <u>Type of services</u> | <u>Approximate maximum price RM</u> | <u>Shipment origin/ destination</u> | <u>Approximate weight/volume</u> |
|-------------------------|---|---|--------------------------------------|
| Air Export | 320,000 | Belgium | 30,200 kg |
| Air Import | 84,000 | U.S.A. | 5,900 kg |
| Sea Export | 110,000 | Nigeria | 15 TEU |
| Sea Import | 38,000 | U.S.A. | 2 TEU |

The Directors consider that the above ranges are in line with the industry norm.

The Group’s pricing department has drawn up and put in place a price list for internal guidance and reference by the sales, customer service and finance department employees. The price list is subject to review by the pricing department from time to time to reflect changes in the relevant prices in the freight forwarding and logistics industry.

Based on the price list, the sales department employees will provide quotations to customers showing rates and charges for various types of services required by the customers. Normally, these quotations will remain until the new round of pricing review by the pricing department.

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The operations department employees will regularly update the customer service department via the Sysfreight system on the progress of the customs clearance. When a job is completed, the operations department will forward the working documents to the finance department, which will issue invoices to its customers based on the quotations. Please refer to paragraph 15 of this section in this document for more details.

During the Track Record Period, revenue from the Group’s services was derived from various parts of the world, and was mainly denominated in RM or in USD. Generally, payment method is by bank transfer or cheque. Please see paragraphs 3.2 and 12.4 of the section headed “Financial Information” in this document for more details.

6.2 Credit Policy

The Group generally grants a credit period of range of 30 to 60 days from the invoice date, but variation from this period may occur on a case-by-case basis depending on the following:

- customer’s background, reputation and credibility;
- customer’s payment history in the industry; and
- customer’s business relationship with the Group.

The Group’s credit policy extends to services such as those related to carrying cargo from point of origin to point of delivery, including freight arrangement, customs clearance fee, land transportation, and any other logistics related activities.

In order to collect overdue trade receivables, the Group’s finance department monitors material overdue payments closely. A weekly aging report showing the customers’ overdue amounts is prepared to follow up with the customers listed in the report. Follow-up actions to collect overdue trade receivables include, among others, communication with the relevant department of the customer responsible for processing payments. To discourage overdue trade receivables, the Group may also place the customer’s order on hold for any of the following reasons:

- customer’s credit line has exceeded the credit limit;
- customer’s payments are overdue or inconsistent;
- customer faces financial hardships or operational setback; and
- termination of business relationship with customer.

The Group may also request customers who often have late payment issues to pay for the GST and duty portion of the bill. During the Track Record Period, the Group did not experience any material difficulty in collecting payments.

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As at 31 December 2014 and 2015, the Group recorded trade receivables of approximately RM11.5 million and RM17.6 million, respectively, of which RM6.0 million and RM8.6 million, respectively, had been past due but not impaired as the Directors consider that the amounts were due from customers with no default history during the Track Record Period.

6.3 Provision Policy

The Group’s policy for impairment loss on trade receivables is based on an evaluation of the past payment record and the financial difficulty of the trade receivables. Provision will be made for the trade receivables when there are events or changes in circumstances which indicates that the balances may not be collectible. The Group reviews its trade receivable balance and any overdue balances on an ongoing basis, and assessments are made on the collectability of overdue balances.

Written-off of loans and receivables of approximately RM0.03 million and RM0.2 million was recognised as at 31 December 2014 and 2015, respectively.

As at 30 April 2016, approximately 98.9% of its trade receivables as at 31 December 2015 were settled.

6.4 Customer Service

The Group recognises that good customer service is integral to its reputation in the freight forwarding and logistics industry and to customer loyalty. As such, the Group has dedicated sales department which carries out sales calls to potential customers and customer service department which handles customer general enquiries, service bookings, complaints and feedback, and provides daily updates to customers on their shipments. Both departments participate in the process of assessing whether to accept a new customer. Other than getting the sales department employees to approach potential customers, the Group’s new customers are usually referred to the Group by existing customers and overseas freight forwarders.

Upon receiving enquiry for the Group’s services, the sales department employees will discuss with the potential customers to understand their service requirements. The Group endeavours to work out the optimal way to support the customers with the aim to establish long-term relationships with them. In order to evaluate potential customers and to comply with internal control risk management process, the Group also places emphasis in carrying out background checks on potential customers. For example, the Group will request potential customers for relevant documents to understand their credit position, customers and ownership background.

The customer service department works together with the sales department to monitor bookings and update the customers on their shipment.

As at 31 December 2015, the Group had 14 and 25 employees in the sales department and customer service department, respectively. The Directors confirmed that the Group had not experienced any material complaints from its customers and did not have any disputes with them during the Track Record Period.

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7. SUPPLIERS

The Group’s suppliers are mainly suppliers of cargo space, suppliers of overseas freight and logistics services (overseas freight forwarders) and local service providers providing ground transportation, warehousing and other logistics related services (subcontractors). In general, the Group will book cargo space for its customers for export whereas the overseas freight forwarders will handle the booking for import subject to incoterms. During the Track Record Period, some customers which the Directors estimated to account for more than 25% of the Group’s total turnover will either (i) make projections on their shipments for a few weeks to a few months; or (ii) have regular shipment schedules or estimates. Based on their forecast or regular shipment schedules/ estimates, the Group will make arrangement with the airlines and shipping lines to secure cargo space to meet customers’ needs.

The Group will require the bank guarantees with the Royal Malaysian Customs Department for the convenience of making cheque payments for transactions such as customs duties and goods and services tax (GST). Such bank guarantees are provided by the Group’s banks.

For the years ended 31 December 2014 and 2015, the Group’s top five suppliers were suppliers of cargo space and overseas freight forwarders, with total purchases from these top five suppliers accounting for approximately 33.5% and 46.9% of total cost of sales, respectively. For the same periods, the Group’s largest supplier accounted for approximately 13.0% and 25.9% of total cost of sales, respectively. The Group does not have long term agreements with its suppliers. The Group’s suppliers generally offer a credit period of 0 to 30 days, e.g. shipping lines generally do not grant any credit term. During the Track Record Period, none of the Directors, their close associates or any Shareholder (who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company as at the Latest Practicable Date) has any interest in any of the top five largest suppliers, all of which were Independent Third Parties.

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The following table sets forth the details of the Group’s five largest suppliers during the Track Record Period:

For the year ended 31 December 2014:

| <u>Supplier</u> | <u>Background</u> | <u>Approximate length of relationship with the Group as at the Latest Practicable Date</u> | <u>Approximate percentage of the Group’s total cost</u> |
|-----------------|--|--|---|
| Company C | A Malaysian air cargo agent providing air freight services | 3 years | 13.0% |
| Company F | An international freight forwarder and a group member of a company listed on the New York Stock Exchange | 6 years | 8.6% |
| Company D | A Malaysian company providing freight forwarding | 16 years | 5.5% |
| Company L | A German cargo airline | 4 years | 3.8% |
| Company S | A freight forwarder in China | 7 years | 2.5% |

For the year ended 31 December 2015:

| <u>Supplier</u> | <u>Background</u> | <u>Approximate length of relationship with the Group as at the Latest Practicable Date</u> | <u>Approximate percentage of the Group’s total cost</u> |
|-----------------|--|--|---|
| Company C | A Malaysian air cargo agent providing air freight services | 3 years | 25.9% |
| Company F | An international freight forwarder and a group member of a company listed on the New York Stock Exchange | 6 years | 11.2% |
| Company D | A Malaysian company providing freight forwarding | 16 years | 6.5% |
| Company E | A Malaysian shipping line and one of the agencies listed in Taiwan | 15 years | 1.7% |
| Company J | A freight forwarder in Taiwan | 6 years | 1.5% |

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The largest customer and second largest supplier of the Group during the Track Record Period, Company F, is a worldwide freight forwarding service provider. For further details, please refer to paragraph 8 of this section.

As at 31 December 2014 and 2015, the Group recorded trade payables of approximately RM4.5 million and RM9.5 million, respectively. During the Track Record Period and up to the Latest Practicable Date, the Group did not receive any material complaints from its suppliers due to late payments nor did the Group suffered material shortage of cargo space or other services from its suppliers. The Group also did not have any disputes with its suppliers during the Track Record Period.

7.1 Subcontracting arrangement

During the Track Record Period, the Group subcontracted some of its logistics services, including part of its customs clearance, trucking and haulage services and warehousing services in Malaysia to Independent Third Party providers. The Directors believe that such subcontracting arrangements would (i) increase flexibility and cost effectiveness in carrying out its services; and (ii) reduce fixed overhead costs such as depreciation costs incurred for additional trucks and trailers, and salaries for additional employees and drivers. For the years ended 31 December 2014 and 2015, the subcontracting fees from the top five subcontractors accounted for approximately 5.4% and 3.6% of the Group’s total direct costs, respectively.

The following tables set forth the details of the Group’s five largest subcontractors during the Track Record Period:

For the year ended 31 December 2014:

| <u>Subcontractor</u> | <u>Background</u> | <u>Length of relationship with the Group as at the Latest Practicable Date</u> | <u>Subcontracting fees RM’ million</u> | <u>Approximate percentage of the Group’s total cost of sales</u> |
|----------------------|---|--|--|--|
| Subcontractor 3 | Subcontractor for haulage | 3 years | 0.8 | 1.6% |
| Subcontractor 5 | Subcontractor for custom clearance and warehousing services | 15 years | 0.5 | 1.0% |
| Subcontractor 6 | Subcontractor for haulage | 5 years | 0.5 | 1.0% |
| Subcontractor 2 | Subcontractor for trucking | 5 years | 0.4 | 1.0% |
| Subcontractor 1 | Subcontractor for haulage | 3 years | 0.4 | 0.8% |

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For the year ended 31 December 2015:

| <u>Subcontractor</u> | <u>Background</u> | <u>Length of relationship with the Group as at the Latest Practicable Date</u> | <u>Subcontracting fees RM' million</u> | <u>Approximate percentage of the Group's total cost of sales</u> |
|----------------------|---|--|--|--|
| Subcontractor 1 | Subcontractor for haulage | 3 years | 0.7 | 1.1% |
| Subcontractor 2 | Subcontractor for trucking | 5 years | 0.6 | 1.0% |
| Subcontractor 3 | Subcontractor for haulage | 3 years | 0.4 | 0.7% |
| Subcontractor 4 | Subcontractor for trucking | 2 years | 0.3 | 0.4% |
| Subcontractor 5 | Subcontractor for custom clearance and warehousing services | 15 years | 0.3 | 0.4% |

The Group selects its subcontractors based on (i) service commitment and track record with respect to their reliability; (ii) past working relationship experience; and (iii) financial conditions.

The Group did not enter into any long-term subcontracting agreements with any subcontractors during the Track Record Period. Normally, the Group's subcontractors will provide quotations showing prices for different types of services required by the Group, and these will be subject to renewal on a periodic basis.

The Directors are of the view that the subcontracting arrangement is common within the logistics industry. The Group maintained cordial and long-term co-operative relationships with its subcontractors and will exercise all reasonable endeavours to cultivate and maintain such relationships.

8. RELATIONSHIP WITH COMPANY F

The Group's largest customer and second largest supplier during the Track Record Period, Company F, is an international freight forwarding service provider, and one of the operating companies of a group listed on the New York Stock Exchange. Company F appointed Worldgate Express as a non-exclusive regional service provider in Malaysia effective from 1 January 2010. From 1 January 2010 through the date of this document, so far as the Directors are aware, Company F has had no other regional service provider in Malaysia. Company F engaged the Group to provide logistics services to its customers in Malaysia. The Group also engaged Company F to provide logistics services in countries outside of Malaysia where Company F has its own offices.

The Group and Company F provide each other a range of international freight forwarding services including arranging for the freight, handling documentation and updating each other on any status change of the shipment. The Group and Company F will consign shipment to each other and arrange for the freight. The freight arrangement is carried out by either the Group or Company F

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depending on incoterms in which the responsibilities of the Group and Company F may vary. However, for export cases, the Group will normally be responsible for the freight arrangement including securing the cargo space with the airlines or shipping liners and hence be responsible for the freight charges. For import cases, Company F will normally be responsible for the freight arrangement including securing the cargo space and hence be responsible for the freight charges.

The following tables set out the Group’s revenue and cost of sales during the Track Record Period attributable to services provided to and by Company F and other customers and other suppliers, respectively:

Table: Comparison of revenue attributable to services provided to Company F and other customers

| | Year ended 31 December 2014 | | Year ended 31 December 2015 | |
|-----------------|------------------------------------|----------|------------------------------------|----------|
| | RM’000 | % | RM’000 | % |
| Company F | 11,439 | 18.9 | 26,611 | 32.0 |
| Other customers | 48,936 | 81.1 | 56,433 | 68.0 |
| | 60,375 | 100 | 83,044 | 100 |

Table: Comparison of cost of sales attributable to services provided by Company F and other suppliers

| | Year ended 31 December 2014 | | Year ended 31 December 2015 | |
|-----------------|------------------------------------|----------|------------------------------------|----------|
| | RM’000 | % | RM’000 | % |
| Company F | 4,065 | 8.6 | 6,980 | 11.2 |
| Other suppliers | 42,924 | 91.4 | 55,251 | 88.8 |
| | 46,989 | 100 | 62,231 | 100 |

The Directors believe that the stable relationship with Company F is mainly due to the Group’s reputation in the freight forwarding industry, its range of services offered, its knowledge and experience in the Malaysian logistics industry, its ability to meet their stringent requirements as well as its service quality.

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The Directors believe that the experience gained in working with Company F will enable the Group to obtain a deeper understanding of the requirements and quality standards of its multinational customers, and will help the Group to improve its service quality offered to other customers. Further, the Directors also believe that the working relationship with the listed company’s group member is testament to its service standards, which in turn can attract more customers. As such, the Directors are of the view that the cooperation between Company F and the Group is valuable.

8.1 Major terms of the service agreement with Company F

The Group’s agreement with Company F has a term of one year with an option to renew subject to further negotiation. The current service agreement was recently renewed and extended to 31 December 2016. The major salient terms are set out below:

- Services offered : complete range of international freight forwarding services
- Payment terms : the Group and Company F will issue monthly statements to each other in respect of the services rendered for the month, with net settlement of statements between the two parties thereafter
- Credit period : 15th day of the second month following the invoice month (e.g. an invoice rendered in September is due for payment not later than 15th November)
- Termination clause : the agreement may be terminated by the Group or Company F upon 30 days prior written notice of termination for any reason or no reason with no penalty, damages or remuneration to the other party

9. SEASONALITY

As a freight forwarding and logistics service provider in Malaysia, the Group is primarily engaged in providing services to its customers to serve their needs along their supply chains as well as distribution network. Therefore, the Group’s business performance is affected, to a large extent, by its customers’ business performance and developments.

The demand for the Group’s services fluctuate in tandem with the demand for its customers’ products. In general, demand for the Group’s services is higher during the second half of the year which is mainly due to higher shipment demand driven by festive months in the second half of the year. Please refer to paragraph 5.1.1 of the section headed “Industry Overview” for more details. Accordingly, comparison of sales and operating results from different periods in any given financial year may not be relied upon as indicators of the Group’s performance.

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10. SALES AND MARKETING

The Group’s history in the freight forwarding and logistics industry in Malaysia can be traced back to November 1999. The Directors believe that the Group will be able to rely on its established relationships with its existing customers, customer referrals, the six network trading partners and its reputation in the industry to expand its business. Therefore, it does not rely heavily on promotional activities for such purposes.

Apart from Company F and direct customers, the Group also leverages on the networks of independent overseas freight forwarders to obtain customers. There are businesses obtained from the leads provided through international sea/air freight business conducted hand-in-hand with overseas freight forwarders. Therefore, senior management of the Group will from time to time attend meetings organised by the six networks. During the Track Record Period, the Group has attended a number of network meetings organised by different networks in Madrid, Mauritius, Phuket, Japan, Guangzhou, Shanghai and Hong Kong.

Despite the above, the Group is aware of the need of maintaining a market presence and awareness of its brand. To this end, some of its employees, who are mainly on the operational side of the Group’s business, will put on staff uniforms during work. The Group’s name and logo are also displayed prominently on its fleet of vehicles. In addition, when the Group receives awards and certifications, this also indirectly promotes the Group’s brand at the award ceremonies and through publication coverage of such ceremonies.

The Group’s sales department and customer service department work together to provide support for the Group’s operations. The sales department is responsible for establishing and maintaining relationships with the customers, preparing price quotations, and collecting customer service requirements and feedback, while the customer service department manages the freight and logistics arrangements for the customers, deals with customer complaints and feedback, and provides update service to customers.

Apart from the headquarters in Puchong Selangor, there are sales staff stationed at other branch offices in Malaysia including Penang and Malacca branch offices who are responsible for the Group’s sales and marketing.

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11. EMPLOYEES

The Group has a total of 134 and 157 full-time employees as at 31 December 2014 and 2015, respectively. A breakdown of the full-time employees by function and branch location as at Latest Practicable Date is set forth below:

| <u>Function</u> | <u>No. of employees</u> |
|---|-------------------------|
| Management | 6 |
| Finance and accounting | 16 |
| Human resources and administration | 16 |
| Customer service | 31 |
| Management information systems | 2 |
| EHS & security | 1 |
| Sales | 15 |
| Operations | 37 |
| Pricing | 4 |
| Transportation and haulage | 34 |
| Warehouse | 6 |
| Legal and compliance | <u>1</u> |
| Total number of employees | <u><u>169</u></u> |
| <u>Branch location</u> | <u>No. of employees</u> |
| Headquarter in Puchong, Selangor | 49 |
| Kuala Lumpur International Airport branch | 13 |
| Malacca branch | 2 |
| Penang branch | 49 |
| Port Klang branch | 28 |
| Warehouse in Port Klang | 6 |
| Yard in Telok Gong | <u>22</u> |
| Total number of employees | <u><u>169</u></u> |

Please refer to the section headed “Directors, Senior Management and Staff” in this document for further details of the Group’s employees.

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11.1 Relationship with staff

The management policies, working environment, development opportunities and employee benefits have contributed to employees’ satisfaction levels and retention level. As part of its human resources policies, the Group organises bonding activities, such as bowling activities and annual staff dinners, to allow employees to build up teamwork and to strengthen their bonding. During the Track Record Period, the Group did not experience any strike or labour dispute with its staff which had caused significant disruption to the Group’s business operations.

11.2 Recruitment and remuneration

The Group recognises that its success in the freight forwarding and logistics industry is dependent on its employees. The Group recruits its employees based on their industry experience and interpersonal skills.

The Group generally pays its employees a fixed salary and a discretionary performance based bonus. For the years ended 31 December 2014 and 2015, the Group’s staff costs, including Directors’ emoluments, were approximately RM6.3 million and RM7.6 million, respectively.

In order to attract and retain valuable employees, the Group reviews the performance of its employees and such review results will be taken into account during the annual salary review and promotion appraisal period.

11.3 Training

The Group values its employees as human capital and invest resources to educate and maintain their standards so that they can make a greater contribution to the Group’s success.

Employees are provided with appropriate training to enhance their capability. The Group provides both internal and external training regarding the basic logistics knowledge, relevant regulations, internal quality audit and other useful topics. For new hires, the Group provides an induction training programme followed by on-the-job training during their six-month probation period, and continually monitors their progress throughout the probation period.

Department managers are responsible for identifying and evaluating the training needs of their subordinates. Applications to the human resources department shall be submitted for training course arrangements.

12. ENVIRONMENTAL PROTECTION, HEALTH AND WORK SAFETY

Due to the nature of its business, the Group does not directly generate industrial pollutants and did not incur any cost of compliance with applicable environmental protection rules and regulations during the Track Record Period. During the Track Record Period and as at the Latest Practicable Date, the Group did not have any material non-compliance issues in respect of any applicable laws and regulations on environmental protection.

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Human capital is one of the key pillars of the Group’s success. The Group follows the health and safety-related rules and regulations set out in the Occupational Safety and Health Act 1994. To ensure its employees work in a safe and healthy environment, the Group has a safety, health and environmental team headed by Ms. Tan Yeot Theng, senior vice president, operation. The Group also established a safety and health policy for its employees to follow. In addition, the Group provides occupational safety education and trainings, conducted by external trainers, to raise employees’ awareness of safety issues. Please refer to the section headed “Regulatory Overview” in this document for further details.

During the Track Record Period, the Group did not experience any significant incidents or accidents in relation to employees’ safety or any non-compliance with the applicable laws and regulations relevant to the health and work safety issues.

13. QUALITY MANAGEMENT

The Group considers its ability to uphold the quality of its freight forwarding and logistics services as crucial to its long term growth, and counts this ability as one of its competitive advantages in the industry. The Group has obtained the ISO 9001:2008 certification since 2009, an internationally recognised standard for quality management.

The Group’s quality management team is responsible for the following:

- formulating and implementing systematic quality management policies and standard operating procedures for the Group’s operational processes in order to maximise the overall quality consistency of its services;
- overseeing compliance of the quality management policies and procedures by different departments of the Group;
- carrying out internal audits to identify areas for improvements; and
- preparing the results of external quality accreditation audits for discussion in the management review meetings.

The quality management team is headed by Ms. Tan Yeot Theng, senior vice president of operation and supported by Ms. Ng Wat Lee, senior customer service manager. Together, they lead a team of nine internal quality auditors in carrying out the above mentioned responsibilities. To ensure that all team members are equipped with the requisite knowledge of ISO and the necessary skillset to carry out internal audits, the team has attended internal quality audit training and workshop organised by external trainer in 2014.

During the Track Record Period and up to the Latest Practicable Date, there was no incident of failure of the Group’s quality management which had a material impact on its business operations.

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14. MARKET AND COMPETITION

According to EMI, the logistics and/or freight forwarding industry in Malaysia is fragmented and competitive. In 2014, overall revenue receipts of logistics services and freight forwarding services in Malaysia amounted to approximately RM30,104 million and approximately RM15,654 million, respectively. 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). While several local firms have reported sizable market returns, the industry continues to be dominated by multinational firms that have a competitive advantage in economies of scale and wider geographical footprint. The industry is expected to move towards greater consolidation as 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. Please refer to paragraph 5 of the section headed “Industry Overview” in this document for details.

The Directors believe that the Group primarily competes with the competitors based on the comprehensiveness of service (including freight forwarding services, transportation, warehouse and other value-added services), quality of service (including professionalism, reliability and timeliness) and price. The multinational players have more business resources in securing global servicing contract with multinational companies. The Group has been appointed as a regional service provider to one of the multinational freight forwarding service providers, Company F, since 2010. Leveraging on Company F’s network, the Group is able to obtain more business from multinational companies.

15. INFORMATION TECHNOLOGY

The Group utilises the *MyCargo2U software system* for customs declaration. In addition, the operations and customer service departments use the *Sysfreight system* to coordinate the movement of cargo in and out of Malaysia. The accounting department uses the *YL accounting software* to maintain its books and to prepare invoices to the Group’s customers. The human resources department uses *Sage payroll system* for the Group’s payroll function. The Group will conduct backup for its IT system including *Sysfreight system*, *YL accounting software* and *Sage payroll system* on a periodic basis.

The Group is in the midst of changing to a new system (namely *Freight Management 3000*) to integrate its customer service, operations and accounting functions. The complete *Freight Management 3000* system will include financial management module, customer relations management module and warehouse management module. The system will also allow customers to log in to track and trace their cargo, and monitor the level of inventory they have placed for storage at the Group’s warehouses.

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16. INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Group had registered a series of four trademarks and three domain names in Malaysia. Please refer to Appendix V in this document for further details.

The Directors confirmed that the Group had not experienced any infringement to its intellectual properties during the Track Record Period which had a material adverse effect on its business, results of operations, financial condition and prospects. During the Track Record Period and up to the Latest Practicable Date, the Group was not involved in any disputes or litigation relating to the infringement of the intellectual property rights, nor is the Group aware of any such claims either pending or threatened.

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17. PROPERTIES

17.1 Owned properties

As at the Latest Practicable Date, the Group owned the following office spaces and warehouse.

| <u>No.</u> | <u>Location of property</u> | <u>Approximate gross floor area/total parcel area (sq.m.)</u> | <u>Nature</u> |
|------------|--|---|---------------|
| 1 | No. 42, Jalan Puteri 2/2, Bandar Puteri Puchong, 47100 Puchong, Selangor Darul Ehsan, Malaysia | 697 | Headquarters |
| 2 | Lot 9066, Jalan Udang Gantung, Telok Gong, 42000 Port Klang, Selangor Darul Ehsan, Malaysia | 6,366 | Warehouse |
| 3 | No. 69-A&B, Jalan Bayu Tinggi 6/KS6, Taman Bayu Tinggi, 41200 Klang, Selangor Darul Ehsan, Malaysia | 421 | Branch office |
| 4 | D-Latour, 20-19, Type 2B, D’Latour@DK City Bandar Sunway, 40150 Shah Alam, Selangor Darul Ehsan | 71 ⁽¹⁾ | Staff hostel |
| 5 | The Hub@SS2, SV18-03A, #18, Type B2, The Hub@SS2, Selangor | 89 ⁽¹⁾ | Staff hostel |

Note:

- (1) The total parcel area is compiled based on the sale and purchase agreement as the property was under development as at 17 June 2016, the valuation date.

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17.2 Leased properties

As at the Latest Practicable Date, the Group leased the following office spaces, haulage yards and warehouses. All the leases were entered into with Independent Third Parties.

| No. | Location of property | Approximate area (sq.m.) | Nature | Landlord | Date of expiry of lease |
|-----|--|-----------------------------|---------------|---|-------------------------|
| 1 | Lot B 2A-1, Block B, Free Commercial Zone, KLIA Cargo Village, Kuala Lumpur International Airport, 64000 Sepang, Selangor, Darul Ehsan, Malaysia | 324 | Warehouse | Maskargo Logistics Sdn Bhd | 31 January 2018 |
| 2 | Lot 02, Block B, MAB Cargo Agents Building, Penang Caigo Cornplex, Free Commercial Zone 1, Penang International Airport, 11900 Penang, Malaysia | 385 | Warehouse | Malaysia Airlines Berhad | 31 August 2016 |
| 3 | Lot 14863, Jalan Udang Gantung, Kampung Telok Gong, 42000 Port Klang, Selangor, Malaysia | 10,198 ⁽²⁾ | Haulage yard | Yap Cheng Chon and Yap Chin Yu | 16 February 2017 |
| 4 | No. 29C-3A-07 & 29C-3A-08, Maritime Plaza, Lebuh Sungai Pinang 5, 11600 Georgetown, Penang, Malaysia | 2,454 | Branch office | Ong Chooi Kim, Towering Estate Sdn. Bhd. ⁽¹⁾ | 14 October 2016 |
| 5 | No. 11-1, Jalan TTC 26B, Taman Teknologi Cheng, 75250 Melaka, Malaysia | 146 ⁽²⁾ | Branch office | Wong Meng Hung | 14 October 2017 |
| 6 | 1st floor of No. 142A, Jalan Sri Pelangi, Taman Pelangi, 80400 Johor Bahru, Johor, Malaysia | 72 ⁽²⁾ | Branch office | Sri Paka Engineering Sdn Bhd | 15 September 2016 |

Notes:

(1) Ong Chooi Kin is the landlord of 29C-3A-07 while Towering Estate Sdn Bhd is the landlord of 29C-3A-08.

(2) This information is based on the Group's estimation.

As at 31 December 2014 and 2015, the Group's properties had a net carrying amount of approximately RM13.4 million and RM14.5 million, respectively.

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18. LIABILITY MANAGEMENT & INSURANCE

The Group maintains insurance policies against loss or damage to its office and business interruption, public liability insurance, group personal accident insurance, and insurance against marine and road transit liabilities. The Directors believe that the insurance coverage taken up is adequate and sufficient for the Group’s operations and is in line with normal commercial practices of the industry. For example, during the Track Record Period, one truck was lost and was fully covered by the Group’s insurance. Further, in cases where the Group is proven to be liable for any loss or damage, including any financial loss resulting from any error or omission suffered by the customer, the maximum liability of the Group shall not exceed RM100,000, in accordance with the Standard Trading Condition issued by Federation of Malaysian Freight Forwarders. Further, customers are responsible for their own cargo insurance for all perils depending on the pre-agreed incoterms. The Group is insured adequately under limited liability insurance, covering negligence, error or mishandling of products. In accordance with the Group’s insurance policy for marine comprehensive combined transit liability, the Group will only be legally liable to pay compensation for goods under its care, custody and control. The Group’s existing insurance policies also cover claims arising from the negligent or wrongdoing of the Group or its appointed subcontractors or overseas freight forwarders and the Group’s liability is only limited to the excess amount of RM3,000.

During the Track Record Period, there was one incident that the Group’s cargo in-transit was hijacked and the trailer and cargos were all subsequently found. The Group has not received any claim from the customer and did not suffer any loss in the incident. The Directors are of the view that the Group has adequate insurance coverage to mitigate the loss or damages in the event of a claim. In addition, one trailer was lost under the customer’s custody and was fully covered by the insurance.

The Directors have confirmed that the Group was not subject to any material insurance claims or liabilities arising from its operations during the Track Record Period and the Group did not make any material insurance claims during the Track Record Period.

19. LITIGATION AND COMPLIANCE

The Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, there was no non-compliance incident the nature of which is material impact non-compliance or systemic non-compliance. The Directors also confirmed that during Track Record Period and up to the Latest Practicable Date, none of the members of the Group were engaged in any litigation, claims or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group. The Directors also confirmed that during the Track Record Period and up to the Latest Practicable Date, the Group had obtained all necessary permits, approvals and licenses to operate its existing business in Malaysia from relevant governmental bodies.

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20. AWARDS AND CERTIFICATIONS

The following table sets out the Group’s major awards and certificates obtained since 2010:

| <u>Year(s) of certification/award</u> | <u>Certification/award</u> | <u>Awarding organisation or authority⁽¹⁾</u> |
|---------------------------------------|---|---|
| 2016 | SMEs Best Brands Award in Logistics — Brand of the Year 2015–2016 | The BrandLaureate |
| 2015 | ISO 9001:2008 (UKAS, DSM) in provision of air freight, sea freight, trucking and warehousing (logistics) services | Bureau Veritas Certification Holding SAS |
| 2015 | ASEAN Transport and Logistics Award | Centre for ASEAN Logistics Studies |
| 2015 | Top 10 GFP Partner | GFP Global Forwarding Partners Inc |
| 2014 | The BrandLaureate Signature Brand Award — Services Logistic Solutions | Asia Pacific Brands Foundation |
| 2013 | The BrandLaureate SMEs Best Brands Award for Corporate Branding — Logistic Freight Forwarder | Asia Pacific Brands Foundation |
| 2013 | Golden Eagle Award | Nanyang Siang Pau |
| 2010/2011 | Asia Pacific Top Excellence Brand | Global Business Magazine |

Note:

(1) None of the awarding organisation or authority is the Group’s customer.

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21. LICENCES AND PERMITS

The Group’s businesses are conducted in a regulated environment, and licences and permits have to be obtained and remain valid during its operations. Please refer to the section headed “Regulatory Overview” in this document for further details. The Group has obtained the following major licences and permits for its business operations:

| Group member | Licence/permit | Issuing authority | Date of latest licence/ permit granted | Expiry date |
|---|---|--|---|------------------|
| Worldgate Express | Permission to act as forwarding agent (SMK BON No. 10000297/15) | Royal Malaysian Customs Department | 22 September 2015 | 18 January 2019 |
| | Operator’s licence (No. 499783-A(LA); serial No. L076977) | Land Public Transport Commission of Malaysia | 20 October 2015 | 22 March 2018 |
| | Business and Advertisement Licence (No. 01021015599220166) | Klang Municipal Council | 23 June 2016 | 31 December 2016 |
| | Business and Advertisement Licence (No. 0101065861820074) | Klang Municipal Council | 9 December 2015 | 31 December 2016 |
| | Business and Advertisement Licence (No. 2120090100050) | Subang Jaya Municipal Council | 21 December 2015 | 31 December 2016 |
| | Business and Advertisement Licence (No. 209081100052015) | Malacca Historic City Council | 11 April 2016 | 12 April 2017 |
| Chin Seng Leong on behalf of Worldgate Express⁽¹⁾ | Business Premise Licence (No. 30934) | Sepang Municipal Council | 31 March 2016 | 31 December 2016 |
| Lee Kim Seong on behalf of Worldgate Express⁽¹⁾ | Business and Advertisement Licence (No. KOM00002044) | City Council of Penang Island | 6 January 2016 | 31 December 2016 |
| | Business and Advertisement Licence (No. KOM00002892) | City Council of Penang Island | 19 April 2016 | 31 December 2016 |
| Freight Transport | Operator’s licence (No. 885428-M(LA); serial No. L071238) | Land Public Transport Commission of Malaysia | 14 August 2014 | 13 August 2019 |
| | Business and Advertisement Licence (No. 0101119693020100) | Klang Municipal Council | 8 January 2016 | 31 December 2016 |
| | Business and Advertisement Licence (No. 01011112652320130) | Klang Municipal Council | 8 January 2016 | 31 December 2016 |
| | Business Premise Licence (No. 01600642015) | Johor Bahru City Council | 1 January 2016 | 31 December 2016 |
| My Forwarder | Business and Advertisement Licence (No. 01011112647120138) | Klang Municipal Council | 7 December 2015 | 31 December 2016 |
| Worldgate Haulage | Operations Licence (No. 1175990-M(LA); serial No. L092926) | Land Public Transport Commission of Malaysia | 31 May 2016 | 22 March 2018 |

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Note:

- (1) As advised by the Malaysia Legal Advisers in respect of the Business and Advertisement Licence and Business Premise Licence issued by City Council of Penang Island and Sepang Municipal Council, it is a requirement in their respective application forms by a company to include information of individual representative of a company which *inter alia* includes details of the identification card/passport of the individual representative of the company. The Business and Advertisement Licence and Business Premise Licence will then be issued to the company in the name of the individual representative of the company.

In addition to the aforementioned, Worldgate Express had also on 30 June 2014 acquired the status of an International Integrated Logistics Service (IILS) granted by Malaysian Investment Development Authority. For the avoidance of doubt, there is no expiry date for such status.

Based on the advice from the Malaysia Legal Advisers in respect of salient Malaysian legal and regulatory provisions and licensing requirements that have a material impact to the Group’s business operations, the Directors have confirmed that the Group has obtained all material requisite licences and permits for its operations as at the Latest Practicable Date and the Group has obtained all relevant licences and permits in Malaysia which are material for its business operations from the relevant government bodies and has complied with all the applicable laws, rules and regulations, and/or all applicable international conventions in its own jurisdiction in all material aspects since its establishment.

Some of the Group’s licences and permits are subject to renewal. The Group will renew all existing licences and permits accordingly before its respective expiry dates. The Group has not experienced any refusal of renewal of the licences and permits necessary for its operations during Track Record Period and up to the Latest Practicable Date. The Directors confirm that they are not aware of any circumstances that would significantly hinder or delay the renewal of these licences and permits.

22. RISK MANAGEMENT

In the course of conducting business, the Group is exposed to various types of risks, including operational risks, market risks, liquidity risk, credit risks and regulatory risks, the details of which have been disclosed under the section “Risk Factors” in this document. The Group has established a set of risk management policies and measures to identify, evaluate and manage risks arising from its operations. The following table sets out some of the primary risks the Group faces that may materially and adversely affect the Group’s business, financial condition and results of operation and its risk management measures:

| <u>Primary operational risks</u> | <u>Risk management measures</u> |
|--|---|
| Risk of failing to renew its licences | — During the Track Record Period, the Group has subcontracted its customs clearance and part of its transportation business to subcontractors. Should the Group fail to renew relevant licences, it can subcontract relevant services to these existing subcontractors. |

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Primary operational risks

Risk management measures

Risk of cargo hijacking, theft and damages

- The Group adopts risk management measures such as GPS and paid security escort services. Please refer to paragraph 4.2 of this section for further details.
- The Group maintains insurance policies against loss and damage to its customers’ cargo.
- There is a limitation of liability for loss and damage of cargo during transportation set by relevant freight associations. Please refer to paragraph 18 of this section for further details.

Risk of being fined for illicit goods transported by its customers

- The Group performs background checks on new customers. Please refer to paragraph 6.4 of this section for further details.
- The Group will file a police report for any unclaimed and/or suspicious cargo. In order to discharge its liability, the Group will ensure that the security seal of the cargo remained intact to maintain the integrity of the cargo during the course of transportation.

Risk of increase in freight and transportation cost

- The Group prices its services on a cost-plus basis. It is expected that this risk is mitigated by passing on the cost to the customers whenever possible.

Risk of over dependent on the information technology

- The Group has in place a disaster recovery plan covering the critical application analysis, recovery timing and damage assessment for the *Sage payroll system*, *YL accounting software* and *Sysfreight system* and server for external backup.
- For backup process of the IT systems, please refer to paragraph 15 of this section for further details.

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Primary operational risks

Risk management measures

Risk of handling goods contain dangerous or chemical substances

- Type of substances classified as dangerous goods include explosives, flammable liquids and gases, corrosives, chemically reactive or acutely toxic substances. Products such as handphone, notebooks with batteries, ink are also considered by the industry as dangerous goods.
- It is required by the industry that only companies with at least 2 licences holders who have attended the Dangerous Goods Regulation Course and passed the examination can handle goods contain dangerous or chemical substances for export. The Group has more than 2 licences holders, therefore, it is eligible to handle the dangerous goods.
- The Group has standard procedures for its employees to follow in handling of dangerous goods. Further, the Group will only transport dangerous goods if the Group obtained confirmation from airlines/shipping liners that such goods are acceptable to them.

In addition, the Group faces financial risks, which have been disclosed in paragraphs 3 and 12 of the section headed “Financial Information” in this document.

On-going measures to implement the risk management policies

In order to continually improve the Group’s internal control and risk management system upon [REDACTED], the Group has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. The key procedures that the Group has established and implemented are summarised as follows:

- segregating duties and functions of the respective operational departments of the Group;
- reviewing systems and procedures to identify, measure, manage and control risks; and
- updating the staff handbook, internal control manual and compliance manual where there are changes to business environment or regulatory guidelines.

The Group will continually monitor and improve its risk management measures to ensure that these measures work in line with the growth of its business.

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23. INTERNAL CONTROL

The Group engaged independent internal control consultant to review the Group’s internal control systems and procedures in November 2015, including the controls and procedures of the Group over the corporate governance, financial reporting, revenue, expenditure management, human resources, treasury and general computer controls. Based on the consultant’s review and recommendations, the Group has modified and adopted certain new internal controls procedures to enhance its internal control system. Such implementation has been confirmed by the internal control consultant upon the conduct of follow up reviews.

The major findings, together with the internal control enhanced procedures based on the recommendations from the internal control consultant, are set out in the table below:

| <u>Major findings</u> | <u>Enhanced procedures</u> |
|---|---|
| There was an omission of the GST output tax pertaining to the disposal of fixed asset in the Goods and Services Tax (“GST”) return submitted to the Royal Malaysian Customs Department in September 2015. The amount involved was immaterial and the event was a one-off incident resulting from management’s oversight in relation to the GST treatment for that particular transaction. This incident and the findings will not have any significant operational and/or financial impact on the Group as the amount involved was immaterial and rectification measures have been taken pursuant to the enhanced procedures. | The Group had already rectified this exception by reporting the omitted amount via the GST return submission to the Royal Malaysian Customs Department in December 2015. Moving forward, the Group will ensure that the staff is equipped with adequate knowledge and the right skill sets by ensuring proper training, i.e. either internally or externally organised sessions are provided to the respective staff. |

The Group has ongoing plans to enhance the existing internal controls and frameworks. However, these ongoing plans are enhancement in nature and are not detrimental to the Group or its system of internal control.