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BRAND | FINANCE | MARKET

The information in this Section 8 is based on market research conducted by Protégé Associates commissioned by KGW Group Berhad for the purpose of the IPO.

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12 JUN 2023

Dear Sirs,

Strategic Analysis of the Logistics Industry in Malaysia

Protégé Associates Sdn Bhd ("**Protégé Associates**") has prepared this 'Strategic Analysis of the Logistics Industry in Malaysia' for inclusion in the prospectus of KGW Group Berhad ("**KGW Group**") in relation to its proposed listing on the ACE Market of Bursa Malaysia Securities Berhad.

Protégé Associates is an independent market research and business consulting company. Our market research reports provide an in-depth industry and business assessment for companies raising capital and funding in the financial markets; covering their respective market dynamics such as market size, key competitive landscape, demand and supply conditions, government regulations, industry trends and the outlook of the industry.

Mr. Seow Cheow Seng is the Managing Director of Protégé Associates. He has 23 years of experience in market research, having started his career at Frost & Sullivan where he spent 7 years. He has been involved in a multitude of industries covering Automotive, Construction, Electronics, Healthcare, Energy, IT, Oil and Gas, etc. He has also provided his market research expertise to government agencies such as Malaysia Digital Economy Corporation Sdn Bhd, Malaysia Debt Ventures Berhad and Malaysia Technology Development Corporation Sdn Bhd.

We have prepared this report in an independent and objective manner and have taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a balanced and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours sincerely,

SEOW CHEOW SENG
Managing Director

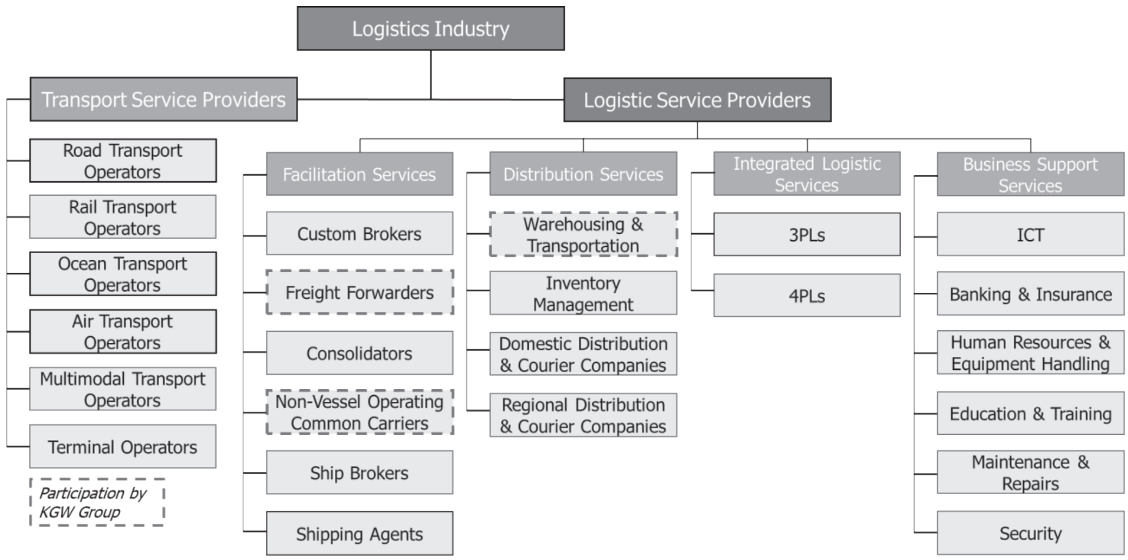
1.0 Overview of the Logistics Industry in Malaysia

Logistics is widely known as the overall process of managing how resources (such as raw materials, in-process stocks and finished goods) are acquired, stored and transported to their final destination.

Local and international businesses have been undergoing a period of rapid transformation. The local and global trading patterns and consequently physical trade flows over time and space have been increasingly reshaped by the trends towards globalisation, development of information and communications technology ("**ICT**") and integrated logistics. This development has helped to catalyse economic growth, improve the allocation of resources and provide more choices for consumers, but has also increased the intensity of competition. Today, the logistics industry plays an important role in the development of a local economy that provides a significant linkage to the growth of a national economy and its competitiveness in international trade.

The logistics industry can be divided into transport service providers and logistic service providers. Both parties work hand-in-hand in providing a seamless integrated range of services to end-users.

Figure 1: Structure of the Logistics Industry



Notes:

1) *3PLs denotes third party logistics providers that provide multiple logistics services which are generally integrated or 'bundled' in nature for their customers; and*
2) *4PLs denotes fourth party logistics providers that are generally established as a separate entity through long-term contracts or joint venture between a primary customer and one or more partners to manage all aspects of the customer's supply chain*

Sources: Ministry of International Trade and Industry ("MITI") and Protégé Associates

Transport Service Providers

The movement of goods across the country and around the world is generally known as cargo transportation. There are various modes of transport whereby principal modes of transport include road, rail, air and sea transport. Transport service providers are generally the carriers or providers of these principal transport modes. They consist of the operators of road, rail, air and sea transport, multimodal operators and terminal operators.

Road transport operators transport goods or undertake haulage operations on the road through the use of motor vehicles or a combination of motor vehicles such as box vans, trucks, prime movers and trailers for hire or reward.

Rail transport operators transport goods or undertake haulage operations through the use of wheeled vehicles running on rail tracks for hire or reward.

Ocean transport operators transport goods by sea, using ships or other marine vessels for hire or reward.

Air transport operators transport goods by air, using planes or helicopters for hire or reward.

There may be more than one mode of transport involved in the transportation of cargo under a single contract. This is called intermodal or multimodal transport. As such, the operators of more than one mode of transport are known as **multimodal transport operators**.

Terminal operators refer to the parties that are handling a transportation hub such as airport and seaport, at the end of or at the major junction on a transportation route.

Logistics Service Providers

Logistics service providers are often referred to as transport intermediaries. They provide support to the principal transport modes by offering various types of logistics service, either directly or indirectly, which includes the following:

(a) **Facilitation service providers** assist and/or ease logistical process flows.

(b) **Distribution service providers** deliver goods from the point of origin to the final consumers. The primary activities of distribution services are warehousing, transportation, inventory management and courier services (by domestic and regional distribution and courier companies).

(c) **Integrated logistics services ("ILS") providers** act as a 'one-stop centre' for their customers' logistics needs by being involved in various segments across the logistics value chain. Third party logistics providers ("**3PLs**") and fourth party logistics providers ("**4PLs**") are typically providers of ILS.

(d) **Business support service providers** are involved in providing various direct or indirect complementary services that support the logistics industry.

1.1 Historical Market Performance and Growth Forecast

The term logistics services refer to a supply chain management process that plans, implements and controls the flow and storage of goods between the point of origin and the point of consumption in an efficient manner. The main logistics services provided include organising transport and shipping services to move goods, warehousing and distribution, storage and inventory management services, and freight forwarding. As such, Protégé Associates has used the gross domestic product ("**GDP**") generated from transportation and storage services as the market size of the logistics industry in Malaysia.

The logistics industry in Malaysia was valued at RM62.20 billion in 2022, based on the GDP generated from economic activities in the industry. The performance in 2022 was an improvement from the RM46.72 billion registered in 2021, whereby the growth in 2022 was mainly attributed to the economic recovery in the country during the year. The Malaysian Government had announced the transition of the coronavirus disease 2019 ("**COVID-19**") into an endemic phase, with all economic sectors allowed to operate. The Malaysian economy also grew by 8.7% in 2022, as compared to 3.1% in the previous year.

Figure 2: Historical Size and Growth Forecast of the Logistics Industry in Malaysia, 2019-2027

Year	Market Size (RM billion)	Growth Rate (%)
2019	57.11	-
2020	45.56	-20.2
2021	46.72	2.6
2022	62.20	33.1
2023 f	66.25	6.5
2024 f	70.88	7.0
2025 f	75.99	7.2
2026 f	81.46	7.2
2027 f	87.57	7.5

*Compound annual growth rate ("**CAGR**") (2023-2027) (base year of 2022): 7.1%.*
Note: f denotes forecast

*Sources: Department of Statistics Malaysia ("**DOSM**") and Protégé Associates*

Going into 2023, the global economy is expected to be negatively affected by central banks around the world increasing interest rates in response to rising inflation. Higher interest rates may affect consumer spending and demand for goods, which may then negatively affect demand for global and local logistics services. The International Monetary Fund ("**IMF**") is projecting the global economy to register a growth of 2.8% in 2023 after an expansion of 3.4% in 2022. Global growth is projected to recover to 3.0% in 2024.

In the medium to long-term (2024-2027), the logistics industry in Malaysia is anticipated to be fuelled by higher adoption rate of e-commerce as well as expansion in global economic activities. The expansion of e-commerce in the country has led to increased demand for logistics as well as warehousing and storage services. In addition, corporations are also venturing into emerging areas such as cold chain logistics (such as cold storage, cooling systems, cold processing and cold distribution) and last-mile delivery services to expand their scope of services. As Malaysia is part of the global supply chain, the expansion in global economic activity is also expected to create higher demand for transportation services and logistics services as corporations import and export parts and components as well as other products from / to the rest of the world.

2.0 Overview of the Transportation Market in Malaysia

About 90% of the world's trade is transported by ship, with the majority shipped using containers. The global shipping industry is experiencing a global container shortage crisis, which has yet to be fully resolved. During the initial COVID-19 outbreak in early 2020, many factories in Asia suspended operations, which resulted in a disruption in global supplies of goods and slowdown in global marine traffic. The backlogs of ships waiting to dock and unload containers at US and European ports meant longer turnover time to Asia to load new cargo. This has led to the increasing cost of shipping during the COVID-19 pandemic, especially on some of the world's busiest routes.

The transportation market in Malaysia, which consists of land, ocean and air transportation, was valued at RM36.60 billion in 2022. Going forward, the market is expected to reach RM38.70 billion in 2023 and expand to RM49.54 billion by 2027, at a

CAGR of 6.2% during the forecast period. The movement of cargo and containers can be performed via three main modes, which includes land, ocean and air.

Land Transport

Land transport includes container haulage by rail and by trucks in Malaysia. In 2021, a total of 224,444 twenty-foot equivalent units ("**TEUs**") (equivalent to 112,222 forty-foot equivalent units ("**FEUs**")) of containers had been transported in the country, an increase from 198,857 TEUs (99,429 FEUs) transported in 2020. Approximately 4.8 million tonnes of freight were transported via rail in 2021, an increase from approximately 4.6 million tonnes of freight in 2020. There is no publicly available official data on the amount of TEUs transported through container haulage by truck. However, as operators in Malaysia providing land transport to third parties are required to possess a Class A permit from the Commercial Vehicle Licensing Board, Protégé Associates shall use the number of active Class A permits as a proxy for container haulage activity in Malaysia. In 2021, there were approximately 220,697 Class A permits, which was a slight decrease compared to 221,076 Class A permits in 2020.

Ocean Transport

According to the United Nations Conference on Trade and Development ("**UNCTAD**"), ports around the world handled a total of 798.9 million TEUs (399.5 million FEUs) of containers in 2021. This represented a slight decline of 1.0% from the previous year as compared to the increase of 3.2% in the volume of total maritime trade of 11.0 billion tonnes. This reflects the resilience of containerised trade amid the disruption caused by the COVID-19 pandemic. The volume recorded in 2021 also shows a steady increase from the 701.0 million TEUs (350.5 million FEUs) recorded in 2016, representing a CAGR of 2.6% over the period.

Closer to home, the total container throughput in Malaysia reached 27.3 million TEUs (13.7 million FEUs) in 2022 which was a decrease from 28.4 million TEUs (14.2 million FEUs) recorded in the previous year. At the same time, Malaysia's cargo throughput (comprising dry cargo, liquid cargo, general cargo and containerised cargo) using ocean freight stood at 566.8 million freight weight tonnes ("**FWT**") in 2022. This was a decrease from 590.3 million FWT in the previous year.

Air Transport

Air cargo refers to domestic and international cargo handled at airports. A total of 1,008.1 million kilograms ("**KG**") of cargo was handled by Malaysian airports in 2021. This was an increase from the 789.1 million KG recorded in 2020. In particular, domestic cargo accounted for 26.9% of total cargo handled in 2021, with the international cargo making up the remaining 73.1% of total cargo handled. At the same time, cargo unloaded represented 50.5% of total cargo handled in 2021, and cargo loaded accounted for the remaining 49.5%.

2.1 Overview of the Logistics Services Market in Malaysia

The logistics services market plays a crucial supporting role within the logistics industry. The market mainly provides services supporting transport service providers such as the operators of road, rail, air and sea transport, multimodal operators and terminal operators. These logistics services include those relating to, among others, organising the international movement of cargo, regulatory compliance and clearance, warehousing and/or distribution. Logistic services consist of a wide range of services which can be widely grouped into facilitation services, distribution services, integrated logistics services as well as various business supporting services. Some of the core services under this market includes consolidation and freight forwarding, non-vessel operating common carriers ("NVOCCs"), inventory management, courier and parcel services, as well as warehousing and storage.

Global trade involves the international exchange of goods to satisfy demand and is highly reliant on the logistics industry for facilitation of the movement of these goods. Global trade volumes have been on the rise over the years due to globalisation. According to statistics from UNCTAD, the value of global trade stood at around USD25 trillion (RM103.56 trillion) in 2019 (RM4.1425 = USD1.00). The value of global trade contracted in 2020 due to the COVID-19 pandemic disrupting global economic activities, but rebounded to USD28.5 trillion (RM118.15 trillion) in 2021 (RM4.1456 = USD1.00). Global trade continued to increase in 2022, with trade values reaching USD32.0 trillion (RM140.82 trillion) during the year (RM4.4005 = USD1.00). This growth trend had been further accelerated with the rise in e-commerce and the advancements in technology. It has become common practice for the sales of goods and materials to be performed electronically via the Internet for both business-to-business and business-to-consumer models. Note: All foreign exchange rates are obtained from the average rate for the respective periods based on rates from Bank Negara Malaysia.

As part of the global supply chain, the Malaysian logistics services market has also benefitted from the increase in global trade. The rising demand for container and cargo space required for the movement of goods into and out of the country has spurred the need for services such as freight forwarding as well as consolidation. This has also benefitted NVOCCs, which operate as freight forwarders that do not own vessels and lease or buy available space in container vessels to provide the services of transporting cargo.

The increased movement of goods in Malaysia has also created more demand for warehouse and storage services, which often serve as points for the transhipment of goods or temporary storage before the products are delivered to its end destination. The local warehouse and storage market was valued at RM2.43 billion in 2022 and is forecast to reach RM3.59 billion by 2027. This in turn bodes well for the development of inventory management, which is an important part of supply chain management that serves to plan and control the storage of goods, items and crucial information about the flow and storage of goods. The growing trend of e-commerce in Malaysia has served to support the growth of the local courier and parcel market, whereby online purchases are delivered to the door step of customers via courier and parcel services. More recently, the shift in consumer behaviour to prefer digital and online shopping driven by the COVID-19 pandemic has also further encouraged growth of the local courier and parcel market. As at end of 2021, courier service providers had handled 770.8 million items (2020: 462.0 million), representing an 66.8% increase from 2020.

As a whole, the logistics services market in Malaysia is expected to witness continued growth along with the expansion of its various sub-segments. In 2022, the logistics services market was valued at RM25.61 billion. Going forward, the market is expected to reach RM27.55 billion in 2023 and expand to RM38.03 billion by 2027, at a CAGR of 8.2% during the forecast period.

3.0 Competitive Analysis

3.1 Competitive Landscape

The logistics industry in Malaysia is mature but highly fragmented with the presence of more than 20,000 industry players involved in various scopes of transportation and warehousing activities in 2022. Some key barriers to entry faced by industry players include supplier network, market reputation, operating track record which differentiates an established industry player from another, and fleet size of vehicles/vessels owned and operated.

In general, industry players in the local logistics industry can be divided into three types namely listed local, non-listed local and foreign-owned industry players:

Listed local industry players refer to companies which are currently public listed companies. They are typically well-capitalised companies and generally have better financial strength than their unlisted local counterparts. This group of logistics industry players generally strives to leverage on their financial strength to further expand their existing logistics capability, capacity, infrastructure, fleets, workforce and/or range of service offerings. They are also likely to be more willing to make investment in technology that can improve productivity and cost efficiency. Their level of service offerings is likely more integrated with involvement in many activities across the industry value chain. Some of these listed local industry players include FM Global Logistics Holdings Berhad ("**FM Global**"), Harbour-Link Group Berhad ("**Harbour-Link**"), See Hup Consolidated Berhad ("**See Hup**"), Swift Haulage Berhad, Tiong Nam Logistics Holdings Berhad, Transocean Holdings Berhad ("**Transocean**"), Tri-Mode System (M) Berhad ("**Tri-Mode**") and Xin Hwa Holdings Berhad. There are also Malaysian companies such as Infinity Logistics and Transport Ventures Limited ("**Infinity Logistics**") and Worldgate Global Logistics Limited ("**Worldgate Global**"), which are both listed on the Hong Kong Stock Exchange.

Non-listed local industry players refer to non-listed entities that are wholly-owned by Malaysians. While this group has the largest number of participants, there are also quite a number of sizeable industry players in this group which have considerable logistics infrastructure and fleet size as well as being capable of offering a wide array of services albeit at an operating scale which may not be as large as those undertaken by their listed local counterparts. Non-listed local logistics industry players generally embark on a niche business strategy that can optimise their growth potential with their relatively small resources.

They are likely to be more selective in the scope of logistics activities and geographical area that they want to participate in. Some of these non-listed local industry players include Agility Logistics Sdn Bhd, Dimerco Express (M) Sdn Bhd, Forward Freight Services Sdn Bhd, Interway Transport Sdn Bhd, KGW Group, Kontena Nasional Global Logistics Sdn Bhd, PKT Logistics (M) Sdn Bhd, Tanjong Express (M) Sdn Bhd and Total Logistics Services (M) Sdn Bhd.

Foreign-owned industry players refer to entities in Malaysia which are majority-owned by foreigners. Foreign-owned logistics industry players are generally the extension or Malaysia's business arm of established multinational parent logistics industry players. As such, they are able to ride on the logistical experience and expertise of their respective parent companies to accelerate their industry learning curve. They are also able to generate business leads from the local business arm of their parent company's customers. Some of these foreign-owned industry players include CEVA Freight Holdings (Malaysia) Sdn Bhd, CJ Century Logistics Holdings Berhad, DHL Global Forwarding (Malaysia) Sdn Bhd, FPS Famous Pacific Shipping Sdn Bhd, Hankyu Hanshin Express (M) Sdn Bhd, Menlo Worldwide Forwarding Malaysia Sdn Bhd, Nippon Express (Malaysia) Sdn Bhd and Tasco Berhad.

3.2 Comparison between KGW Group and Selected Industry Players

KGW Group is involved in the Malaysian logistics industry via its wholly-owned subsidiaries, namely KGW Logistics (M) Sdn Bhd and Mattroy Logistics (Malaysia) Sdn Bhd which are logistics services providers with involvements in facilitation services (focusing on providing ocean freight services, air freight services and freight forwarding services as NVOCCs), and KGW Medica Sdn Bhd with involvements in distribution services (focusing on warehousing and distribution of healthcare-related products and devices).

For the financial year ended ("**FYE**") 31 December 2022, KGW Group had a revenue of RM228.0 million from its involvement in the Malaysian logistics industry (excluding revenue of RM1.7 million from trading business).

Protégé Associates has identified several key industry players that are comparable based on the following criteria:

- is a Malaysia-based public-listed local industry player; or
- is a Malaysia-based private limited (Sdn Bhd) local industry player with a registered revenue of below RM300 million; and
- is involved in logistics services for ocean shipment or more (such as land transportation or air shipment).

After taking into consideration the above criteria, the following industry players have been shortlisted for comparison purposes.

Figure 3: Financial Information of KGW Group and Selected Players in the Logistics Industry in Malaysia

	Information from FYE	Revenue (RM million)[2]	Gross Profit (RM million)	Profit/(Loss) before Tax (RM million)	Profit/(Loss) after Tax (RM million)	Gross Profit Margin (%)[3]	Profit/(Loss) before Tax Margin (%)[4]	Profit/(Loss) after Tax Margin (%)[5]
KGW Group	31 December 2022	228.0	35.2	21.9	16.3	15.4	9.6	7.1
FM Global	30 June 2022	1,152.9*	228.5	66.6	49.8	19.8	5.8	4.3
Harbour-Link	30 June 2022	907.5#	256.1	200.3	179.5	28.2	22.1	19.8
Infinity Logistics	31 December 2022	356.9+	76.6	33.9	35.9	21.5	9.5	10.1
See Hup	31 March 2022	112.5^	n/a	23.2	22.4	n/a	20.7	19.9
Transocean	31 December 2022	28.9$	n/a	1.83	1.76	n/a	6.3	6.1
Tri-Mode	31 December 2022	124.6@	19.7	11.7	10.5	15.8	9.4	8.4
Worldgate Global	31 December 2022	134.6~	13.3	-13.5	-13.1	9.9	-10.0	-9.7
Dimerco Express (M) Sdn Bhd	31 December 2021	134.1**	22.3	6.1	4.5	16.7	4.5	3.4
Forward Freight Services Sdn Bhd	31 December 2021	242.4**	n/a	8.0	6.1	n/a	3.3	2.5
Interway Transport Sdn Bhd	31 December 2021	82.3**	11.4	-2.6	-2.7	13.8	-3.1	-3.3

Notes:

1. *The companies above are considered comparable companies as they provide logistic services similar to KGW Group. Nonetheless, these comparable companies may not be identical to KGW Group in terms of geographical area served / revenue distribution by countries, as gathered based on publicly available information of these companies. Based on publicly available information, the geographical area served by the comparable companies include Malaysia, Australia, USA, Indonesia, Thailand, Vietnam, India, China, Hong Kong, Special Administrative Region of China, Brunei, Netherlands, and South Korea. In addition, they may derive revenue from other non-logistics-related business activities such as property development, flexitank solutions, machinery hire, subcontracting works, tyre manufacturing, information technology as well as manufacturing and trading of plastic products.*
2. *Revenue derived may also include other business activities, products or services*
3. *Gross Profit Margin = Gross Profit / Revenue*
4. *Profit before Tax Margin = Profit before Tax / Revenue*
5. *Profit after Tax Margin = Profit after Tax / Revenue*

** FM Global's revenue is segmented into International Freight and Domestic Logistics. The International Freight segment covers sea freight services, air freight services and land freight services which comprise cross-border trucking services. The Domestic Logistics segment constitutes 3PL, Warehousing & Distribution and Supporting Services, which include Customs Brokerage, Haulage, E-commerce Fulfilment and Last Mile Delivery Services. The annual report does not provide a further breakdown of the segment.*

 # Harbour-Link's revenue is segmented into Shipping and Marine Services, Integrated Logistics, Engineering Works and Property Development. The Shipping and Marine Services segment comprise of container shipping liner service, tugboat and barges operations, ship agency service and ship management services. The annual report does not provide a further breakdown of the segment. The Integrated Logistics segment comprise multimodal transportation (3PL), haulage activities and project cargo logistics.

+ Infinity Logistics' revenue is segmented into Integrated Freight Forwarding, Logistics Centre and Related Services, Land Transportation Services, Flexitank Solution and Related Services, and 4PL Services. The Integrated Freight Forwarding segment involve provision of NVOCC and freight forwarding services. The Logistics Centre and Related Services segment involve provision of warehousing and container depot services. The 4PL segment involve provision of 4PL services and 4PL handling services.

^ See Hup's revenue is segmented into Transportation, Forwarding and Trading & Machinery Hire and Subcontracting Works. The Forwarding segment includes air and sea freight forwarding business.

$ Transocean's revenue is segmented into Logistics, Tyre Manufacturing and Information Technology. The Logistics division consists of services ranging from trucking, cross-border services, container haulage, container depot, warehousing, freight forwarding custom brokerage and project logistics. The annual report does not provide a further breakdown of the segment.

@ Tri-Mode's revenue is segmented into Sea Freight, Container Haulage, Air Freight, Freight Forwarding, Warehousing and Marine Insurance.

~ Worldgate's revenue is segmented into Air Freight Forwarding and Related Activities, Sea Freight Forwarding and Related Activities, Trucking and Warehouse and Related Activities, and Manufacturing and Trading of Plastics Products.

*** For non-listed local companies, namely Dimerco Express (M) Sdn Bhd, Forward Freight Services Sdn Bhd and Interway Transport Sdn Bhd, they are comparable to KGW as these companies meet the criteria set out in the IMR. However, there is no publicly available information on the breakdown of revenue to ascertain the contribution from ocean freight services.*

*Sources: Audited combined financial statements of KGW Group, Annual Reports of FM Global, Harbour-Link, Infinity Logistics, See Hup, Transocean, Tri-Mode, Worldgate Global, Companies Commission Malaysia ("**CCM**") and Protégé Associates*

3.3 Estimated Market Share

For FYE 31 December 2022, KGW Group generated revenue of RM228.0 million from its involvement in the Malaysian logistics industry (excluding revenue of RM1.7 million from trading business), equivalent to 0.37% share of the total market size (GDP) of the logistics industry in Malaysia of RM62.20 billion in 2022. The aforesaid revenue also represent 0.89% share of the total market size of the logistics services market in Malaysia of RM25.61 billion in 2022.

KGW Group generates a substantial part of its revenue through provision of ocean freight services for shipments to the USA and as such, KGW Group's subsidiaries, namely KGW Logistics (M) Sdn Bhd and Mattroy Logistics (Malaysia) Sdn Bhd, have applied for and obtained registration with the United States Federal Maritime Commission as a NVOCC. There are approximately 8,300 NVOCC registration holders across the globe and around 26 of them are Malaysian companies based on the Ocean

Transportation Intermediaries list ("**OTI list**") from the FMC. Amongst the 26 Malaysian NVOCC registration holders, 21 of the companies have filed their financial performance for the FYE 2021 with the CCM. As there is no publicly available information on the segmentation of business activities, Protégé Associates has taken the total revenue of the 21 Malaysian NVOCC registration holders for comparison. In this respect, KGW Logistics (M) Sdn Bhd and Mattroy Logistics (Malaysia) Sdn Bhd rank 3rd and 16th respectively among the 20 Malaysian NVOCC registration holders on the OTI list for the FYE 2021 (in terms of revenue).

4.0 Demand Conditions

Figure 4: Demand Conditions Affecting the Logistics Industry in Malaysia, 2022-2027

Impact	Demand Conditions	Short-Term	Medium-Term	Long-Term
		2022-2023	2024-2025	2026-2027
+	Increasing Trade Volumes Across the Globe	Medium	Medium	Medium
+	Growing Prominence of E-Commerce and Advancements in Technology	Medium	Medium	Medium
+	Growth in the Manufacturing Sector	Medium	Medium	Medium
+	Broad Range of End-User Markets	Medium	Medium	Medium
-	Slower Economic Growth due to Hike in Interest Rates	High	Medium	Low
-	Global Events Affecting Economic Activities	High	Medium	Low

Source: Protégé Associates

Increasing Trade Volumes Across the Globe

The logistics industry plays a crucial role in supporting trade across the globe, facilitating the movement of goods across both domestic and international borders. Global trade had been increasing over the years. According to the UNCTAD, the value of global trade reached a record level of USD28.5 trillion (RM118.15 trillion) in 2021 (RM4.1456 = USD1.00), which was an increase of 25% from 2020 and 13% higher as compared to 2019, before the COVID-19 pandemic struck. This value further increased to USD32.0 trillion (RM140.82 trillion) in 2022 (RM4.4005 = USD1.00). Closer to home, Malaysia's total trade (comprising total imports and total exports) increased by 27.8% to reach RM2.85 trillion in 2022. This compares to a total trade value of RM1.17 trillion in 2010, representing a CAGR of 7.7% over the said period. In particular, imports increased by 31.3% from RM 987.34 billion to RM1.30 trillion while exports increased 25.0% from RM1.24 trillion to RM1.55 trillion in 2022. At the same time, the volume of containerised trade had also been increasing over the years. Total container throughput (comprising exports, imports and transhipment) in Malaysia was recorded at 28.4 million TEUs (14.2 million FEUs) in 2021, which was an increase from 26.7 million TEUs (13.4 million FEUs) in 2020 and 26.4 million TEUs (13.2 million FEUs) in 2019. However, total container throughput fell slightly to 27.3 million TEUs (13.7 million FEUs) 2022. The drop in container throughput can be attributed to the ongoing global supply chain disruption which was exacerbated by the war between Russia and Ukraine as well as economic slowdown in the western hemisphere of the world. The increasing trade volume in Malaysia as well as international markets is expected to support the growth in the logistics industry in Malaysia, including for storage and warehousing services.

Growing Prominence of E-Commerce and Advancements in Technology

E-commerce has been developing rapidly all across the world including Malaysia. It is common for materials of various kinds to be ordered electronically and primarily, via the Internet under both the business-to-business and business-to-consumer model. According to the UNCTAD, global e-commerce sales reached USD26.7 trillion (RM110.60 trillion) in 2019 (RM4.1425 = USD1.00), which was an increase of 4.0% from the previous year. UNCTAD had also estimated that online retail sales' share of total retail sales increased from 16% in 2019 to 19% in 2020, mainly induced by COVID-19 pandemic, which rendered more people to use online platform in purchasing goods. In particular, total e-commerce sales in the United States ("**US**") increased by 42.8% from USD571.23 billion (RM2.37 trillion) in 2019 (RM4.1425 = USD1.00) to USD815.45 billion (RM3.43 trillion) in 2020 (RM4.2011 = USD1.00). This figure further grew to USD960.44 billion (RM3.98 trillion) in 2021 (RM4.1456 = USD1.00) and to USD1.03 trillion (RM4.53 trillion) in 2022 (RM4.4005 = USD1.00). Going forward, the e-commerce market in the US is expected to continue on an expansionary trend, supported primarily by the growing trend of online shopping, high internet penetration and increased smartphone usage in the country. Note: All foreign exchange rates are obtained from the average rate for the respective periods based on rates from Bank Negara Malaysia.

Closer to home, the shift in consumer behaviour to digital and online shopping driven by the COVID-19 pandemic has also been witnessed in Malaysia. In particular, Alibaba Group Holding Limited (one of the largest e-commerce businesses in China) launched a new consolidated end-to-end logistics service between China and Malaysia. The new cross-border logistics service allows consumers in Southeast Asia, including Malaysian consumers, to buy products on Chinese e-commerce platforms such as Taobao, Pinduoduo, JD.com with reduced shipping time for cross-border e-commerce parcels. As the popularity of e-commerce continues to rise in Malaysia and consumers increase purchases online, it is expected to lead to increased demand for ocean freight, which is one of the main transport channels used to bring in merchandise from overseas due to cost reasons. At the same time riding on the e-commerce boom trend, many local merchants are also importing merchandise from other countries for trading purposes in Malaysia. This development is also expected to boost demand for ocean freight.

In addition to the transportation market, the growing prominence of e-commerce has helped to carve out a new market for stakeholders in the logistics industry. E-commerce merchants would be required to manage the delivery of products via their in-house distribution channel or engage third-party services providers such as a courier service provider for the delivery of their products. This also benefits the expansion of the warehousing and storage market, which serve as distribution hubs and support last-mile delivery. The logistics industry is also expected to benefit from technological advancements that improve speed, efficiency and visibility. The rise of big data analytics has enabled merchants to better understand the requirements of consumers, and recommend more suitable products to consumers. At the same time, e-commerce platforms have evolved to become more user friendly, whereby product searches/recommendations and payment methods have become more and more convenient. This is expected to drive higher e-commerce sales volumes and in turn support the expansion of the various markets within the logistics industry.

Growth in the Manufacturing Sector

Along with the growth in the global population, so has the demand for goods. To cope with the increase in demand, there has been continuous improvements in manufacturing capabilities, namely via the adoption of automation, as well as more advanced and efficient manufacturing technologies. According to data by the World Bank, the world manufacturing value added ("**MVA**") stood at USD16.05 trillion (RM66.54 trillion) in 2021 (RM4.1456 = USD1.00), which was an increase from USD13.57 trillion (RM57.01 trillion) in 2020 (RM4.2011 = USD1.00). The MVA stood at USD14.01 trillion (RM58.04 trillion) in 2019 (RM4.1425 = USD1.00) and USD14.17 trillion (RM57.18 trillion) in 2018 (RM4.0353 = USD1.00). The increase in 2021 can be attributed to the recovery in global economic activities boosting demand for products. The MVA recorded in 2010 was USD10.58 trillion (RM34.05 trillion) (RM3.2182 = USD1.00). This represents a CAGR of 3.86% throughout the said period. Global MVA is expected to continue on a growth trajectory once the COVID-19 pandemic subsides and trade issues solved. In Malaysia, the sales value from the manufacturing sector increased from RM534.45 billion in 2010 to RM1.80 trillion in 2022, representing a CAGR of 10.7% over the said period. In particular, the local electrical and electronics ("**E&E**") industry is one of the largest sub-segments within the manufacturing sector. Following a modest increase in trade in 2020, the local E&E industry saw a further surge in terms of trade in 2021, whereby total exports increased by 18.0% to RM455.95 billion and total imports increased by 24.3% to RM314.55 billion. This expansionary trend continued in 2022, whereby E&E exports grew 30.2% to RM593.50 billion while E&E imports grew 25.2% to RM393.80 billion. The growth of the manufacturing sector as well as resulting economic growth is expected to provide impetus for the growth in the logistics industry, which is crucial to the movement of the manufactured goods and products across borders. Note: All foreign exchange rates are obtained from the average rate for the respective periods based on rates from Bank Negara Malaysia.

Broad Range of End-User Markets

Transport and logistics services are essentially the critical supporting business activities used for the movement of goods among all the stakeholders within an industry supply chain (including the final consumers). As almost every single industry will require storage and/or transportation services, either through a single mode or multimode of transport, it is unsurprising that the logistics industry in Malaysia can look forward to demand from a very broad range of end-user markets. Examples of end-user market for transport and logistics services are the agriculture, construction, manufacturing as well as mining and quarrying sectors. It needs to be highlighted that there are many different markets that are grouped under each sector particularly the manufacturing sector. Examples of end-user markets within the manufacturing sector that engage transport and logistics services include but are not limited to food and beverage, E&E, medical devices, pharmaceutical, plastic products, rubber products and steel products. By having a very broad range of end-user markets, the logistics industry in Malaysia is able to mitigate the risk of over-reliance on a single end-user market and stand to have more room for market expansion.

Slower Economic Growth due to Hike in Interest Rates

In light of the high inflation rates in the US, the country began raising interest rates since March 2022 to combat the situation. The move serves to increase borrowing cost to try to cool the economy and ease price inflation. However, the persistent high prices had led to the Federal Reserve (the US central bank) continuing to raise interest rates in the few following Federal Open Market Committee meetings. The latest hike took place on 3 May 2023, raising interest rates (Federal Funds Rate) by 25 basis points to the 5.00% to 5.25% target range. Over the span of 15 months, the Federal Funds Rate had increased by 5.25 percentage points. The spike in borrowing cost in the US has reduced household purchasing power and tighter monetary policy is expected to negatively impact economic growth in the short-term.

The high inflation environment has also been present in major European economies. The European Central Bank ("**ECB**") raised interest rates across the eurozone to combat soaring inflation that has reached double-digit figures in some of the bloc's member countries. The ECB had raised rates at seven successive Governing Council meetings since September 2022. In the last meeting on 10 May 2023, a 25-basis point increase was applied to three key ECB interest rates, raising the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility to 3.75%, 4.00% and 3.25% respectively. The higher interest rates is expected to lead to slower economic growth in the region.

The rise of interest rates in the US and Europe has also affected Asia in terms of the weakening of Asian currencies. A weaker currency indicates that imports are now more expensive and may affect consumer purchasing power. While some Asian economies such as India, Indonesia, Malaysia, Thailand and the Philippines have stepped up their interest rates in an effort to catch up with the US's monetary policy, some economies such as China have moved to lower interest rates to shore up a slowing economy.

According to the IMF, global growth slowed from the 6.0% registered in 2021 to 3.4% in 2022. The IMF has forecasted global economic growth to further slow to 2.8% in 2023, with one third of the global economy facing risks of contracting during the year. The economic slowdown is expected to negatively impact the expansion of the local logistics industry.

Global Events Affecting Economic Activities

As part of the global supply chain, economic activities in Malaysia are subject to global events that may affect the economic activities across the globe. In particular, Malaysia is a major exporter of E&E products to various parts of the world. The tension between the US and China has affected the relationship between the top two economies in the world, with the effect spilling over to other parts of the world. The tension began in 2018 when the US imposed punitive tariffs on China. These tariffs were followed by restriction on both China's access to high-tech US products and foreign investments involving security concerns and allegations of unfair Chinese commercial practices. The US and China are among the top export destinations of Malaysian exports.

The ongoing war between Russia and Ukraine has also caused disruptions to the global supply chain. As one of the largest exporters of oil in the world, Russia's involvement in the war throws oil supply from the country into doubt. This had led to oil prices spiking in the first half of 2022 and renewed supply chain disruptions with the high fuel price. The high oil prices had also aggravated inflation in the US as well as in some European countries, which may affect demand from these countries. To combat the situation, various central banks around the world increase interest rates in order to relieve inflationary pressure. Higher interest rates may affect consumer spending and demand for goods. This had led to an economic slowdown in these economies in the second half of 2022. The slowdown is expected to persist into 2023. Oil prices had also been trending downwards since the second half of 2022. The disruptions in global economic activities may affect demand for Malaysian goods and products, which will in turn have a negative impact on the local logistics industry.

5.0 Supply Conditions

Figure 5: Supply Conditions Affecting the Logistics Industry in Malaysia, 2022-2027

Impact	Supply Conditions	Short-Term	Medium-Term	Long-Term
		2022-2023	**2024-2025**	**2026-2027**
+	Supportive Government Initiatives	High	High	High
+	A Strategic Logistics Hub with Business-Friendly Logistics Ecosystem	Medium	Medium	Medium
-	Fluctuating Oil Prices Affecting Fuel Cost on Logistics	High	Low	Low
-	Intense Price Competition	Medium	Medium	Medium

Source: Protégé Associates

Supportive Government Initiatives

Trading activities account for a significant portion of Malaysia's economic activity. As such, the movement of goods and the logistics industry plays a crucial role in the development of the country's economic growth. In view of this, the Malaysian Government has placed much emphasis on the development of the logistics industry in Malaysia. In particular, the Malaysian Government had highlighted three main themes in the Twelfth Malaysia Plan (2021-2025) ("**12MP**"), namely resetting the economy, strengthening security, wellbeing and inclusivity, as well as advancing sustainability. These themes are supported by four catalytic policy enablers, which include connectivity and transport infrastructure enhancements.

On this policy enabler, the Malaysian Government will place emphasis on improving first- and last-mile connectivity, increasing industry competitiveness and strengthening governance. The Malaysian Government aims to provide an efficient and inclusive transportation and logistics infrastructure by enhancing accessibility to public transport, improving trade facilitation as well as strengthening the institutional and regulatory framework. Measures will be taken to improve last-mile connectivity through the integration of rail and road networks between airports, ports, industrial areas and cities. The capacity of ports infrastructure and services will be increased while a multimodal cargo movement approach by the same service provider will be adopted. Initiatives will also be taken to centralise planning and development of logistics hubs, accelerate digital adoption, encourage mergers and acquisitions among industry players, establish a single border agency and create a national regulatory framework for warehousing and maritime economy.

At the same time, the electrical and electronics sector (whereby Malaysia is a huge net exporter) will be uplifted to a higher point in the value chain in 12MP. The expansion in the sector is expected to lead to more exports of local products. The 12MP also aims to improve internet connectivity, which is expected to enable small and medium enterprises ("**SMEs**") and micro SMEs ("**MSMEs**") to promote their products overseas and increase their contribution to the nation's exports. 12MP targets contribution of MSMEs to the nation's exports to reach 25.0% in 2025 from 13.5% in 2020. The local logistics industry is also expected to be supported by the National Trade Blueprint ("**NTB**"), which is a 5-year (2021-2025) development strategy and initiatives to enhance Malaysia's trade competitiveness, specifically in the exports of merchandise. Some of the specific areas covered under the NTB are Trade Facilitation & Logistics, Standards & Conformance, Trade Promotion & Market Access, Sustainability & Innovation, Digitization & Technology as well as Investment and Branding.

Malaysia is currently moving into the Fourth Industrial Revolution ("**Industry 4.0**"), whereby new and upcoming technologies are incorporated into the manufacturing process. These include the use of the Internet of Things ("**IoT**"), Big Data Analytics, artificial intelligence ("**AI**"), cloud computing, cognitive computing, 3D printing, smart sensors and predictive maintenance. Due to the importance of the manufacturing sector to Malaysia's economy, the Malaysian Government has pushed for the adoption of Industry 4.0 among manufacturers. In particular, the implementation of Industry 4.0 has also benefited the logistics industry, whereby the use of robotics transportation, storage automation as well as material management have served to streamline operations of freight management companies. These efforts by the Malaysian Government are expected to support the growth of the local logistics industry.

A Strategic Logistics Hub with Business-Friendly Logistics Ecosystem

Malaysia is located strategically within the ASEAN region. It has the greatest number of ASEAN neighbours among all the ASEAN countries. Malaysia can rely on Brunei, Indonesia, Singapore and Thailand as countries that it shares land and/or borders with. It also shares a sea border with the Philippines. As such, Malaysia is considered an ideal logistics gateway to the ASEAN markets.

Malaysia has also earned a reputation of having one of the most well-developed infrastructures among the industrialising countries of Asia with a network of well-maintained highways in Peninsular Malaysia and international ports that facilitate almost 95 percent of Malaysia's trade. As a high percentage of global trade is through ocean transport, this is expected to benefit ocean freight providers in particular in Malaysia. The country also has over 600 industrial parks as well as a large base of relatively young and well-educated talent with multi-lingual capability. At the same time, the bilateral and regional free trade agreements ("**FTAs**") the Malaysian Government has signed has also been supportive of country's trade with other countries. All these have helped to provide a boon to regional and logistics operations in the country and catalyse the growth in the local logistics industry.

Fluctuating Oil Prices Affecting Fuel Cost on Logistics

Oil price fluctuations has a constantly evolving effect on the logistics industry. A rapid increase in fuel prices can lead to a devastating effect on transportation companies as high fuel cost eat into profit margins, while a sudden fall in fuel price can result in short-term boosts in profits which later leads to a surge in competition within the industry to provide consumers with the lowest price. In particular, a higher fuel cost is often passed down to the clients of transportation companies, including freight management companies. This may then lead to narrowing profit margins of these clients.

Crude oil prices had been edging up in 2021 given the vaccination efforts, loosening pandemic-related restriction and economic recovery. There has also been a sudden spike in recent months due to the tension and war between Russia and Ukraine amid concerns of supply disruption. The war between Russia and Ukraine had led to the Europe Brent Spot Price FOB increasing from USD74.17 (RM312.31) per barrel in December 2021 (RM4.2107 = USD1.00) to above USD100 (RM420.07) per barrel in March 2022 (RM4.2007 = USD1.00). Oil prices had cooled since July 2022 due to the economic slowdown in the US and in Europe. However, the Organisation of Petroleum Exporting Countries and its allies ("**OPEC+**") had agreed to cut oil production by 2 million barrels per day starting November 2022 until end 2023 to support declining oil prices. The bloc then announced a further cut of 1.16 million barrels per day in early April 2023. Oil prices stood at around USD75 (RM338.99) per barrel in May 2023 (RM4.5199 = USD1.00). The fluctuating margins as well as intense competition among industry player may deter new entrants from entering the industry, thus affected the supply of logistic services. Note: All foreign exchange rates are obtained from the average rate for the respective periods based on rates from Bank Negara Malaysia.

Intense Price Competition

The level of price competition in the local logistics industry is intense due to the high level of fragmentation in the industry. As a result, logistics industry players compete fiercely among one another in terms of pricing of services offered in order to secure customers thus creating a highly competitive business environment.

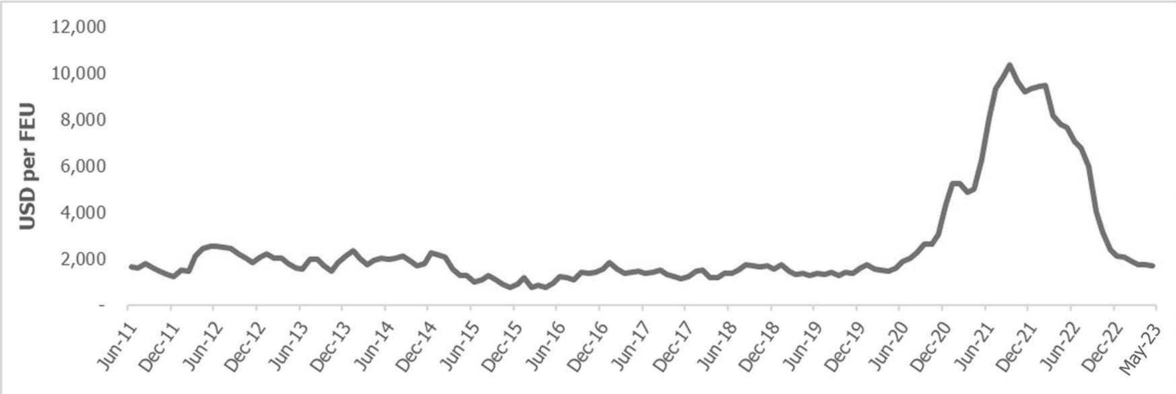
In order to cope with the intense price competition, there are logistics industry players that strive to offer more value-added services by becoming an integrated logistics player that can provide various transport and logistics services including warehousing services on an integrated basis. This enables them to reduce sole reliance on the price leadership strategy and gives them more headroom to protect their profit margin. In addition, logistics industry players also rely on their long-standing relationship with customers as well as their services reliability in order to help fending off competitors.

6.0 Prospect and Outlook of the Logistics Industry in Malaysia

The logistics industry in Malaysia plays a crucial role in the development of the country's economic development. In 2022, the local logistics industry accounted for 3.5% of the country's total GDP as was valued at RM62.20 billion. This represented an improvement of 33.1% from the previous year, mainly attributable to the economic recovery in the country in 2022. The Malaysian Government had announced the transition of COVID-19 into an endemic phase starting 1 April 2022, with the Ministry of Health also announcing a set of relaxed standard operating procedures that took place in the country effective 1 May 2022.

Factors influencing the industry growth are expected to come from the growing prominence of e-commerce across the globe as well as resulting increase in trade volumes. The expansion in the manufacturing sector is also expected to drive demand for logistics services as more goods are manufactured and transported to various destinations. However, the slowing economic growth coupled with various global events that have negatively impacted economic activities may in the short term affect the overall demand for logistic services. From the supply side, the logistics industry is expected to benefit from support from the Malaysian Government in charting the direction and goals of logistics infrastructure and export trade activities in Malaysia. Malaysia's position as a strategic logistics hub has also helped the country develop its logistics infrastructure.

Figure 6: World Container Freight Rates, 2011- May 2023



Source: Protégé Associates

The freight rates for 2011 to May 2023 is as shown in the figure above. Freight rates hovered between around USD1,400 (RM5,807) and USD1,600 (RM6,636) per forty-foot equivalent unit of container ("**FEU**") in December 2019 (RM4.1475 = USD1.00). During the initial outbreak of the COVID-19 pandemic, freight rates remained around USD1,500 (RM6,375) per FEU (RM4.2497 = USD1.00). Since the second half of 2020, global freight rates had been on an upward trend with a recovery in global economic activities after the initial outbreak of COVID-19 boosted demand for shipping. The disruptions in the global supply chain caused by the pandemic further pushed up freight rates in the following year. Freight rates reached a peak of more than USD10,000 (RM41,677) per FEU at end of September 2021 (RM4.1677 = USD1.00). While freight rates continued to remain high in January and February 2022 at around USD9,400 (RM39,378) per FEU (RM4.1892 = USD1.00), freight rates began to drop by end March 2022 to around USD8,000 (RM33,606) per FEU (RM4.2007 = USD1.00). The subsequent high inflation and resulting rising interest rates also affected consumer demand which also contributed to lower shipping demand, thus lowering freight rates further. At the end of May 2023, freight rates stood at around USD1,685 (RM7,616) per FEU (RM4.5199 = USD1.00). Note: All foreign exchange rates are obtained from the average rate for the respective periods based on rates from Bank Negara Malaysia. While global port congestions are expected to slowly improve, the new International Maritime Organization (IMO) emissions regulations as well as high raw material prices and vessel manufacturers working at limits are expected to sustain container freight rates for the rest of the year. Moving forward, as the logistics industry is still volatile and fluid, it may be difficult at this point to provide a forecast on future freight rates for 2023 and 2024 due to various factors. While supply chain disruption issues may have eased in light of COVID-19 being brought under control, other factors such as the ongoing war between Russia and Ukraine, the trade tension between the US and China as well as the slowdown in the global economy is expected to impact demand for goods worldwide. Nonetheless, regardless of the fluctuations in freight rates, total trade in Malaysia have remained resilient and growing over the years. Total trade was valued at RM2.85 trillion in 2022, up from RM1.17 trillion in 2010. In terms of volume, total container throughput rose from 26.4 million TEUs in 2019 to 28.4 million TEUs in 2021. While there had been a slight dip in container throughput in 2022 to 27.3 million TEUs, it is still higher than the 26.7 million TEUs recorded in 2020.

The Malaysian logistics industry is projected to reach RM66.25 billion in 2023 and grow to RM87.57 billion in 2027, expanding at a CAGR of 7.1% for the forecast period. In particular, the warehouse and storage market in Malaysia is forecast to reach RM2.58 billion in 2023 and expand at a CAGR of 8.2% to RM3.59 billion in 2027.

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

9.1.1 Our historical financial results may not be indicative of our future financial performance, particularly considering that our financial results during the Period Under Review were mainly attributable to the high ocean freight rates caused by the COVID-19 pandemic

Our revenue is mainly derived from our ocean freight services for international shipments. In providing ocean freight services for international shipments, our roles include sourcing for ocean cargo space from ocean carriers to ship our customers' cargo, for which we are charged based on, among others, ocean freight rates set by ocean carriers. Ocean freight charges represent the single largest cost component of our ocean freight services and one of the key determinants of the pricing for our ocean freight services. As such, the pricing for our ocean freight services and our revenue performance are closely linked to the prevailing ocean freight rates set by ocean carriers.

Since the second half of 2020, global ocean freight rates had been on an upward trend mainly due to a recovery in global economic activities after the initial outbreak of COVID-19 and the global supply chain disruptions caused by the COVID-19 pandemic. The rates only began to drop by end of March 2022 when the global supply chain disruptions gradually eased. This has led to, in general, an increase in the pricing for our ocean freight services as well as improving revenue performance during the Period Under Review but a decline of the same in Quarter 1, 2023 as follows:

	FYE 2019	FYE 2020	FYE 2021	FYE 2022	Quarter 1, 2023
Total TEU of containers handled by us	13,742	17,242	17,106	14,837	3,993
Average ocean freight revenue per TEU (RM)	2,833	3,402	10,981	(1)14,803	4,254
Ocean freight revenue (RM'000)	38,935	58,663	187,839	223,518	16,986
Group's total revenue (RM'000)	43,379	63,525	195,419	229,695	18,041
Group's GP (RM'000)	6,646	9,012	32,995	35,218	3,867
Group's PAT (RM'000)	349	2,176	15,758	16,335	1,281

Note:
(1) We have arranged and coordinated over-sized non-containerised cargo shipment of approximately 1,980 tonnes of steel coil from Malaysia to the USA for 2 exporters in March 2022. The relevant revenue of RM3.89 million have been excluded from the computation of the average revenue per TEU of container for the FYE 2022.

Please refer to Section 12.3 of this Prospectus for further information on our financial performance for the Period Under Review. Prior to this, we handled 8,626 TEU of containers in FYE 2018.

9. RISK FACTORS (CONT'D)

Our historical financial performance during the Period Under Review only reflects our past performance under particular conditions such as the global supply chain disruptions caused by the COVID-19 pandemic, especially those for the FYE 2021 and FYE 2022 where our average ocean freight revenue per TEU of container was at its highest since our commencement of business operations in 2005. As such, our past performance does not necessarily reflect our future financial performance, which will largely depend on, among others, our capability to secure new orders, global trade volumes and the general environment of the logistics industry.

We may not be able to sustain our historical growth or financial performance for various reasons including, among others, intense market competition, adverse development in global economy and weak ocean freight rates.

Although we strive to build on and increase our business volume (i.e. the number of containers handled by our ocean freight services) in the future to sustain or grow our revenue, there can be no assurance that we will be able to generate the same level of revenue and profitability as in the FYE 2021 and FYE 2022 as ocean freight rates have since declined.

To further illustrate, our average ocean freight revenue per TEU of container as well as our financial performance has been declining on a quarterly basis since Quarter 2, 2022 in line with the declining global ocean freight rates as follows:

	Quarter 1, 2022	**Quarter 2, 2022**	**Quarter 3, 2022**	**Quarter 4, 2022**	**Quarter 1, 2023**
Ocean freight segment					
Ocean freight revenue (RM'000)	78,693	72,442	49,288	23,095	16,986
Total TEU of containers handled by us	3,504	4,193	3,950	3,190	3,993
Average ocean freight revenue per TEU (RM)	(1)21,349	17,277	12,478	7,240	4,254
Group's financial performance					
Total revenue (RM'000)	80,970	74,132	50,654	23,939	18,041
GP (RM'000)	13,663	11,019	5,803	4,733	3,867
PBT (RM'000)	9,945	9,087	2,752	87	1,683
PAT/(LAT) (RM'000)	7,558	6,900	2,098	(221)	1,281
GP margin (%)	16.87	14.86	11.46	19.77	21.43
PBT margin (%)	12.28	12.26	5.43	0.36	9.33
PAT/(LAT) margin (%)	9.33	9.31	4.14	(0.92)	7.10

Note:

(1) We have arranged and coordinated over-sized non-containerised cargo shipment of approximately 1,980 tonnes of steel coil from Malaysia to the USA for 2 exporters in March 2022. The relevant revenue of RM3.89 million have been excluded from the computation of the average revenue per TEU of container for the Quarter 1, 2022.

9. RISK FACTORS (CONT'D)

Comparison between Quarter 1, 2022 and Quarter 2, 2022

Our total revenue decreased by RM6.84 million or 8.45% from RM80.97 million in Quarter 1, 2022 to RM74.13 million in Quarter 2, 2022, mainly due to decrease in revenue derived from our ocean freight segment by RM6.25 million. The decrease in our ocean freight revenue was mainly attributable to the decrease in average ocean freight revenue per TEU of container by 19.07% from RM21,349 in Quarter 1, 2022 to RM17,277 in Quarter 2, 2022.

In line with the decrease in our total revenue, our total GP and PAT decreased by RM2.64 million and RM0.66 million respectively in Quarter 2, 2022.

Our GP margin decreased from 16.87% in Quarter 1, 2022 to 14.86% in Quarter 2, 2022, mainly attributable to lower GP margin from our ocean freight segment, which decreased from 16.60% in Quarter 1, 2022 to 14.24% in Quarter 2, 2022, as we offered a more competitive pricing for our ocean freight services to customers in order to secure higher business volume in conjunction with the gradual easing of the global supply chain disruptions.

Comparison between Quarter 2, 2022 and Quarter 3, 2022

Our total revenue decreased by RM23.48 million or 31.67% from RM74.13 million in Quarter 2, 2022 to RM50.65 million in Quarter 3, 2022, mainly due to decrease in revenue derived from our ocean freight segment by RM23.15 million. The decrease in our ocean freight revenue was attributable to the decrease in average ocean freight revenue per TEU of container by 27.78% from RM17,277 in Quarter 2, 2022 to RM12,478 in Quarter 3, 2022 as well as decrease in business volume by 5.80% from 4,193 TEU of containers handled in Quarter 2, 2022 to 3,950 TEU of containers handled in Quarter 3, 2022.

In line with the decrease in our total revenue, our total GP and PAT decreased by RM5.22 million and RM4.80 million respectively in Quarter 3, 2022.

Our GP margin decreased from 14.86% in Quarter 2, 2022 to 11.46% in Quarter 3, 2022, mainly attributable to lower GP margin from our ocean freight segment, which decreased from 14.24% in Quarter 2, 2022 to 10.72% in Quarter 3, 2022, as we moderated our premium price charged to customers for our ocean freight services in response to the easing of ocean cargo space supply and lower demand from customers.

Comparison between Quarter 3, 2022 and Quarter 4, 2022

Our total revenue decreased by RM26.71 million or 52.73% from RM50.65 million in Quarter 3, 2022 to RM23.94 million in Quarter 4, 2022, mainly due to decrease in revenue derived from our ocean freight segment by RM26.19 million. The decrease in our ocean freight revenue was attributable to the decrease in average ocean freight revenue per TEU of container by 41.98% from RM12,478 in Quarter 3, 2022 to RM7,240 in Quarter 4, 2022 as well as decrease in business volume by 19.24% from 3,950 TEU of containers handled in Quarter 3, 2022 to 3,190 TEU of containers handled in Quarter 4, 2022. The decrease in TEU of containers handled in Quarter 4, 2022 was mainly due to lower demand for our ocean freight services and we believe that this was partly due to the overall weaker export demand for our customers' products from the USA as the country experienced interest rate hike aimed at curbing inflation, and the overstocking issues faced by certain major retailers which led to lower purchases by them in preparation for year-end festive seasons such as Christmas and Boxing Day.

In line with the decrease in our total revenue, our total GP decreased by RM1.07 million and we recorded LAT of RM0.22 million in Quarter 4, 2022. LAT was recorded mainly due to one-off IPO expenses of RM0.94 million, and one-off legal fee, stamp duty and valuation fee totalling RM0.20 million pertaining to the banking facility for the purchase of the Target Property incurred in Quarter 4, 2022. In addition, there was also a provision for bonus of RM0.62 million for FYE 2022 in Quarter 4, 2022.

9. RISK FACTORS (CONT'D)

Nonetheless, our GP margin increased from 11.46% in Quarter 3, 2022 to 19.77% in Quarter 4, 2022, mainly attributable to higher GP margin from our ocean freight segment, which increased from 10.72% in Quarter 3, 2022 to 18.57% in Quarter 4, 2022. The significant decrease in ocean freight rates enabled us to price in higher margin (in percentage terms) for our ocean freight services as its impact (in monetary value terms) on our overall pricing is less significant to the total ocean freight cost of our customers, hence more acceptable to them.

Comparison between Quarter 4, 2022 and Quarter 1, 2023

Our total revenue decreased by RM5.90 million or 24.64% from RM23.94 million in Quarter 4, 2022 to RM18.04 million in Quarter 1, 2023, mainly due to decrease in revenue derived from our ocean freight segment by RM6.11 million. The decrease in our ocean freight revenue was attributable to the decrease in average ocean freight revenue per TEU of container by 41.24% from RM7,240 in Quarter 4, 2022 to RM4,254 in Quarter 1, 2023.

In line with the decrease in our total revenue, our total GP decreased by RM0.87 million to RM3.87 million and we recorded PAT of RM1.28 million in Quarter 1, 2023.

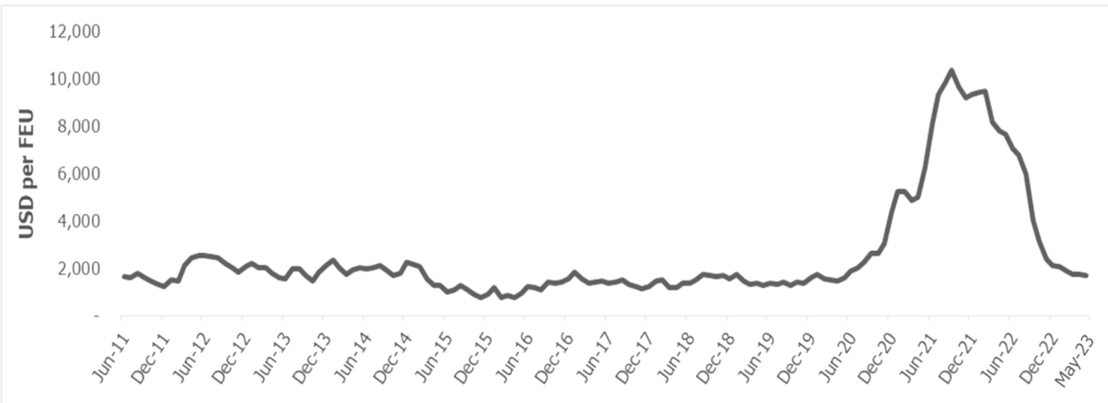
Our GP margin increased from 19.77% in Quarter 4, 2022 to 21.43% in Quarter 1, 2023, mainly attributable to higher GP margin from our ocean freight segment, which increased from 18.57% in Quarter 4, 2022 to 19.18% in Quarter 1, 2023, as we continued to price in higher margin for our ocean freight services while ocean freight rates decreased further in Quarter 1, 2023.

In view of the above, investors should take note that our favourable financial performance for the FYE 2021 and FYE 2022 may not be indicative of our financial performance for the FYE 2023.

9.1.2 Our business operations and financial performance may be adversely affected by fluctuation in ocean freight rates

As our revenue is mainly derived from our ocean freight services for international shipments, our business operations and financial performance are subject to the fluctuation in ocean freight rates. Ocean freight charges accounted for approximately 72.32%, 75.55%, 89.47%, 91.47% and 78.87% of our Group's total cost of sales for FYE 2019, FYE 2020, FYE 2021, FYE 2022 and Quarter 1, 2023, respectively. Fluctuation of ocean freight rates is an inherent risk of the logistics industry, particularly to those with major operations in ocean freight services like our Group.

As extracted from the IMR Report, ocean freight rates trend in the past and up to May 2023 is as follows:



9. RISK FACTORS (CONT'D)

Freight rates hovered between around USD1,400 (RM5,807) and USD1,600 (RM6,636) per forty-foot equivalent unit of container ("**FEU**") in December 2019 (RM4.1475 = USD1.00). During the initial outbreak of the COVID-19 pandemic, freight rates remained around USD1,500 (RM6,375) per FEU (RM4.2497 = USD1.00). Since the second half of 2020, global freight rates had been on an upward trend with a recovery in global economic activities after the initial outbreak of COVID-19 boosted demand for shipping. The disruptions in the global supply chain caused by the pandemic further pushed up freight rates in the following year. Freight rates reached a peak of more than USD10,000 (RM41,677) per FEU at end of September 2021 (RM4.1677 = USD1.00). While freight rates continued to remain high in January and February 2022 at around USD9,400 (RM39,378) per FEU (RM4.1892 = USD1.00), freight rates began to drop by end March 2022 to around USD8,000 (RM33,606) per FEU (RM4.2007 = USD1.00). The subsequent high inflation and resulting rising interest rates also affected consumer demand which also contributed to lower shipping demand, thus lowering freight rates further. At the end of May 2023, freight rates stood at around USD1,685 (RM7,616) per FEU (RM4.5199 = USD1.00) Note: All foreign exchange rates are obtained from the average rate for the respective periods based on rates from Bank Negara Malaysia.

(Source: IMR Report)

Since mid-2022 up to the LPD, ocean freight rates have been volatile and on decreasing trend. For illustration, a comparison between the ocean freight rate per TEU of container for a shipment from Port Klang, Malaysia to Port of Los Angeles and Port of New York and New Jersey, USA respectively as at the LPD and the relevant historical ocean freight rates (all based on the rate offered to us pursuant to our Carrier Service Contract with an ocean carrier who has been one of our top 3 major suppliers for each of the years during the Period Under Review) is as follows:

	Difference[(1)] in ocean freight rate per TEU as at the LPD as compared to that for				
	Quarter 1, 2023	**FYE 2022[(2)]**	**FYE 2021[(2)]**	**FYE 2020[(2)]**	**FYE 2019[(2)]**
From Port Klang to Port of Los Angeles	-1.80%	-81.71%	-79.41%	-50.71%	-10.42%
From Port Klang to Port of New York and New Jersey	-10.52%	-76.29%	-70.24%	-36.18%	-12.07%

Notes:

(1) A positive difference indicates that the ocean freight rate per TEU as at the LPD is higher than the relevant historical rate for that particular historical period.

Conversely, a negative difference indicates that the ocean freight rate per TEU as at the LPD is lower than the relevant historical rate for that particular historical period.

(2) Based on daily average for the respective financial year.

As shown in the table above and generally, ocean freight rate was at its lowest in Quarter 1, 2023. During the Period Under Review, ocean freight rates started low in FYE 2019 and increased in FYE 2020, FYE 2021 and part of FYE 2022. It subsequently decreased during FYE 2022 and up to the LPD. Due to higher ocean freight rates coupled with higher business volume, we achieved better financial performance in FYE 2020, FYE 2021 and FYE 2022 as compared to FYE 2019. Our financial performance continued to be on the uptrend in the first half of FYE 2022, but we subsequently recorded lower revenue and profit in the second half of FYE 2022 due to lower ocean freight rates as well as lower business volume. Please refer to Section 12.3 of this Prospectus for further details of our financial results during the Period Under Review.

According to the IMR Report, as the logistics industry is still volatile and fluid, it may be difficult at this point to provide a forecast on future freight rates for 2023 and 2024 due to various factors. While supply chain disruption issues may have eased in light of COVID-19 being brought under control, other factors such as the ongoing war between Russia and Ukraine, the trade tension between the US and China as well as the slowdown in the global economy is expected to impact demand for goods worldwide.

We expect the ocean freight rates to remain volatile in the future. There can be no assurance that our business operations and financial performance will not be adversely affected by the continued volatility and fluctuation in ocean freight rates.

We have been able to pass on most of the increases in ocean freight rates to our customers during the Period Under Review, which enabled us to preserve our profit margin during the same period. This can be seen from our Group's GP margin for the Period Under Review, which has been hovering between 14.19% and 16.88% throughout the Period Under Review. However, there can be no assurance that future increases in ocean freight rates can always be passed to our customers in order to preserve our profitability.

On the other hand, should there be a decrease in ocean freight rates, our Group may need to follow suit and reduce the ocean freight rates charged to our customers accordingly, in order to be in line with the prevailing market rate. This may lead to lower revenue and profits for our Group if we are unable to increase our business volume to an extent that could compensate the decrease in our revenue and profits caused by lower ocean freight rates.

9.1.3 We may not be able to successfully execute our future plans

Our Group plans to relocate and centralise our entire operations (i.e. office and warehouse) at the Target Property by the fourth quarter of 2023 to facilitate our business expansion. We also intend to offer in-house warehousing services to our logistics services customers and develop new business opportunities for our logistics services through providing e-commerce solutions in the same quarter. Further, we plan to expand on our provision of warehousing and distribution services for healthcare-related products and devices mainly by expanding our customer base upon our relocation to the Target Property. As at the LPD, our warehousing operations are housed under our rented premises located at Dana 1 Commercial Centre, Ara Damansara, Selangor measuring approximately 1,510 sq. ft. Following the commencement of our warehousing of goods for customers in May 2022, we recorded average utilisation rate for our warehouse space of approximately 57.94% for the FYE 2022.

The future growth of our Group and the successful development of our future business strategies are dependent on, amongst others, the timely and cost-effective renovation of the Target Property, our ability to attract appropriate personnel to expand our headcount, and our ability to market our services to potential customers.

The renovation of our Target Property may be delayed due to factors such as but not limited to natural disasters, acts of war or terrorism, political or social unrest, shortage of labour or raw materials, delays in receiving approvals from authorities, variations in design, or where a delay in one part of the renovation leads to subsequent delays as the renovation cannot proceed without that particular part of renovation being complete.

Further, we may not be able to successfully execute our future plans if we fail to attract and recruit appropriate personnel to expand our headcount. People may not respond to our job postings for reasons such as an unsuitable remuneration package, lack of flexible working arrangements (where possible), or unsuitable location.

9. RISK FACTORS (CONT'D)

Lastly, we may not be able to successfully execute our future plans in the event that we are unable to secure customers for our new services (be it existing customers of our Group or new customers to our Group). We may fail to attract customers for reasons such as lack of track record in the new services we intend to offer, our potential customers having an existing service provider for the new services we intend to offer and are unwilling to move on from the said service provider, or if the cost of our new services are not as competitive compared to other service providers.

There can be no assurance that we will be able to successfully implement our future plans and business strategies. There can also be no assurance that in the event our future plans and business strategies have been implemented that they will be commercially successful. As such, failure to execute our future plans and business strategies with success may adversely affect our growth and financial performance.

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9.1.4 The demand for our logistics services and our business volume may be adversely affected by an adverse development in global economy

Our Group's revenue is predominantly generated from export shipments, which contributed more than 85.00% to our Group's revenue during the Period Under Review. Given the nature of our Group's business which focuses on export shipments, our business volume and the performance of our Group are dependent on the performance of Malaysia's export trades. For FYE 2019, FYE 2020, FYE 2021 and FYE 2022, Malaysia recorded an export value of RM823.48 billion, RM799.20 billion, RM1.01 trillion and RM1.22 trillion respectively. (Source: Department of Statistics Malaysia)

In this respect, the performance of Malaysia's export trade is dependent on various factors including, foreign demand for goods produced in Malaysia, which is in turn dependent on the condition and performance of the global economy. As such, the demand for our logistics services and our business volume generally change according to the level of global trade activities and performance of the global economy.

The COVID-19 pandemic had led to contraction of the global economy in 2020, which subsequently rebounded in 2021. There was no significant adverse impact on our business volume arising from the said global economy contraction and rebound as our business volume increased by 25.47% in FYE 2020 followed by a marginal 0.79% decrease in FYE 2021, measured based on the TEU of containers handled by our Group for ocean freight services.

Although the global economy was expected to continue its recovery in 2022, factors such as the ongoing war between Russia and Ukraine has led to higher commodity and energy prices, further adding to inflationary pressures arising from supply chain disruptions caused by the COVID-19 pandemic. For the FYE 2022, we recorded a 13.26% decrease in business volume. This was mainly due to ocean cargo space shortage in the first half of 2022 arising from supply chain disruptions caused by the COVID-19 pandemic. The decrease in business volume was also partly due to lower demand for our ocean freight services in the second half of 2022. We believe that this was partly due to the overall weaker export demand for our customers' products from the USA as the country experienced a cumulative interest rate hike of 2.75% in the second half of 2022 (first half of 2022: 1.50%) (Source: www.federalreserve.gov) aimed at curbing inflation, and certain major retailers were facing overstocking issues during the same period. As a result, we experienced reduction in orders from some of our existing customers from manufacturing and trading industries for chemical, furniture and food packaging products who mostly export their products to the USA, as well as foreign freight forwarders who assist their customers to import goods from Malaysia to the USA. For Quarter 1, 2023, our business volume increased by 25.17% as compared to Quarter 4, 2022, as further detailed in Section 9.1.1 of this Prospectus. This was mainly attributable to our efforts in addressing the business opportunities from shipments to and from other countries / regions of the world during Quarter 1, 2023.

Any global economic slowdown, increase in inflation, possible global recession, or decrease in foreign demand for goods produced in Malaysia may affect the export sales for our customers' products. This may in turn lead to a decline in the demand for our logistics services and our business volume, and our business operations and financial performance may be adversely affected following such decline.

9.1.5 Our business operations and financial performance are subject to the availability of cargo space to meet our customers' shipping requirements

We procure cargo space from ocean carriers or other freight forwarders in our arrangement and coordination of our customers' cargo shipment. For ocean cargo space, we enter into Carrier Service Contracts annually for certain shipping routes between Malaysia and the USA or Canada to secure certain minimum quantity of cargo space at certain freight rates. Nevertheless, the committed ocean cargo space under our annual Carrier Service Contracts are usually insufficient to meet our customers' shipping requirements throughout the year.

As such, we also procure additional ocean cargo space on a non-committed basis for our customers' shipments to the USA or Canada. We do not have any contractual arrangement for procuring ocean cargo space for destinations other than USA or Canada or for procuring air cargo space.

Save for those under our annual Carrier Service Contracts, cargo space is offered to us by our suppliers on a first-come-first-served basis at the point of us making booking request. Due to this reason, there is no assurance that we will be able to procure sufficient amount of cargo space to meet our customers' shipping requirements from time to time.

During the Period Under Review, we experienced shortage of ocean cargo space mainly in FYE 2021 and the first half of FYE 2022 whereby we encountered reduced availability of ocean cargo space from our suppliers for us to arrange for our customers' shipments. This has partly led to a decline in our business volume (in terms of TEU of containers handled for our ocean freight services) in the same year. The said shortage of ocean cargo space, which was caused by global supply chain disruptions following the COVID-19 pandemic, affected our arrangement for shipments to various geographical regions including USA, Europe and within Asia. The actual TEU of containers handled and the TEU of containers which we were unable to ship for our customers due to unavailability of ocean cargo space during the Period Under Review and in Quarter 1, 2023 are as follows:

	FYE 2019	FYE 2020	FYE 2021	FYE 2022	Quarter 1, 2023
Actual TEU of containers handled	13,742	17,242	17,106	14,837	3,993
TEU of containers unable to be shipped(1)	-	35	1,389	499	-
Total TEU of containers required to meet customers' shipping requirements	**13,742**	**17,277**	**18,495**	**15,336**	**3,993**

Note:
(1) Extracted based on written reply from ocean carriers via rejection email or failure notification from booking system for booking of ocean cargo space pertaining to shipments to the USA or Canada only. This is excluding verbal rejection from ocean carriers which were not recorded and hence not quantifiable. Booking rejections pertaining to shipments to countries other than USA and Canada are also excluded as such information are not maintained by us.

We cannot guarantee that we will not encounter any shortage of ocean cargo space in the future or that we will continue to be able to leverage on our relationship with our suppliers to procure sufficient cargo space to meet our customers' requirements. If we are unable to procure sufficient cargo space for our customers' shipments, our business operations and financial performance could be adversely affected.

9.1.6 We are dependent on our suppliers for secure and efficient shipment of our customers' cargo

Due to our nature of business, we are dependent upon our relationship with our suppliers including ocean carriers, licensed customs agents and other freight forwarders to enable us to arrange and coordinate shipments for our customers' cargo. A secure and efficient shipment of our customers' cargo to meet their delivery requirements is therefore dependent on the timely performance and quality of the respective services provided by our suppliers. As such, we may be affected by non-performance, late performance or poor performance by our suppliers. Poor quality services of our suppliers or any interruption of services provided by our suppliers may have an adverse impact on our reputation, business operations and financial performance.

9.1.7 We are dependent on other freight forwarders for business

Certain freight forwarders that we engage to handle our customers' shipments in overseas locations or from whom we source for cargo space are also our customers as they sometimes engage our services to handle their customers' shipments to be exported from or imported into Malaysia. As such, freight forwarders can be considered both suppliers and customers of our Group.

Our revenue generated from our provision of logistics services to other freight forwarders, both local and foreign, accounted for approximately 29.10%, 28.97%, 36.81%, 26.22% and 30.30% of our total revenue in FYE 2019, FYE 2020, FYE 2021, FYE 2022 and Quarter 1, 2023 respectively. In this regard, our business performance is, to a certain extent, dependent on these freight forwarders' ability to market their services in their respective markets and industries. Any material deterioration in the business performance of these freight forwarders may result in a decrease in their demand for our services, which could in turn have an adverse impact on our business operations and financial performance.

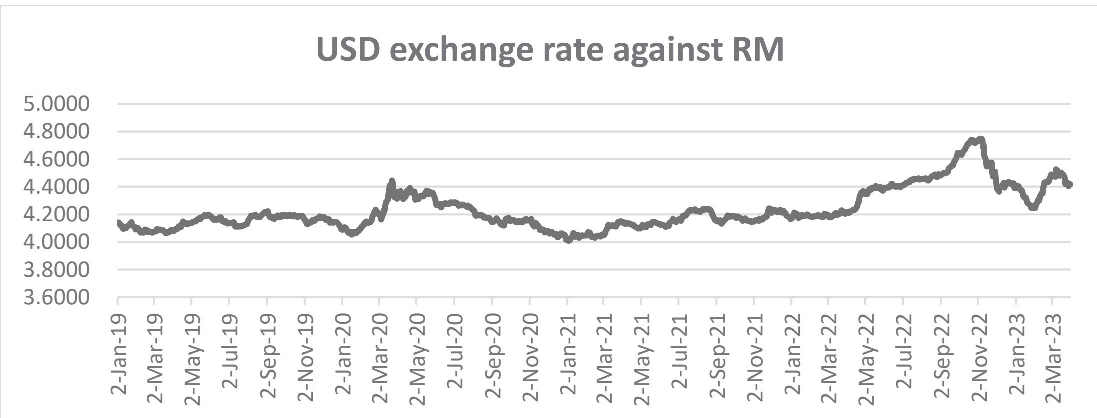
9.1.8 We are subject to the risk of fluctuation in foreign exchange rates

Our Group's revenue is mainly derived from our ocean freight services for international shipments. Quotes from our suppliers for ocean cargo space are usually in USD and some of our customers pay us in USD. Our Group's revenue and purchases denominated in USD for the Period Under Review and Quarter 1, 2023 are as follows:

	FYE 2019	FYE 2020	FYE 2021	FYE 2022	Quarter 1, 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue denominated in USD	9,954	14,680	91,657	127,428	8,421
As a % of total revenue	22.95	23.11	46.90	55.48	46.68
Purchases denominated in USD	2,962	3,617	39,096	114,803	7,605
As a % of total cost of sales	8.06	6.64	24.07	(1)59.03	53.65

Note:
(1) The significantly higher purchases denominated in USD as a percentage of total purchases was mainly due to substantial payments in USD for purchases of ocean cargo space to some of our major suppliers by us to reduce foreign exchange differences arising from collection from customers in USD but payment for purchases in RM.

In view of our revenue and purchases denominated in USD as illustrated above, our financial performance may be materially affected by any major fluctuation in USD exchange rate against RM. The movement of USD exchange rate against RM for the Period Under Review and Quarter 1, 2023 is shown below:



9. RISK FACTORS (CONT'D)

The following table demonstrates the sensitivity of our Group's revenue and cost of sales as well as our profitability to a reasonably possible fluctuation in USD exchange rate against RM, with all other variables held constant:

	FYE 2019	FYE 2020	FYE 2021	FYE 2022	Quarter 1, 2023
	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)
	RM'000	RM'000	RM'000	RM'000	RM'000
Effects on revenue					
- strengthens by 10%	995	1,468	9,166	12,743	842
- weakens by 10%	(995)	(1,468)	(9,166)	(12,743)	(842)
Effects on cost of sales					
- strengthens by 10%	296	362	3,910	11,480	761
- weakens by 10%	(296)	(362)	(3,910)	(11,480)	(761)
Effects on GP					
- strengthens by 10%	699	1,106	5,256	1,263	81
- weakens by 10%	(699)	(1,106)	(5,256)	(1,263)	(81)
Effects on PAT					
- strengthens by 10%	688	1,034	4,378	2,172	1,296
- weakens by 10%	(688)	(1,034)	(4,378)	(2,172)	(1,296)

As we are unable to estimate the movement of foreign exchange rates and its impact on our revenue and purchases in USD, any significant fluctuation in the exchange rate of USD into RM or vice versa may have a significant impact, whether positive or negative, on our financial performance.

Presently, we do not enter into hedging transactions to manage our exposures to currency risk for receivables and payables which are denominated in foreign currencies. As such, there is no assurance that any significant fluctuation in foreign currency exchange rate will not have an adverse impact on our overall financial performance.

9.1.9 We do not have long-term contracts with our customers for our logistics services

We do not have any long-term contracts with our customers for our logistics services as we are engaged by them on an as-needed basis. This is mainly due to the nature of our business where the demand for our logistics services is subject to our customers' needs for shipping their goods as and when required depending on their orders secured. To the best of our knowledge, it is a norm in the logistics services industry for not having long-term contracts with customers.

The absence of long-term contracts may result in the fluctuation of our Group's sales which could in turn lead to uncertainties over our financial performance. While we continuously seek to maintain and strengthen existing business relationships and establish relationships with new customers to expand our clientele base, there can be no assurance that we will be able to maintain our relationship with our customers.

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9.1.10 We are dependent on the experience and expertise of our Executive Directors and key senior management for the continuing success of our Group

Our Group's continuing success and growth are dependent upon the efforts and commitment of our Executive Directors and other key senior management who play significant roles in our operations and the development and implementation of our business strategies.

Our Group is led by our Executive Directors who are assisted by our other key senior management. Most of our Executive Directors and key senior management have over 10 years of experience in the logistics industry, mainly gained from their employment with our Group as illustrated below:

Name	No. of years of experience in the logistics industry as at the LPD	No. of years with our Group as at the LPD
Dato' Roger Wong	20	18
Cheok Hui Yen	24	18
Chow Enn Jie	15	15
Wendy Kam	1	1
Teoh Huey Hong	18	15

Our Executive Directors and key senior management are familiar with our business operations and their abilities and expertise have contributed to the success of our Group. As such, the loss of service from our Executive Directors or any of our other key senior management without any suitable and/or timely replacement may affect the execution and implementation of our business strategies. This could in turn result in adverse effect on our business operations, financial performance and future prospects.

9.1.11 We may face inadequacy of insurance coverage

Our Group is mainly involved in the provision of logistics services, where we arrange and coordinate ocean or air shipment of cargos for our customers. These cargos are subject to the risks of cargo loss or damage caused by factors beyond our control such as road accidents, water damage, improper stuffing and mishandling during the loading / unloading or transportation process. Cargo loss or damage may result in claims for damages by our customers against us. In the event of damaged cargo even though the service was provided by the ocean carriers, our customers are able to claim directly from us when the shipment is under our own house bill of lading. Nonetheless, if our customers successfully claim from us, we will in turn make a claim against the ocean carriers on the damaged cargo.

In addition, our offices and warehouse may be exposed to the risk of, among others, burglary, breakout of fire and flood which may cause disruption to our business operations and adversely affect our financial performance.

In order to minimise our potential financial losses from any such risks, we maintain insurance coverage for our customers' cargo and our business premises. As at the LPD, we have in place, among others, marine liability insurance for our customers' cargo, and burglary, fire, terrorism, and property damage insurance for our business premises. We did not experience any event of burglary, fire or flood on our business premises during the Period Under Review and up to the LPD.

In April 2022, we received a letter of demand from a customer claiming a sum of RM49,801.97 due to damaged cargo, the shipment of which was arranged by us for the said customer through an ocean carrier. The aforesaid claim represents the biggest claim in comparison to 2 other successful insurance claims that we received during the Period Under Review. As at the LPD, we are still awaiting further information and clarification from the customer on this matter prior to us taking our next course of action. Our Group has been liaising closely with the insurance company to expedite on the claim. In the event that this claim is successful, the whole sum of RM49,801.97 will be awarded to the customer out of our insurance policy, and no additional liability will be incurred by us pertaining to this claim.

As for the other 2 claims received by us during the Period Under Review, they were resolved within 6 months and the amount claimed were paid to the customers out of our insurance policy with no liability incurred by us.

Nonetheless, there is no assurance that our insurance coverage is adequate to offset all the potential losses or liabilities that we may suffer due to claims from customers and/or unexpected events arising from our operations. Our business operations and financial performance may be adversely affected if such losses or liabilities exceed our insurance coverage.

9.1.12 We may face credit risk and default in payment by our customers

Generally, the trade credit terms granted to our customers range from cash terms to 45 days. Our customers have varying degrees of creditworthiness which expose us to the risk of non-payment by them. Should our customers fail to meet their payment obligations in accordance with the agreed terms, our operating cash flows, financial condition and financial performance could be adversely affected.

We are aware of the consequences arising from our exposure to credit risk and have implemented credit risk management policies through the application of credit terms approval and monitoring procedures on an on-going basis. We perform a background check on new customers and normally cash term will be imposed for new customers. Credit terms are only granted to existing customers with good standing and payment records.

We incurred net loss on impairment of trade receivables of RM0.04 million, RM0.03 million and RM0.10 million for the FYE 2019, FYE 2020 and FYE 2021 respectively. For FYE 2022 and Quarter 1, 2023, we recorded a net reversal of impairment of trade receivables of RM0.12 million and RM0.01 million respectively. Although there have been no material collection problems for trade receivables during the Period Under Review up to the LPD, there is no assurance that our customers will be able to fulfil their payment obligations and our Group will not encounter collection problems in the future. If our customers default or delay on their payments, this could lead to impairment of our trade receivables which may adversely affect our financial condition and financial performance.

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9.1.13 Our business operations and financial performance may be adversely affected by the outbreak of infectious diseases

The outbreak of pandemics of infectious diseases or other health epidemics may create substantial economic uncertainty and global instability, which may adversely affect business operations and overall economic activity globally.

As seen during the start of the COVID-19 pandemic, governments around the world imposed various lockdown measures to curb the spread of the virus, leading to disruptions and temporary cessation of business activities. Notwithstanding that our Group was allowed to operate during the various lockdown periods implemented in Malaysia, we were required to comply with the standard operating procedures issued by the Ministry of Health Malaysia.

Should there be a future outbreak of infectious disease similar to the COVID-19 pandemic, governments may again impose lockdown measures including closure of international borders as well as temporary cessation of a range of business activities. These measures may have an adverse impact on economic activities globally, which may in turn affect the demand for our services. We may also be required to incur additional expenditures for complying with the necessary standard operating procedures in order to continue our business activities. As such, our Group's business operations and financial performance may be adversely affected if there is another global outbreak of infectious disease in the future.

9.1.14 We are subject to geopolitical tensions affecting global trade

The logistics industry is inherently reliant on international and domestic trade to function. Due to globalisation, the world has become increasingly connected whereby trading of goods, services, technology and information occur freely between different countries.

As part of the global supply chain, economic activities in Malaysia are subject to geopolitical events that affect global economic activities. In particular, tension between the USA and China in recent years has affected the relationship between the top two economies in the world as tariffs were imposed on traded products, with the effect spilling over to other parts of the world. These tariffs were followed by restriction on both China's access to high-tech USA products and foreign investments involving security concerns and allegations of unfair Chinese commercial practices. The USA and China are among the top export destinations of Malaysian exports.

More recently, the war between Russia and Ukraine has also caused disruptions to the global supply chain due to tariffs imposed mainly on Russia. The Russia-Ukraine war has also led to high oil prices (Russia is a leading exporter of oil globally) as well as high grain prices (both countries are global exporters of grain) which added further inflationary pressure. All these factors are expected to affect demand for products and goods globally. The disruptions in global economic activities may also affect demand for Malaysian goods and products, which will in turn have a negative impact on the local logistics industry and our business operations and financial performance.

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9.1.15 Our customers or customers' industries may experience a trade ban

Given the nature of our Group's business in the logistics industry, we are reliant on our customers' business activities as well as the industries that our customers are involved in.

In the event that our customers receive a trade ban by any overseas country that they export their products to, we may experience a decrease in demand for our services as our customers will not be able to trade their products in the countries where the ban is in place.

Our customers' industries may also be subject to tariffs or trade bans enacted by different overseas countries. This would also affect the demand for our customers' products, which would in turn adversely affect the demand for our services.

Therefore, should our customers or our customers' industries experience a trade ban, our business operations and financial performance may be adversely affected.

For illustration purposes, during the Period Under Review, our Group had provided logistics services to several Malaysian rubber glove companies. For the FYE 2019, FYE 2020, FYE 2021 and FYE 2022, these rubber glove companies contributed to 2.20%, 4.43%, 10.24% and 2.62% of our Group's revenue respectively. Since the onset of the COVID-19 pandemic, selected Malaysian rubber glove companies were subject to Withhold Release Orders ("**WRO**") by the US Customs and Borders Protection ("**USCBP**") whereby imports of their products were detained at the US port of entry due to allegations of forced labour by the rubber glove companies. Although our Group's rubber glove customers are no longer subject to the WRO by the USCBP, in the event that they are subject to another WRO in the future, the demand for our logistics services may decrease, which may in turn affect our revenue and financial performance.

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9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We operate in a competitive industry

We operate in a fragmented and competitive industry in Malaysia, with more than 20,000 industry players involved in various scopes of transportation and warehousing activities in Malaysia in 2022. We directly and indirectly compete with other logistics service providers on a local and international basis in the form of pricing, range of services provided, and network of customers and suppliers.

We also face competition from certain ocean carriers which have set up business divisions to offer similar logistics services that we provide.

Intense competition from other logistics service providers within the market may reduce the growth in our customer base and adversely affect our market share. If we are unable to remain competitive and build on our competitive strengths going forward, our business operations and financial performance could be adversely affected.

9.2.2 We are subject to political, economic, and regulatory risks in Malaysia and the markets we serve

As our Group's revenue is mainly derived from our ocean freight services for international shipments, our business operations and financial performance are subject to political, economic, and regulatory conditions in those countries for our customers' shipments. Adverse changes in the aforementioned conditions such as changes in political leadership, risk of war, changes in government policies regarding taxation, import duties, and tariffs, methods of taxation, and changes in economic conditions could affect the demand for our customers' products and lead to a decline in the demand for our logistics services. This may in turn lead to an adverse effect on our business operations and financial performance.

9.2.3 Our customers may approach carriers directly

Our Group is principally a logistics service provider that provides services such as ocean freight, air freight and freight forwarding services. We arrange for and coordinate export and import shipments for our customers and our customers are mainly exporters, importers, as well as other freight forwarders, local or foreign. Our suppliers are mainly ocean carriers with international operations.

Although we assist our customers in arranging and coordinating export and import shipments by procuring cargo space, we are subject to the risk of our customers directly approaching the carriers in order to secure cargo space and arrange for their own logistics. In the event that our customers approach carriers directly, our services may no longer be required and we may experience a decrease in revenue. This is likely to affect our business operations and financial performance.

9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 There is no prior market for our Shares

Prior to our Listing, there has been no public market or public trading for our Shares. The listing of our Shares on the ACE Market does not guarantee that an active market for our Shares will develop.

There is also no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market.

9.3.2 Our Listing is exposed to the risk that it may be aborted or delayed

Our Listing may be aborted or delayed should any of the following occurs:

(a) our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein;

(b) we are unable to meet the public shareholding spread requirement set by Bursa Securities, whereby at least 25.00% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing; and

(c) the revocation of approvals from the relevant authorities for the Listing and/or admission for whatever reason.

Where prior to the issuance and allotment of our IPO Shares:

(i) the SC issues a stop order pursuant to Section 245(1) of the CMSA, the applications for our IPO Shares shall be deemed to be withdrawn and cancelled and we or such other person who received the monies shall repay all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or

(ii) our Listing is aborted, investors will not receive any IPO Shares, and all monies paid in respect of all applications for our IPO Shares will be refunded free of interest.

Where subsequent to the issuance and allotment or transfer of our IPO Shares:

(i) the SC issues a stop order pursuant to Section 245(1) of the CMSA, any issue of our IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or

(ii) our Listing is aborted other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, a return of monies to our shareholders could only be achieved by way of a cancellation of share capital as provided under the Act and its related rules. Such cancellation can be implemented by the sanction of our shareholders by special resolution in a general meeting and supported by either:

    (aa) the sanction of our shareholders by special resolution in a general meeting, a consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances; or

    (bb) a solvency statement from our Directors.

9.3.3 The trading price and trading volume of our Shares following our Listing may be volatile

The trading price and volume of our Shares may fluctuate due to various factors, some of which are not within our control and may be unrelated or disproportionate to our financial results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9.3.4 Our Promoters will be able to exert significant influence over our Company

Our Promoters will collectively hold approximately 68.03% of our enlarged share capital upon Listing. As a result, our Promoters will have significant influence on the outcome of certain matters requiring the vote of shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

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10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Save for the Acquisitions and as disclosed below, we have not entered into any related party transactions with our related parties for the Period Under Review and up to the LPD:

Transacting parties	Interested persons and nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 up to LPD
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000
KGW Logistics and Mingkun Logistics (M) Sdn Bhd (formerly known as Mingkun KGW Logistics (M) Sdn Bhd) ("**Mingkun**")	Dato' Roger Wong is our Managing Director, Promoter and substantial shareholder, and was a director and shareholder of Mingkun up to 27 April 2022 and 25 May 2022 respectively	Management fee income received from Mingkun	-	-	11	(1)5.73	-	-	-	-	-
		Rental income received from Mingkun for sub-let of partial office space bearing address D11-09-G, Block D11, Dana 1 Commercial Centre, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor	-	-	12	(1)6.25	12	(1)13.19	4	(1)0.31	-
		Purchases from Mingkun	45	(2)0.12	26	(2)0.05	9	(2)0.01	-	-	-
		Expenses paid by KGW Logistics on behalf of Mingkun	-	-	2	N/A	*	N/A	-	-	-
		Expenses paid by Mingkun on behalf of KGW Logistics	-	-	*	N/A	2	N/A	-	-	-
		Sales to Mingkun	60	(3)0.14	157	(3)0.25	421	(3)0.22	93	(3)0.04	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Interested persons and nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 up to LPD
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000
KGW Logistics and Innex America Sdn Bhd ("**Innex America**")[5]	Dato' Roger Wong is our Managing Director, Promoter and substantial shareholder, and a director and shareholder of Innex America	Rental expenses paid to Innex America for office bearing address D11-09-G, Block D11, Dana 1 Commercial Centre, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor[5]	35	[4]0.61	38	[4]0.67	38	[4]0.34	38	[4]0.28	16
KGW Logistics and Alpha Global Asset Sdn Bhd (formerly known as Alpha Global Logistics (M) Sdn Bhd) ("**Alpha Global**")[6]	Dato' Roger Wong is our Managing Director, Promoter and substantial shareholder, and a director and shareholder of Alpha Global	Rental expenses paid to Alpha Global for office bearing address D11-11-G & D11-11-1, Block D11, Dana 1 Commercial Centre, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor[6]	-	-	15	[4]0.26	90	[4]0.81	90	[4]0.66	38

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10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Interested persons and nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 up to LPD
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000
KGW Logistics and Datin Wong Wan Jye[7]	Datin Wong Wan Jye is the spouse of Dato' Roger Wong, our Managing Director, Promoter and substantial shareholder, hence a person connected with him	Rental expenses paid to Datin Wong Wan Jye for office bearing address D11-10-G & D11-10-1, Block D11, Dana 1 Commercial Centre, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor[7]	78	[4]1.37	78	[4]1.37	78	[4]0.70	78	[4]0.57	33
Mattroy Logistics and Mingkun	Dato' Roger Wong is our Managing Director, Promoter and substantial shareholder, and was a director and shareholder of Mingkun up to 27 April 2022 and 25 May 2022 respectively	Purchases from Mingkun	-	-	-	-	38	[2]0.02	5	*	-

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10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Interested persons and nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 up to LPD
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000
KGW Logistics and KGW Logistics (S) Pte Ltd ("**KGWS**")	Dato' Roger Wong is our Managing Director, Promoter and substantial shareholder, and a director and shareholder of KGWS. KGWS has been struck off on 5 September 2022	Sales to KGWS	7	[(3)]0.02	-	-	-	-	-	-	-
		Purchases from KGWS	3	[(2)]0.01	-	-	-	-	-	-	-
		Expenses paid by KGW Logistics on behalf of KGWS	-	-	6	N/A	1	N/A	1	N/A	-
KGW Logistics and KGF Logistics (M) Sdn Bhd	Datin Liew Min Nar, a previous director and shareholder of KGW Logistics up to 13 May 2021 and 15 June 2021 respectively, is a director and shareholder of KGF Logistics (M) Sdn Bhd	Sales to KGF Logistics (M) Sdn Bhd	2,130	[(3)]4.91	3,906	[(3)]6.15	3,871	[(3)]1.98	-	-	-
		Purchases from KGF Logistics (M) Sdn Bhd	2	[(2)]0.01	*	*	-	-	-	-	-
KGW Logistics and Cheok Hui Yen	Cheok Hui Yen was a major shareholder of KGW Logistics	Disposal of used motor vehicle by KGW Logistics to Cheok Hui Yen	18	[(1)]40.00	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Interested persons and nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 up to LPD
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000
KGW Logistics and Dato' Roger Wong	Dato' Roger Wong is our Managing Director, Promoter and substantial shareholder	Advances to KGW Logistics[8]	336	N/A	331	N/A	251	N/A	-	-	-
		Repayments to director	403	N/A	491	N/A	376	N/A	-	-	-
KGW Logistics and Datin Liew Min Nar	Datin Liew Min Nar was a previous director and shareholder of KGW Logistics up to 13 May 2021 and 15 June 2021 respectively	Advances to KGW Logistics[8]	-	-	60	N/A	-	-	-	-	-
		Repayments to director	-	-	-	-	60	N/A	-	-	-
KGW Logistics and Cheok Hui Yen	Cheok Hui Yen is a major shareholder of KGW Logistics	Advances to KGW Logistics[8]	-	-	30	N/A	-	-	-	-	-
		Repayments to major shareholder	-	-	-	-	30	N/A	-	-	-
KGW Medica and Chan Sek Seng	Chan Sek Seng is a director of KGW Medica	Advances to KGW Medica[8]	-	-	-	-	41	N/A	-	-	-
		Repayments to director	-	-	-	-	40	N/A	1	N/A	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Interested persons and nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 up to LPD
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000
KGW Logistics and Maneto Engineering Sdn Bhd	Wong Soo Yee, who is a sister-in-law of Dato' Roger Wong, is also a shareholder and director of Maneto Engineering Sdn Bhd	Renovation works for the Target Property	-	-	-	-	-	-	-	-	(9)-

Notes:

* Represents less than RM1,000 / Negligible.

(1) Calculated based on our Group's other income for each of the respective financial years.

(2) Calculated based on our Group's cost of sales for each of the respective financial years.

(3) Calculated based on our Group's revenue for each of the respective financial years.

(4) Calculated based on our Group's administrative expenses for each of the respective financial years.

(5) The current tenancy agreement is dated 14 October 2022 for the period commencing from 1 February 2023 to 31 January 2024 with the option to renew for an additional 2 years. KGW Logistics shall give Innex America notice in writing of its desire on the renewal of tenancy not later than 2 months prior to the expiration of the tenancy agreement.

The monthly rental rate of RM2.28 per sq. ft. is within the range of monthly rental rate of RM2.05 per sq. ft. to RM3.67 per sq. ft. for a similar property in the vicinity, as analysed based on publicly available information.

10. RELATED PARTY TRANSACTIONS (CONT'D)

(6) The current tenancy agreement is dated 26 October 2020 for the period commencing from 1 November 2020 to 31 October 2022. Both parties had on 14 October 2022 extended the tenancy for an additional 1 year to 31 October 2023. KGW Logistics shall give Alpha Global notice in writing of its desire on the renewal of tenancy not later than 2 months prior to the expiration of the tenancy agreement.

The monthly rental rate of RM2.13 per sq. ft. is within the range of monthly rental rate of RM1.40 per sq. ft. to RM2.64 per sq. ft. for a similar property in the vicinity, as analysed based on publicly available information.

(7) The current tenancy agreement is dated 1 November 2021 for the period commencing from 1 November 2021 to 31 October 2023. KGW Logistics shall give Datin Wong Wan Jye notice in writing of its desire on the renewal of tenancy not later than 2 months prior to the expiration of the tenancy agreement.

The monthly rental rate of RM2.22 per sq. ft. is within the range of monthly rental rate of RM1.40 per sq. ft. to RM2.64 per sq. ft. for a similar property in the vicinity, as analysed based on publicly available information.

(8) As at the LPD, all outstanding amount of these advances have been fully settled by us.

(9) As at the LPD, KGW Logistics has appointed Maneto Engineering Sdn Bhd for the renovation on the Target Property based on a total contract value of RM3.52 million. However, there was no cost billed as at the LPD. The renovation works will be billed progressively upon performance of the relevant works.

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10. RELATED PARTY TRANSACTIONS (CONT'D)

Mingkun is principally involved in investment holding and freight forwarding business. Alpha Global is principally involved in buying, selling, renting and operating of self-owned or leased real estate for residential and non-residential buildings. Innex America is principally involved in property investment holding.

Mingkun has ceased to be a related party of our Group since 25 May 2022. We may enter into business transactions with Mingkun in our ordinary course of business in the future.

Moving forward, our tenancy arrangements with Alpha Global, Innex America and Datin Wong Wan Jye will continue until our relocation to the Target Property, which is expected to take place in the fourth quarter of 2023. We do not foresee any other business transactions with Alpha Global and Innex America in the future.

Save for the rental of our offices from Innex America, Alpha Global and Datin Wong Wan Jye as well as the renovation works for the Target Property to be carried out by Maneto Engineering Sdn Bhd, there are no other transactions between our Group and our related parties after our Listing. The total rental expenses pursuant to these tenancy agreements are RM0.21 million per annum. Our Audit and Risk Management Committee has reviewed the terms of these tenancy agreements, including the terms of the renewal option, and is of the opinion that they were entered into on an arm's length basis and on normal commercial terms, and are not detrimental to the interest of our non-interested shareholders. Further details of these rented offices are set out in Section 7.20.2 of this Prospectus.

Save for advances to KGW Logistics or KGW Medica and for expenses paid by us on behalf of our related parties or by our related parties on our behalf, our management are of the view that other related party transactions as set out above were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties and were not to the detriment of our non-interested shareholders. These transactions were mainly carried out in the Group's ordinary course of business in line with the Group's pricing strategy for services offered or costing strategy for services procured.

The transactions in relation to advances to KGW Logistics or KGW Medica and expenses paid by our Group on behalf of our related parties or by our related parties on behalf of our Group were not conducted on arm's length basis as they were interest-free. However, all outstanding amount arising from these transactions have been fully settled by us and our related parties as at the date of this Prospectus. We will not enter into any transaction involving the payment of expenses by us on behalf of our related parties or by our related parties on our behalf moving forward.

Our Board has confirmed that there are no other material related party transactions that we had entered into with the related parties but not yet effected up to the date of this Prospectus.

Moving forward, if there are potential related party transactions, the related parties must first inform our Audit and Risk Management Committee on their interests in the transaction and the nature of the transaction before the transaction is entered into. Our Audit and Risk Management Committee is responsible for the review of the terms of all related party transactions. In order to ensure that related party transactions are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(a) Recurrent related party transactions ("RRPTs")

(i) At least 2 other contemporaneous transactions with third parties for similar products/services and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered by all related parties are fair and reasonable and comparable to those offered by third parties; or

(ii) In the event that quotation or comparative pricing from third parties cannot be obtained, the transaction price will be determined by our Group based on those offered by third parties for substantially similar type of transaction to ensure that the recurrent related party transactions are not detrimental to us.

Our Board may seek a mandate from our shareholders at general meetings of our Company to enter into any recurrent related party transactions. The said shareholders' mandate will enable us to enter into such recurrent transactions which are transacted in our ordinary course of business without having to convene numerous general meetings to approve such recurrent transactions as and when they are entered into. The interested persons shall abstain from voting on resolutions pertaining to the respective transactions.

(b) Other related party transactions

Assessments will be carried out to determine:

(i) whether the terms of the related party transaction are fair and on arm's length basis, and whether these terms would apply on the same basis if the transaction did not involve a related party;

(ii) the rationale for our Group to enter into the related party transaction and the nature of alternative transactions, if any; and

(iii) whether the related party transaction would present a conflict of interest between our Group and the related parties, taking into account the size of the transaction and nature of the related parties' interest in the transaction.

In accordance with the Listing Requirements, a related party transaction may require prior approval of our shareholders at a general meeting to be convened. An independent adviser may be appointed to comment as to whether the related party transaction is fair and reasonable so far as the non-interested shareholders are concerned, and whether the transaction is to the detriment of non-interested shareholders. In such instances, the independent adviser shall also advise the non-interested shareholders on whether they should vote in favour of the transaction.

For a related party transaction that requires prior approval of our shareholders, our Directors, major shareholders and/or persons connected with them having any interest, direct or indirect, in the proposed related party transaction will abstain from voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transaction, the Director or major shareholder concerned will also abstain from voting in respect of his direct and/or indirect shareholdings.

In addition, to safeguard the interest of our Group and our non-interested shareholders, and to mitigate any potential conflict of interest situation, our Audit and Risk Management Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regards to any related party transaction entered into by us.

10.1.1 Other transactions

(a) Transactions which are unusual in their nature or conditions

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party during the Period Under Review and up to the LPD.

(b) Loans and guarantees

As part of the terms of the banking and hire purchase facilities extended to our Group, Dato' Roger Wong has individually, and together with Chow Enn Jie (our Sales and Marketing Director) have jointly and severally, provided personal guarantees to 5 financial institutions extending these facilities ("**Financiers**"). In conjunction with our Listing, we have applied to these Financiers for a release and/or discharge of the personal guarantees. As at the LPD, we have received conditional approval from the aforesaid 5 Financiers for the said release of personal guarantees subject to us replacing them with a corporate guarantee from our Company upon our successful Listing. In view of this, we will replace the aforesaid personal guarantees with a corporate guarantee from our Company upon our Listing.

(c) Amount due to / from related parties / Directors

(i) Amount due from related parties

	As at 31 December 2019 RM'000	As at 31 December 2020 RM'000	As at 31 December 2021 RM'000	As at 31 December 2022 RM'000	As at LPD RM'000
Amount due from related parties	-	28	6	-	-

The amount due from related parties as at the end of the respective financial year during the Period Under Review was in relation to expenses paid on behalf of Mingkun and KGWS as well as rental and management fees owing by Mingkun.

(ii) Amount due to related parties

There are no outstanding amount due to related parties as at the end of the respective financial year during the Period Under Review and as at the LPD.

(iii) Amount due to / from Directors

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 31 December 2022	As at LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Amount due to Directors	959	186	1	-	-

The amount due to Directors as at the end of the respective financial year during the Period Under Review was mainly in relation to advances from directors as well as expenses paid on behalf by directors.

There were no outstanding amount due from Directors as at the end of the respective financial year during the Period Under Review and as at the LPD.

(iv) Financial assistance provided for the benefit of a related party

Save as disclosed above, there were no other financial assistance provided by us for the benefit of any related party for the Period Under Review and up to the LPD.

10. RELATED PARTY TRANSACTIONS (CONT'D)

10.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

10.2.1 Audit and Risk Management Committee review

Our Audit and Risk Management Committee reviews related party transactions and conflict of interest situations that may arise within our Group including any transaction, procedure or course of conduct that raises questions of management integrity. It also maintains and periodically reviews the adequacy of the procedures and processes set by our Company to monitor related party transactions and conflicts of interest.

Our Audit and Risk Management Committee will submit an annual report to our Board summarising its activities during the financial year and the related significant results and findings.

10.2.2 Our Group's policy on related party transactions

Related party transactions by their nature, involve conflict of interest between our Group and the related parties with whom our Group has entered into such transactions. Any such related party transactions may individually and in aggregate give rise to potential conflicts of interest.

It is the policy of our Group that all related party transactions in the course of our business are made on an arm's length basis and on normal commercial terms which are not more favourable to the related party than those generally available to the public and these terms are not detrimental to our non-interested shareholders who are not part of the transaction. The related parties and any other parties who are in a position of conflict with the interest of our Group will be required to abstain from deliberations and voting on resolutions pertaining to the matters and/or transactions where a conflict of interest may arise.

In addition, our Directors are required to make an annual disclosure of any related party transactions and conflicts of interest with our Group, and our Audit and Risk Management Committee must carry out an annual assessment of our Directors which include an assessment of such related party transactions and/or conflict of interest. Our Audit and Risk Management Committee will in turn report and make the appropriate recommendations to our Board after its evaluation and assessment.

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11. CONFLICT OF INTERESTS

11.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CUSTOMERS AND SUPPLIERS

As at the LPD, save as disclosed below, none of our Directors and/or substantial shareholders has any interest, direct or indirect, in other businesses or corporations which are carrying on a similar trade as our Group or which are the customers and/or suppliers of our Group:

(i) Lean Sze Yau, our Independent Non-Executive Director, is a Managing Partner of Messrs Wilson Leong, Ong & Lean ("**WOL**"), a legal firm. WOL had, in the FYE 2021 and FYE 2022, provided legal services such as conveyancing and advisory on maritime laws to our Group.

Nevertheless, this is not expected to give rise to a conflict of interest situation on the following basis:

(a) Lean Sze Yau was appointed to the Board on 24 September 2022 and was not involved in our deliberation in respect of the engagement of WOL for provision of the aforementioned legal services to our Group which took place prior to his appointment to our Board;

(b) Lean Sze Yau is an Independent Non-Executive Director of our Company and as such he does not deal with our day-to-day operations, including any appointment of advisers for the provision of professional services to our Group; and

(c) moving forward, our Group will not appoint WOL for legal services when Lean Sze Yau continues to serve as an Independent Non-Executive Director of our Company.

In accordance with Paragraph 4.0 of Guidance Note 9 of the Listing Requirements, a person who is proposed to be or is our Independent Director ("**said Director**") is disqualified from being our Independent Director if he –

(a) had personally provided professional advisory services to our Group within the last 3 years; or

(b) is presently a partner, director (except as an independent director) or major shareholder, of a firm or corporation ("**Entity**") which has provided professional advisory services to our Group within the last 3 years,

and the consideration in aggregate is more than 5% of the gross revenue on a consolidated basis (where applicable) of the said Director of the Entity, or RM1 million, whichever is higher ("**Threshold Limit**").

In this respect, Lean Sze Yau had not in his personal capacity provided any professional advisory services to our Group. In addition, the conveyancing and advisory fees paid or payable to WOL are below the Threshold Limit. Pursuant to the above, the appointment of Lean Sze Yau as an Independent Non-Executive Director of KGW is in compliance with Guidance Note 9 of the Listing Requirements.

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Our Directors will declare to our Nomination Committee and our Board of their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nomination Committee will then evaluate if such Director's involvement gives rise to a potential conflict of interest situation with our Group's business activities. If our Directors are involved in similar business as our Group or businesses of our customers and/or our suppliers, our Nomination Committee shall inform our Audit and Risk Management Committee of such involvement. When a determination has been made that there is a conflict of interest of a Director, our Nomination Committee will:

(a) immediately inform our Board of the conflict of interest situation after deliberating with the Audit and Risk Management Committee;

(b) make recommendations to our Board to direct the conflicted Director to:

  (i) withdraw from all his executive involvement in our Group in relation to the matter that has given rise to the conflict of interest (in the case where the conflicted Director is an Executive Director); and

  (ii) abstain from all Board deliberation and voting in the matter that has given rise to the conflict of interest.

Where there are related party transactions between our Group and our Directors (or persons connected with them) or companies in which our Directors (or person connected with them) have an interest, our Audit and Risk Management Committee will, amongst others, supervise and monitor such related party transaction and the terms thereof and report to our Board for further action. Please refer to Section 10.1 of this Prospectus for the procedures that we will take to ensure that such related party transactions (if any) are undertaken on arm's length basis.

11.2 DECLARATIONS OF CONFLICT OF INTEREST BY OUR ADVISERS

(a) TA Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Principal Adviser, Sponsor, Underwriter and Placement Agent for our Listing.

(b) Eco Asia Capital Advisory Sdn Bhd has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Financial Adviser for our Listing. Its scope of work as Financial Adviser includes the following:

  (i) to conceptualise and advise on our Group's restructuring, equity and corporate structure in preparation for our Listing;

  (ii) to assist our Group in compiling information and documents for our Listing;

  (iii) to assist in reviewing and commenting on the draft documents prepared by the relevant advisers in relation to our Listing;

  (iv) to liaise with all professionals and advisers involved in our Listing;

  (v) to attend relevant meetings with us and the professionals and advisers in relation to our Listing; and

  (vi) to assess and advise on any other issues relevant to our Listing.

  Certain of our Financial Adviser's scope of work such as conceptualisation and advisory on our Group's listing structure are performed jointly with our Principal Adviser.

11. CONFLICT OF INTERESTS (CONT'D)

(c) Teh & Lee has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Solicitors for our Listing.

(d) Ecovis Malaysia PLT has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing.

(e) Protégé has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the IMR for our Listing.

(f) David Lai & Tan has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Solicitors to our Principal Adviser, Sponsor, Underwriter and Placement Agent in respect of our Listing.

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12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our Group's historical audited financial information comprise the combined statements of financial position, combined statements of profit or loss and other comprehensive income and combined statements of cash flows for the Period Under Review. These historical financial information have been prepared in accordance with MFRS and IFRS.

The following financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations set out in Section 12.3 of this Prospectus and Accountants' Report included in Section 13 of this Prospectus. Please refer to Annexure A for our Group's unaudited financial information for the first quarter ended 31 March 2023.

12.1.1 Combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our Group's audited combined statements of profit or loss and other comprehensive income for the Period Under Review, which was extracted from the Accountants' Report set out in Section 13 of this Prospectus.

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	43,379	63,525	195,419	229,695
Cost of sales	(36,733)	(54,513)	(162,424)	(194,477)
GP	**6,646**	**9,012**	**32,995**	**35,218**
Other income	45	192	91	1,274
Administrative expenses	(5,694)	(5,690)	(11,124)	(13,682)
Other operating expenses	(205)	(491)	(931)	(940)
(Impairment losses)/ reversal of impairment on financial assets, net	(39)	(30)	(103)	120
Profit from operations	753	2,993	20,928	21,990
Finance costs	(145)	(129)	(177)	(119)
PBT	**608**	**2,864**	**20,751**	**21,871**
Income tax expense	(259)	(688)	(4,993)	(5,536)
PAT/ Total comprehensive income	**349**	**2,176**	**15,758**	**16,335**
PAT/ Total comprehensive income attributable to:				
- Owners of the Group	350	2,178	15,758	16,335
- Non-controlling interests	(1)	(2)	-	-
	349	**2,176**	**15,758**	**16,335**

12. FINANCIAL INFORMATION (CONT'D)

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
EBITDA[1]	943	3,401	21,594	22,624
GP margin (%)[2]	15.32	14.19	16.88	15.33
PBT margin (%)[3]	1.40	4.51	10.62	9.52
PAT margin (%)[4]	0.80	3.43	8.06	7.11
Number of Shares assumed in issue ('000)[5]	482,799	482,799	482,799	482,799
Basic / diluted EPS (sen)[6]	0.07	0.45	3.26	3.38

Notes:

(1) The table below sets forth a reconciliation of our PBT to EBITDA:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
PBT	**608**	**2,864**	**20,751**	**21,871**
Adjusted for:				
Interest income	(9)	-	(7)	(71)
Interest expense	145	129	177	119
Depreciation of property, plant and equipment	199	408	673	705
EBITDA	**943**	**3,401**	**21,594**	**22,624**

(2) GP margin is computed based on our GP over revenue.

(3) PBT margin is computed based on our PBT over revenue.

(4) PAT margin is computed based on our PAT over revenue.

(5) Assumed enlarged number of Shares in issue in KGW after our IPO.

(6) Computed based on PAT attributable to owners of the Group divided by our enlarged number of Shares in issue after our IPO. The diluted EPS is equal to the basic EPS as there were no potential dilutive ordinary shares outstanding at the end of the respective financial year.

12. FINANCIAL INFORMATION (CONT'D)

12.1.2 Combined statements of financial position

The following table sets out a summary of our Group's audited combined statements of financial position for the Period Under Review, which was extracted from the Accountants' Report set out in Section 13 of this Prospectus.

	Audited			
	As at 31 December			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,045	1,497	1,762	23,130
Deferred tax assets	7	-	55	369
	1,052	1,497	1,817	23,499
Current assets				
Inventories	-	-	37	14
Trade receivables	5,162	8,147	20,813	7,729
Other receivables, deposits and prepayments	143	50	56	311
Contract costs	1,125	1,934	6,616	726
Amount owing by related parties	-	28	6	-
Tax recoverable	12	5	-	-
Short-term investment	-	-	-	3,007
Fixed deposits with financial institutions	307	357	915	14,030
Cash and bank balances	2,762	2,083	19,006	10,929
	9,511	12,604	47,449	36,746
TOTAL ASSETS	**10,563**	**14,101**	**49,266**	**60,245**
EQUITY AND LIABILITIES				
Equity				
Share capital	-	-	-	(1)-
Invested equity	1,200	1,200	1,202	1,500
Retained earnings	259	2,437	10,595	26,930
Total equity attributable to shareholders of the Company	1,459	3,637	11,797	28,430
Non-controlling interests	(1)	(3)	-	-
Total equity / NA	**1,458**	**3,634**	**11,797**	**28,430**
Non-current liabilities				
Bank borrowings	659	596	1,214	18,256
Lease liabilities	640	730	745	768
Deferred tax liabilities	-	10	-	-
	1,299	1,336	1,959	19,024
Current liabilities				
Trade payables	2,530	3,453	13,177	2,386
Other payables and accruals	2,158	1,451	11,880	5,594
Contract liabilities	1,674	2,176	7,011	2,271
Amount owing to Directors	959	186	1	-
Bank borrowings	178	1,090	356	761
Lease liabilities	213	331	382	385
Income tax payable	94	444	2,703	1,394
	7,806	9,131	35,510	12,791
Total liabilities	9,105	10,467	37,469	31,815
TOTAL EQUITY AND LIABILITIES	**10,563**	**14,101**	**49,266**	**60,245**

Note:

(1) Represents less than RM1,000.

12.1.3 Combined statements of cash flows

The following table sets out a summary of our Group's audited combined statements of cash flows for the Period Under Review, which was extracted from the Accountants' Report set out in Section 13 of this Prospectus.

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities				
PBT	608	2,864	20,751	21,871
Adjustments for:				
Bad debts written off	-	4	61	4
Depreciation of property, plant and equipment	199	408	673	705
Gain on disposal of property, plant and equipment	(18)	-	(19)	(266)
Gain on derecognition of a subsidiary	-	-	(3)	-
Gain on derecognition of leases	-	-	-	[(1)]-
Impairment losses on financial assets	39	30	103	17
Interest expenses	145	129	177	119
Interest income	(7)	-	(7)	(71)
Property, plant and equipment written off	-	-	-	[(1)]-
Reversal of impairment losses on financial assets	-	-	-	(137)
Unrealised loss / (gain) on foreign exchange, net	85	154	(34)	(97)
Operating profit before changes in working capital	1,051	3,589	21,702	22,145
Changes in working capital:				
(Increase) / decrease in inventories	-	-	(37)	23
(Increase) / decrease in trade and other receivables	(597)	(2,905)	(12,610)	12,627
Increase / (decrease) in trade and other payables	508	170	13,936	(10,806)
Decrease / (increase) in contract costs	142	(809)	(4,682)	5,890
Increase / (decrease) in contract liabilities	24	502	4,836	(4,740)
Cash generated from operations	**1,128**	**547**	**23,145**	**25,139**
Interest paid	(5)	(7)	(29)	(3)
Income tax paid	(212)	(314)	(2,816)	(7,158)
Income tax refunded	55	-	22	-
Net cash generated from operating activities	**966**	**226**	**20,322**	**17,978**
Cash flows from investing activities				
Acquisition of a subsidiary, net of cash acquired	[(1)]-	-	-	-
Derecognition of a subsidiary	-	-	(1)	-

12. FINANCIAL INFORMATION (CONT'D)

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Cash flows from investing activities (cont'd)				
Proceeds from disposal of property, plant and equipment	18	-	20	267
Acquisition of property, plant and equipment	(139)	(467)	(479)	(21,599)
(Advances to) / repayment from related parties, net	-	(28)	22	6
Net cash used in investing activities	**(121)**	**(495)**	**(438)**	**(21,326)**
Cash flows from financing activities				
Dividend paid	-	-	(1,600)	(6,000)
Interest received	7	-	7	71
Interest paid	(140)	(122)	(148)	(117)
Proceeds from issuance of share capital	750	-	3	298
Placement of fixed deposits pledged with financial institutions	(307)	(50)	(58)	(58)
Withdrawal of fixed deposits pledged with financial institutions	182	-	-	-
Net movement in amount owing to Directors	607	(774)	(185)	(1)
Repayment of lease liabilities	(202)	(184)	(394)	(450)
(Repayment) / drawdown of term loans, net	(163)	(47)	780	17,446
Net cash flows generated from / (used in) financing activities	**734**	**(1,177)**	**(1,595)**	**11,189**
Net increase / (decrease) in cash and cash equivalents	1,579	(1,446)	18,289	7,841
Effect of exchange rate changes	(108)	(129)	30	147
Cash and cash equivalents at beginning of financial year	1,291	2,762	1,187	19,506
Cash and cash equivalents at end of financial year	**2,762**	**1,187**	**19,506**	**27,494**

Note:
(1) Represents less than RM1,000.

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12.2 CAPITALISATION AND INDEBTEDNESS

The following table sets out our Group's capitalisation and indebtedness based on our unaudited combined financial statements as at 1 May 2023 and after adjusting for the effects of our Public Issue and utilisation of proceeds from our Public Issue.

	Unaudited	I	II
	As at 1 May 2023	After our Public Issue	After I and utilisation of proceeds
	RM'000	RM'000	RM'000
Cash and short-term deposits			
Cash and bank balances	27,385	44,114	28,926
Fixed deposits with financial institutions	465	465	465
	27,850	44,579	29,391
Indebtedness(1)			
Short-term indebtedness			
- Term loans	772	772	772
- Lease liabilities	195	195	195
Long-term indebtedness			
- Term loans	17,874	17,874	7,874
- Lease liabilities	488	488	488
Contingent liabilities	-	-	-
Total indebtedness	19,329	19,329	9,329
Capitalisation			
Shareholders' equity	29,994	46,723	43,659
Total capitalisation	29,994	46,723	43,659
Total capitalisation and indebtedness	49,323	66,052	52,988
Gearing ratio (times)(2)	0.64	0.41	0.21

Notes:
(1) All of our indebtedness are secured and guaranteed.
(2) Computed based on total indebtedness divided by total shareholders' equity.

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12.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of our Group's financial condition and results of operations for the Period Under Review should be read in conjunction with our combined financial statements and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

This discussion and analysis contain data derived from our combined financial statements as well as forward-looking statements that reflect our views with respect to future events and our future financial performance. Actual events and results may differ significantly from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under Section 9, Risk Factors of this Prospectus.

Overview of Our Business Operations

We are principally involved in the business of logistics services, which have contributed 100.00% of our Group's total revenue in both FYE 2019 and FYE 2020, 99.07% of our Group's total revenue in FYE 2021 and 99.28% of our Group's total revenue in FYE 2022. The remaining 0.93% of our total revenue in FYE 2021 and 0.62% of our total revenue in FYE 2022 was from trading of healthcare-related products (i.e. COVID-19 antigen self-test kits) under KGW Medica. Starting from FYE 2022, we also generate revenue from warehousing and distribution of healthcare-related products and devices and the revenue generated accounted for 0.10% of our total revenue in FYE 2022.

Under our logistics services business, we provide ocean freight, air freight and freight forwarding services with our operations based in Ara Damansara, Selangor. We provide these services to both local and foreign exporters, importers and other freight forwarders.

We incorporated KGW Medica in June 2021 with the plan to venture into warehousing and distribution of healthcare-related products and devices. Pending the development of this business, KGW Medica briefly undertook trading of healthcare-related products in FYE 2021. We have since shifted our focus back into the warehousing and distribution business upon securing customers for this business since March 2022. Moving forward, we will discontinue KGW Medica's trading of healthcare-related products upon full disposal of its existing inventories. KGW Medica will thereafter focus on warehousing and distribution services for healthcare-related products and devices.

As at the LPD, we have 4 reportable business segments as follows:

Business Segment	Description	Basis for Revenue Recognition
Ocean freight services	We arrange and coordinate ocean shipments for both local and foreign exporters, importers and other freight forwarders. Our services mainly include arranging for booking of cargo space and coordinating shipments from the port of loading to the port of discharge. Our revenue from ocean freight services mainly comprises freight charges, terminal handling fees and bill of lading handling fees.	Freight charges are recognised based upon the terms in the contract of carriage and to the extent a service is completed. Revenue is recognised based on the actual service provided up to the end of the reporting period, as a proportion of the total services to be provided as the customer receives and consumes the benefits of the Group's performance simultaneously. We measure the fulfilment of our performance obligations based on the progress of each shipment in terms of days travelled.

12. FINANCIAL INFORMATION (CONT'D)

Business Segment	Description	Basis for Revenue Recognition
Ocean freight services (Cont'd)	Our revenue from ocean freight services may also include charges for land transportation and/or warehousing services provided upon request of our ocean freight customers. Charges for land transportation and/or warehousing services are usually bundled together with our freight charges.	Terminal handling fees and bill of lading handling fees are considered to represent one single performance obligation, hence revenue is recognised when the performance obligation is satisfied at a point in time when the service is fully rendered.
Air freight services	We arrange and coordinate air shipments for local and foreign exporters and importers, and other foreign freight forwarders. Our revenue from air freight services mainly comprises freight charges and terminal handling fees. Similar to our revenue from ocean freight services, our revenue from air freight services may also include charges for land transportation and/or warehousing services provided upon request of our air freight customers.	Same basis as those for revenue from ocean freight services.
Freight forwarding services	Our revenue from freight forwarding services is mainly charges for arranging and coordinating the services of licensed customs agents for our ocean freight or air freight customers to obtain customs clearance of their shipments, charges for preparation of manifest for import shipments to Malaysia and export shipments to certain countries such as USA, Canada and Europe, as well as charges for handling services to foreign freight forwarders for their customers' import and/or export shipments.	These services are considered to represent one single performance obligation respectively, hence revenue is recognised when the performance obligation is satisfied at a point in time when the respective service is fully rendered.

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12. FINANCIAL INFORMATION (CONT'D)

Business Segment	Description	Basis for Revenue Recognition
Warehousing and distribution of healthcare-related products and devices	In our trading of healthcare-related products, we generate revenue from our sales to local retail pharmacies and small and medium companies / enterprises. Since FYE 2022, we also generate revenue from providing warehousing and distribution services for healthcare-related products and devices.	Our trading revenue is recognised at a point in time when we satisfied a performance obligation by transferring promised goods to customers, i.e. based on invoice issued upon delivery and acceptance of goods by customers. For warehousing and distribution services, revenue is recognised based upon the terms in the contract of warehousing and distribution and to the extent a service is completed. For warehousing services, we measure the fulfilment of our performance obligations based on the storage space and duration occupied by customers. For distribution services, we measure the fulfilment of our performance obligations based on the type and amount of distribution services provided and delivery trips undertaken. Revenue is recognised upon delivery and acceptance of goods by receivers designated by our customers.

Please refer to Section 7 of this Prospectus for further information on our business operations.

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12. FINANCIAL INFORMATION (CONT'D)

Results from Our Business Operations

The segmental analysis of our financial results for the Period Under Review are based on business activities and geographical region of shipment destination.

12.3.1 Revenue

On a combined basis, our Group's revenue for the Period Under Review are analysed as follows:

(i) Revenue by business activities

The table below sets out the breakdown and analysis of our Group's revenue by business activities:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Logistics services								
- Ocean freight	38,935	89.76	58,663	92.34	187,839	96.12	223,518	97.31
- Air freight	2,039	4.70	1,891	2.98	1,899	0.97	1,814	0.79
- Freight forwarding	2,405	5.54	2,971	4.68	3,858	1.98	2,705	1.18
	43,379	100.00	63,525	100.00	193,596	99.07	228,037	99.28
Warehousing and distribution of healthcare-related products and devices	-	-	-	-	(1)1,823	0.93	(2)1,658	0.72
Total	**43,379**	**100.00**	**63,525**	**100.00**	**195,419**	**100.00**	**229,695**	**100.00**

Notes:
(1) Solely from trading.
(2) RM1.44 million revenue generated from trading.

12. FINANCIAL INFORMATION (CONT'D)

The table below sets out the breakdown of the cargo volume and number of freight forwarding jobs handled by our Group for the Period Under Review:

	Unit	FYE 2019	FYE 2020	FYE 2021	FYE 2022
Ocean freight (containerised cargo)[(1)]	TEU	13,742	17,242	17,106	14,837
Ocean freight (over-sized non-containerised cargo)	Tonnes	-	-	-	[(4)]1,980
Air freight[(2)]	MT	190	81	91	121
Freight forwarding[(3)]	Job	4,428	5,021	5,641	4,379

Notes:

(1) This includes shipment of, amongst others, chemical products, aluminium products, silicon metal products, steel wire products, swimming pool and spa equipment, water treatment equipment, rubber gloves and other rubber related products for our customers from various industrial and manufacturing industries, as well as cabinet, furniture and automotive batteries for our customers from trading industry.

(2) This includes shipment of, amongst others, swimming pool and spa equipment, water treatment equipment, rubber gloves and other rubber related products, food packaging products and electronic products for our customers from various industrial and manufacturing industries.

(3) This includes freight forwarding services for customers from, amongst others, various industrial and manufacturing industries and trading industry.

(4) We have arranged and coordinated over-sized non-containerised cargo shipment of approximately 1,980 tonnes of steel coil from Malaysia to the USA for 2 exporters in March 2022. The relevant revenue of RM3.89 million have been excluded from the computation of the average revenue per TEU of container for the FYE 2022.

Ocean freight segment is our main source of revenue, contributing 89.76%, 92.34%, 96.12% and 97.31% to our Group's revenue for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively.

Our Group's total revenue increased by RM20.15 million or 46.45% from RM43.38 million in FYE 2019 to RM63.53 million in FYE 2020, mainly due to the increase in revenue derived from our ocean freight segment by RM19.72 million.

Our Group's total revenue further increased by RM131.89 million or 207.60% from RM63.53 million in FYE 2020 to RM195.42 million in FYE 2021, mainly due to the increase in revenue derived from our ocean freight segment by RM129.18 million and the new revenue stream of RM1.82 million from our warehousing and distribution of healthcare-related products and devices segment.

Our Group's total revenue increased by RM34.28 million or 17.54% from RM195.42 million in FYE 2021 to RM229.70 million in FYE 2022, mainly due to the increase in revenue derived from our ocean freight segment by RM35.68 million.

The commentaries on our Group's revenue for each of the business segments are as follows:

(a) Ocean freight

Our ocean freight revenue is derived from our services of arranging and coordinating ocean shipments for our customers. Our revenue mainly comprises ocean freight charges, terminal handling fees and bill of lading handling fees. Please refer to Section 7.3.1(a) of this Prospectus for further details of our ocean freight services.

<u>Comparison between FYE 2019 and FYE 2020</u>

Our ocean freight revenue increased by RM19.72 million or 50.64% from RM38.94 million in FYE 2019 to RM58.66 million in FYE 2020. The increase in revenue was mainly due to the following:

(i) increase in business volume by 25.47% from 13,742 TEU of containers handled in FYE 2019 to 17,242 TEU of containers handled in FYE 2020, mainly attributable to increased orders from our existing customers and new customers secured. These increased orders were mainly contributed by our customers including other freight forwarders as well as exporters and importers from certain industries such as aluminium producer, silicon metal producer, chemical trading and glove manufacturing. We have increased our sales and marketing efforts by growing the headcount in sales and marketing team and international business development team as well as actively adopting various sales and marketing strategies such as engaging with other freight forwarders and MATRADE, and participating in trade fairs and various online events. In addition, we believe that our increased orders were partly due to the competitive pricing offered by us to secure higher business volume, in response to uncertainties during the early stages of the COVID-19 pandemic; and

(ii) increase in our average ocean freight revenue per TEU of container by 20.08% from RM2,833 in FYE 2019 to RM3,402 in FYE 2020, mainly attributable to the increase in ocean freight rate charged by ocean carriers as a result of the limited supply of ocean cargo space caused by global supply chain disruptions arising from the COVID-19 pandemic.

<u>Comparison between FYE 2020 and FYE 2021</u>

Our ocean freight revenue further increased by RM129.18 million or 220.22% from RM58.66 million in FYE 2020 to RM187.84 million in FYE 2021. The increase in revenue was mainly due to the increase in our average ocean freight revenue per TEU of container by 222.78% from RM3,402 in FYE 2020 to RM10,981 in FYE 2021, mainly attributable to the increase in ocean freight rate charged by ocean carriers as a result of the limited supply of ocean cargo space and continuing demand for container shipping underpinned by the economic recovery. Further, we handled more long-haul ocean freight shipments to North America as compared to other regions which yielded higher revenue in FYE 2021.

Despite the increase in our average ocean freight revenue, our business volume has decreased marginally by 0.79% from 17,242 TEU of containers handled in FYE 2020 to 17,106 TEU of containers handled in FYE 2021. The decrease in business volume was mainly attributable to the limited supply of ocean cargo space for container shipments as caused by the global supply chain disruptions following the COVID-19 pandemic, which reduced the availability of ocean cargo space for us to arrange for our customers' shipments.

Comparison between FYE 2021 and FYE 2022

Our ocean freight revenue increased by RM35.68 million or 18.99% from RM187.84 million in FYE 2021 to RM223.52 million in FYE 2022. The increase in revenue was due to the increase in our average ocean freight revenue per TEU of container by 34.81% from RM10,981 in FYE 2021 to RM14,803 in FYE 2022, mainly attributable to the increase in ocean freight rates charged by ocean carriers in the first half of 2022 as a result of the limited supply of ocean cargo space caused by global supply chain disruptions coupled with the surge in global fuel prices and continuing demand for container shipping underpinned by the economic recovery.

Despite the increase in our average ocean freight revenue per TEU of container, the business volume in term of TEU of container has decreased by 13.26% from 17,106 TEU of containers handled in FYE 2021 to 14,837 TEU of containers handled in FYE 2022. The decrease in business volume was mainly attributable to the limited supply of ocean cargo space for container shipments as caused by the global supply chain disruptions following the COVID-19 pandemic, which reduced the availability of ocean cargo space for us to arrange for our customers' shipments, especially during the first half of 2022. In addition, the decrease in business volume handled was also due to lower demand for our ocean freight services in the second half of 2022. We believe that this was partly due to the overall weaker export demand for our customers' products from the USA as the country experienced a cumulative interest rate hike of 2.75% in the second half of 2022 (first half of 2022: 1.50%) (source: www.federalreserve.gov) aimed at curbing inflation, and certain major retailers were facing overstocking issues during the same period. As a result, we experienced reduction in orders from some of our existing customers from manufacturing and trading industries for chemicals, furniture and food packaging products who mostly export their products to the USA, as well as foreign freight forwarders who assist their customers to import goods from Malaysia to the USA.

(b) Air freight

Our air freight revenue is derived from our services of arranging and coordinating air shipments for our customers. Our revenue mainly comprises air freight charges and terminal handling fees. Please refer to Section 7.3.1(b) of this Prospectus for further details of our air freight services.

Comparison between FYE 2019 and FYE 2020

Our air freight revenue decreased by RM0.15 million or 7.35% from RM2.04 million in FYE 2019 to RM1.89 million in FYE 2020. The decrease in revenue was mainly due to decrease in business volume by 57.37% from 190 MT of cargo handled in FYE 2019 to 81 MT of cargo handled in FYE 2020, mainly attributable to decreased orders from our existing customers following a substantial increase in air freight rates charged by air carriers caused by limited supply of air cargo space due to reduction in air travel in light of the COVID-19 pandemic.

The impact of the substantial decrease in business volume on our air freight revenue was partially offset by the increase in average air freight revenue per MT of cargo handled by 117.42% from RM10,741 in FYE 2019 to RM23,353 in FYE 2020, mainly attributable to the increase in air freight rates as a result of the limited supply of air cargo space as mentioned above.

Comparison between FYE 2020 and FYE 2021

Our air freight revenue increased by RM0.01 million or 0.53% from RM1.89 million in FYE 2020 to RM1.90 million in FYE 2021. The increase in revenue was mainly due to increase in business volume by 12.35% from 81 MT of cargo handled in FYE 2020 to 91 MT of cargo handled in FYE 2021, mainly attributable to increased orders from our new customers.

The impact of the increase in business volume on our air freight revenue was partially offset by the decrease in average air freight revenue per MT of cargo handled by 11.09% from RM23,353 in FYE 2020 to RM20,764 in FYE 2021 as we handled greater number of shorter distance air freight shipments which yielded lower revenue during the year.

Comparison between FYE 2021 and FYE 2022

Our air freight revenue decreased by RM0.09 million or 4.74% from RM1.90 million in FYE 2021 to RM1.81 million in FYE 2022. The decrease in revenue was mainly due to the decrease in average air freight revenue per MT of cargo handled by 28.01% from RM20,764 in FYE 2021 to RM14,947 in FYE 2022 as we handled greater number of shorter distance air freight shipments which yielded lower revenue during FYE 2022.

The impact of the decrease in average air freight revenue per MT of cargo handled was partially offset by the increase in business volume by 32.97% from 91 MT of cargo handled in FYE 2021 to 121 MT of cargo handled in FYE 2022, mainly attributable to increased orders from our new customers.

(c) Freight forwarding

Our freight forwarding revenue includes mainly charges for arranging and coordinating the services of licensed customs agents for customs clearances, charges for preparation of manifest for import shipments to Malaysia and export shipments to certain countries such as USA, Canada and Europe as well as charges for handling services to foreign freight forwarders for their customers' import and/or export shipments. Please refer to Section 7.3.1(c) of this Prospectus for further details of our freight forwarding services.

Comparison between FYE 2019 and FYE 2020

Our freight forwarding revenue increased by RM0.56 million or 23.24% from RM2.41 million in FYE 2019 to RM2.97 million in FYE 2020. The increase in revenue was due to the following:

(i) increase in business volume by 13.39% from 4,428 jobs handled in FYE 2019 to 5,021 jobs handled in FYE 2020, mainly attributable to increased orders from our existing customers as well as the securing of new customers; and

(ii) increase in our average freight forwarding revenue per job by 9.02% from RM543 in FYE 2019 to RM592 in FYE 2020, mainly attributable to higher price charged for jobs handled.

Comparison between FYE 2020 and FYE 2021

Our freight forwarding revenue further increased by RM0.89 million or 29.97% from RM2.97 million in FYE 2020 to RM3.86 million in FYE 2021. The increase in revenue was mainly due to the following:

(i) increase in business volume by 12.35% from 5,021 jobs handled in FYE 2020 to 5,641 jobs handled in FYE 2021, mainly attributable to increased orders from our existing customers as well as new customers; and

(ii) increase in our average freight forwarding revenue per job by 15.54% from RM592 in FYE 2020 to RM684 in FYE 2021, mainly attributable to higher price charged for jobs handled.

Comparison between FYE 2021 and FYE 2022

Our freight forwarding revenue decreased by RM1.15 million or 29.79% from RM3.86 million in FYE 2021 to RM2.71 million in FYE 2022. The decrease in revenue was mainly due to the decrease in business volume by 22.37% from 5,641 jobs handled in FYE 2021 to 4,379 jobs handled in FYE 2022, mainly attributable to decreased orders from our existing customers in line with the lower volume for our ocean freight services.

(d) Warehousing and distribution of healthcare-related products and devices

Our Group undertook trading of COVID-19 antigen self-test kits and generated revenue of RM1.82 million and RM1.44 million in FYE 2021 and FYE 2022 respectively. These COVID-19 antigen self-test kits were supplied to local retail pharmacies and small and medium companies / enterprises in Klang Valley and Northern Region of Peninsular Malaysia.

We have commenced our warehousing and distribution of healthcare-related products and devices in FYE 2022 and generated revenue of RM0.22 million from 6 customers within Klang Valley and Northern Region of Peninsular Malaysia.

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12. FINANCIAL INFORMATION (CONT'D)

(ii) Revenue by geographical region of shipment destination

The table below sets out the breakdown and analysis of our Group's revenue by geographical region of shipment destination of our Group's customers for the Period Under Review.

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia[1]	5,178	11.94	5,501	8.66	[3]9,903	5.07	[4]9,460	4.12
Overseas[2]								
- Asia	7,096	16.36	9,117	14.35	17,252	8.83	20,242	8.81
- Africa	2,524	5.82	5,587	8.80	5,916	3.03	4,732	2.06
- Europe	6,216	14.33	4,822	7.59	13,798	7.06	24,303	10.58
- Oceania	645	1.49	956	1.50	2,170	1.11	5,075	2.21
- North America	21,167	48.79	35,975	56.63	144,471	73.93	165,021	71.84
- South America	553	1.27	1,567	2.47	1,909	0.97	862	0.38
	38,201	88.06	58,024	91.34	185,516	94.93	220,235	95.88
Total	**43,379**	**100.00**	**63,525**	**100.00**	**195,419**	**100.00**	**229,695**	**100.00**

Notes:
(1) Represents import shipments into Malaysia.
(2) Represents export shipments from Malaysia to overseas.
(3) Including revenue generated from trading of healthcare-related products in Malaysia of RM1.82 million.
(4) Including revenue generated from trading, warehousing and distribution of healthcare-related products and devices in Malaysia of RM1.66 million.

Our Group's main revenue contributor in terms of geographical region of shipment destination is North America. We generated 48.79%, 56.63%, 73.93% and 71.84% of our revenue in FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively from providing logistics services for export shipments from Malaysia to North America.

Comparison between FYE 2019 and FYE 2020

Our Group's revenue increased by RM20.15 million or 46.45% from RM43.38 million in FYE 2019 to RM63.53 million in FYE 2020. The increase in revenue was mainly derived from shipments to North America, which increased by RM14.81 million or 69.96% from RM21.17 million in FYE 2019 to RM35.98 million in FYE 2020, mainly attributable to our ocean freight segment.

The increase in our ocean freight segment revenue was mainly due to the increase in revenue generated from ocean shipments to North America from Malaysia by RM14.30 million or 72.04% from RM19.85 million in FYE 2019 to RM34.15 million in FYE 2020, as we focused to grow the ocean shipments mainly to USA, in view of our NVOCC registration status that allows us to have contractual cargo space availability and pre-determined freight costs over a period of time.

Comparison between FYE 2020 and FYE 2021

Our Group's revenue increased by RM131.89 million or 207.60% from RM63.53 million in FYE 2020 to RM195.42 million in FYE 2021. The increase in revenue was mainly derived from shipments to North America, which increased by RM108.49 million or 301.53% from RM35.98 million in FYE 2020 to RM144.47 million in FYE 2021, mainly attributable to our ocean freight segment.

The increase in our ocean freight segment revenue was mainly due to the increase in revenue generated from ocean shipments to North America from Malaysia by RM107.61 million or 315.11% from RM34.15 million in FYE 2020 to RM141.76 million in FYE 2021, as we continue to focus in serving the ocean shipments mainly to USA coupled with the increase in ocean freight rates charged by ocean carriers as explained in Section 12.3.1(i)(a) above.

The increase in our ocean freight segment revenue was also attributable to the increase in our revenue generated from ocean shipments to Europe from Malaysia by RM9.39 million or 245.17% from RM3.83 million in FYE 2020 to RM13.22 million in FYE 2021, as one of our customers has increased their export shipments to Europe from RM0.93 million in FYE 2020 to RM7.99 million in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our Group's revenue increased by RM34.28 million or 17.54% from RM195.42 million in FYE 2021 to RM229.70 million in FYE 2022. The increase in revenue was mainly derived from shipments to North America and Europe, which collectively increased by RM31.05 million or 19.62% from RM158.27 million in FYE 2021 to RM189.32 million in FYE 2022, mainly attributable to our ocean freight segment.

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The increase in our ocean freight segment revenue was mainly due to the increase in revenue generated from ocean shipments to North America from Malaysia by RM21.66 million or 15.28% from RM141.76 million in FYE 2021 to RM163.42 million in FYE 2022, as ocean shipments to USA continued to be our main focus. Apart from continuing to focus on expanding the North America market, our Group is also actively pursuing its strategy to address business opportunities from shipments to and from other countries / regions of the world. In this regard, revenue generated from ocean shipments to Europe from Malaysia has also increased by RM10.62 million or 80.33% from RM13.22 million in FYE 2021 to RM23.84 million in FYE 2022. Meanwhile, ocean freight rates charged by ocean carriers during the first half of 2022 were also higher as compared to 2021 as a result of the limited supply of ocean cargo space caused by global supply chain disruptions coupled with the surge in global fuel prices and continuing demand for container shipping underpinned by the economic recovery.

12.3.2 Cost of sales

On a combined basis, our Group's cost of sales for the Period Under Review are analysed as follows:

(i) Cost of sales by business activities

The table below sets forth the breakdown and analysis of our Group's cost of sales by business activities:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Logistics services								
- Ocean freight	34,171	93.03	51,928	95.26	157,557	97.00	(1)190,566	97.99
- Air freight	1,664	4.53	1,444	2.65	1,461	0.90	1,312	0.67
- Freight forwarding	898	2.44	1,141	2.09	1,740	1.07	1,237	0.64
	36,733	100.00	54,513	100.00	160,758	98.97	193,115	99.30
Warehousing and distribution of healthcare-related products and devices	-	-	-	-	1,666	1.03	1,362	0.70
Total	**36,733**	**100.00**	**54,513**	**100.00**	**162,424**	**100.00**	**194,477**	**100.00**

Note:

(1) We have arranged and coordinated over-sized non-containerised cargo shipment of approximately 1,980 tonnes of steel coil from Malaysia to the USA for 2 exporters in March 2022. The relevant cost of sales of RM3.87 million have been excluded from the computation of the average cost per TEU of container for the FYE 2022.

12. FINANCIAL INFORMATION (CONT'D)

Generally, the proportion of our cost of sales for each business segment corresponds to the proportion of revenue contribution of each business segment for the Period Under Review.

Our Group's cost of sales increased by RM17.78 million or 48.41% from RM36.73 million in FYE 2019 to RM54.51 million in FYE 2020 mainly due to higher cost of sales from the ocean freight segment, in tandem with our higher ocean freight revenue.

Our Group's cost of sales increased by RM107.91 million or 197.96% from RM54.51 million in FYE 2020 to RM162.42 million in FYE 2021 mainly due to higher cost of sales from the ocean freight segment, in tandem with the further increase in ocean freight revenue.

Our Group's cost of sales increased by RM32.06 million or 19.74% from RM162.42 million in FYE 2021 to RM194.48 million in FYE 2022 mainly due to higher cost of sales from the ocean freight segment, in tandem with the increase in ocean freight revenue.

The commentaries on our Group's cost of sales for each business segment are as follows:

(a) Ocean freight

Our cost of sales for ocean freight segment comprises mainly ocean freight charges and terminal handling charges which collectively accounted for 89.43%, 89.71%, 95.71% and 95.88% of our ocean freight segment's cost of sales for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. The cost of sales for ocean freight segment can be analysed as follows:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Ocean freight charges	26,567	77.75	41,186	79.31	145,324	92.24	177,879	93.34
Terminal handling charges	3,991	11.68	5,401	10.40	5,472	3.47	4,836	2.54
Carriages and delivery charges	1,835	5.37	2,657	5.12	2,597	1.65	2,946	1.55
Bill of lading charges	872	2.55	1,160	2.23	1,720	1.09	1,782	0.94
Others[(1)]	906	2.65	1,524	2.94	2,444	1.55	3,123	1.63
Total	**34,171**	**100.00**	**51,928**	**100.00**	**157,557**	**100.00**	**190,566**	**100.00**

Note:
(1) Others mainly include temporary warehousing charges, electronic data interchange charges, demurrage equipment charges, detention equipment charges and dangerous cargo surcharges.

12. FINANCIAL INFORMATION (CONT'D)

Comparison between FYE 2019 and FYE 2020

Our cost of sales for ocean freight segment increased by RM17.76 million or 51.98% from RM34.17 million in FYE 2019 to RM51.93 million in FYE 2020. The increase was mainly due to the increase in business volume as explained in Section 12.3.1(i)(a) coupled with the increase in average ocean freight cost per TEU of container by 21.11% from RM2,487 in FYE 2019 to RM3,012 in FYE 2020, mainly attributable to higher ocean freight rates charged by ocean carriers as a result of limited supply of ocean cargo space for container shipments.

Comparison between FYE 2020 and FYE 2021

Our cost of sales for ocean freight segment increased by RM105.63 million or 203.41% from RM51.93 million in FYE 2020 to RM157.56 million in FYE 2021. The increase was mainly due to the further increase in average ocean freight cost per TEU of container by 205.81% from RM3,012 in FYE 2020 to RM9,211 in FYE 2021, mainly attributable to higher ocean freight rates charged by ocean carriers as a result of the continued limited supply of ocean cargo space for container shipments. Further, we handled more long-haul ocean freight shipments to North America as compared to other regions which required higher ocean freight cost in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our cost of sales for ocean freight segment increased by RM33.01 million or 20.95% from RM157.56 million in FYE 2021 to RM190.57 million in FYE 2022. The increase was mainly due to the increase in average ocean freight cost per TEU of container by 36.61% from RM9,211 in FYE 2021 to RM12,583 in FYE 2022, mainly attributable to the higher ocean freight rate charged by ocean carriers as a result of the limited supply of ocean cargo space for container shipments coupled with the high global fuel prices, especially during the first half of 2022.

(b) Air freight

Our cost of sales for air freight segment comprises mainly air freight charges, carriages and delivery charges as well as terminal handling charges, which collectively accounted for 98.92%, 97.58%, 96.78% and 96.49% of our air freight segment's cost of sales for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. The cost of sales for air freight segment can be analysed as follows:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Air freight charges	1,529	91.89	1,288	89.20	1,343	91.92	1,129	86.05
Carriages and delivery charges	68	4.09	50	3.46	40	2.74	92	7.01
Terminal handling charges	49	2.94	71	4.92	31	2.12	45	3.43
Others[(1)]	18	1.08	35	2.42	47	3.22	46	3.51
Total	**1,664**	**100.00**	**1,444**	**100.00**	**1,461**	**100.00**	**1,312**	**100.00**

12. FINANCIAL INFORMATION (CONT'D)

Note:
(1) Others mainly include temporary warehousing charges, air waybills charges and fumigation charges.

Comparison between FYE 2019 and FYE 2020

Our cost of sales for air freight segment decreased by RM0.22 million or 13.25% from RM1.66 million in FYE 2019 to RM1.44 million in FYE 2020, mainly attributable to lower business volume in terms of MT of cargo handled as explained in Section 12.3.1(i)(b).

The impact of the decrease in business volume on our air freight cost was partially offset by the increase in average air freight cost per MT of cargo handled by 103.49% from RM8,764 in FYE 2019 to RM17,834 in FYE 2020, mainly attributable to the increase in air freight rates as explained in Section 12.3.1(i)(b).

Comparison between FYE 2020 and FYE 2021

Our cost of sales for air freight segment increased by RM0.02 million or 1.39% from RM1.44 million in FYE 2020 to RM1.46 million in FYE 2021 mainly attributable to higher business volume in terms of MT of cargo handled as explained in Section 12.3.1(i)(b).

The impact of the increase in business volume on our air freight cost was partially offset by the decrease in average air freight cost per MT of cargo handled by 10.42% from RM17,834 in FYE 2020 to RM15,976 in FYE 2021 as we handled greater number of shorter distance air freight shipments which required lower air freight cost in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our cost of sales for air freight segment decreased by RM0.15 million or 10.27% from RM1.46 million in FYE 2021 to RM1.31 million in FYE 2022, mainly attributable to the decrease in average air freight cost per MT of cargo handled by 32.35% from RM15,976 in FYE 2021 to RM10,808 in FYE 2022 as we handled greater number of shorter distance air freight shipments which required lower air freight cost in FYE 2022.

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12. FINANCIAL INFORMATION (CONT'D)

(c) Freight forwarding

Our cost of sales for freight forwarding segment comprises mainly customs clearance related charges and manifest charges which collectively accounted for 87.64%, 87.03%, 88.56% and 86.50% of our freight forwarding segment's cost of sales for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. The cost of sales for freight forwarding segment can be analysed as follows:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Customs clearance related charges	646	71.94	779	68.27	1,213	69.71	815	65.89
Manifest charges	141	15.70	214	18.76	328	18.85	255	20.61
Others[(1)]	111	12.36	148	12.97	199	11.44	167	13.50
Total	**898**	**100.00**	**1,141**	**100.00**	**1,740**	**100.00**	**1,237**	**100.00**

Note:
(1) Others mainly include courier charges.

Comparison between FYE 2019 and FYE 2020

Our cost of sales for freight forwarding segment increased by RM0.24 million or 26.67% from RM0.90 million in FYE 2019 to RM1.14 million in FYE 2020, mainly attributable to the increase in business volume as explained in Section 12.3.1(i)(c).

Comparison between FYE 2020 and FYE 2021

Our cost of sales for freight forwarding segment increased by RM0.60 million or 52.63% from RM1.14 million in FYE 2020 to RM1.74 million in FYE 2021, mainly attributable to the increase in average cost per job by 35.68% from RM227 in FYE 2020 to RM308 in FYE 2021 coupled with the increase in business volume as explained in Section 12.3.1(i)(c). The increase in average cost per job was mainly due to higher price charged from licensed customs agents and other freight forwarders in conjunction with the increase in ocean freight rate charged by ocean carriers.

Comparison between FYE 2021 and FYE 2022

Our cost of sales for freight forwarding segment decreased by RM0.50 million or 28.74% from RM1.74 million in FYE 2021 to RM1.24 million in FYE 2022, mainly attributable to the decrease in business volume as explained in Section 12.3.1(i)(c).

(d) Warehousing and distribution of healthcare-related products and devices

The cost of sales for warehousing and distribution of healthcare-related products and devices segment only accounted for 1.03% and 0.70% of our Group's total cost of sales in FYE 2021 and FYE 2022 respectively. The cost of sales for this segment comprises mainly purchases of COVID-19 antigen self-test kits, which accounted for 94.54% and 93.46% of the segment's cost of sales in FYE 2021 and FYE 2022 respectively. The cost of sales for this segment can be analysed as follows:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Purchases	-	-	-	-	1,575	94.54	1,273	93.46
Sales commissions	-	-	-	-	83	4.98	28	2.06
Others[(1)]	-	-	-	-	8	0.48	61	4.48
Total	**-**	**-**	**-**	**-**	**1,666**	**100.00**	**1,362**	**100.00**

Note:
(1) Others include cost for samples given to customers, delivery charges and depreciation of property, plant and equipment (right-of-use assets in relation to the use of our Group's rented office cum warehouse).

(ii) Cost of sales by geographical region of shipment destination

The cost of sales analysis by geographical region of shipment destination for the Period Under Review is not presented as the information is not available or maintained.

12.3.3 GP and GP margin

In line with the increase in total revenue, our Group's total GP increased by RM2.36 million or 35.49% from RM6.65 million in FYE 2019 to RM9.01 million in FYE 2020. Notwithstanding the increase in revenue in FYE 2020, our GP margin decreased by 1.13% from 15.32% in FYE 2019 to 14.19% in FYE 2020. The decrease in GP margin was mainly attributable to lower GP margin from our ocean freight segment, which decreased from 12.24% in FYE 2019 to 11.48% in FYE 2020.

Our Group's total GP increased by RM23.99 million or 266.26% from RM9.01 million in FYE 2020 to RM33.00 million in FYE 2021 in line with the increase in total revenue. Our GP margin also increased from 14.19% in FYE 2020 to 16.88% in FYE 2021. The increase in GP margin was mainly attributable to higher GP margin from our ocean freight segment, which increased from 11.48% in FYE 2020 to 16.12% in FYE 2021.

12. FINANCIAL INFORMATION (CONT'D)

In line with the increase in total revenue, our Group's total GP increased by RM2.22 million or 6.73% from RM33.00 million in FYE 2021 to RM35.22 million in FYE 2022. Notwithstanding the increase in revenue in FYE 2022, our GP margin decreased by 1.55% from 16.88% in FYE 2021 to 15.33% in FYE 2022. The decrease in GP margin was mainly attributable to lower GP margin from our ocean freight segment, which decreased from 16.12% in FYE 2021 to 14.74% in FYE 2022.

On a combined basis, our Group's GP and GP margin for the Period Under Review are analysed as follows:

(i) GP and GP margin by business activities

The table below sets forth the breakdown and analysis of our Group's GP by business activities:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Logistics services								
- Ocean freight	4,764	71.68	6,735	74.73	30,282	91.77	32,952	93.57
- Air freight	375	5.64	447	4.96	438	1.33	502	1.42
- Freight forwarding	1,507	22.68	1,830	20.31	2,118	6.42	1,468	4.17
	6,646	100.00	9,012	100.00	32,838	99.52	34,922	99.16
Warehousing and distribution of healthcare-related products and devices	-	-	-	-	157	0.48	296	0.84
Total	**6,646**	**100.00**	**9,012**	**100.00**	**32,995**	**100.00**	**35,218**	**100.00**

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12. FINANCIAL INFORMATION (CONT'D)

The table below sets forth the breakdown and analysis of our Group's GP margin by business activities:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	%	%	%	%
Logistics services				
- Ocean freight	12.24	11.48	16.12	14.74
- Air freight	18.39	23.64	23.06	27.67
- Freight forwarding	62.66	61.60	54.90	54.27
	15.32	14.19	16.96	15.31
Warehousing and distribution of healthcare-related products and devices	-	-	8.61	17.85
Group's GP margin	**15.32**	**14.19**	**16.88**	**15.33**

The commentaries on our Group's GP and GP margin by business activities are as follows:

(a) Ocean freight

GP from our ocean freight segment accounted for 71.68%, 74.73%, 91.77% and 93.57% of our Group's GP for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively.

Comparison between FYE 2019 and FYE 2020

GP for our ocean freight segment increased by RM1.98 million or 41.60% from RM4.76 million in FYE 2019 to RM6.74 million in FYE 2020 mainly attributable to higher revenue as a result of higher business volume. Nonetheless, the GP margin decreased from 12.24% in FYE 2019 to 11.48% in FYE 2020. This was mainly due to the quantum of increase in average ocean freight cost per TEU of container of 21.11% which is higher than the increase in average ocean freight revenue per TEU of container of 20.08%, mainly attributable to higher increase in the ocean freight rates charged by ocean carriers to us as compared to the quantum of increase in ocean freight rates that we offered to customers. We offered competitive pricing for our ocean freight services to customers in order to secure higher business volume, in response to uncertainties during the early stages of the COVID-19 pandemic.

Comparison between FYE 2020 and FYE 2021

GP for our ocean freight segment further increased by RM23.54 million or 349.26% from RM6.74 million in FYE 2020 to RM30.28 million in FYE 2021 mainly attributable to higher revenue generated. GP margin for our ocean freight segment improved from 11.48% in FYE 2020 to 16.12% in FYE 2021. This was mainly due to the quantum of increase in average ocean freight revenue per TEU of container of 222.78% which is higher than the increase in average ocean freight cost per TEU of container of 205.81%, as our Group was able to secure better pricing for our ocean freight services, in addition to passing on the increase in ocean freight rates. The increase in ocean freight rates was mainly due to continuing demand for container shipments together with the limited supply of ocean cargo space resulting from the global supply chain disruptions.

Comparison between FYE 2021 and FYE 2022

GP for our ocean freight segment increased by RM2.67 million or 8.82% from RM30.28 million in FYE 2021 to RM32.95 million in FYE 2022 mainly attributable to higher revenue generated. Nonetheless, the GP margin decreased from 16.12% in FYE 2021 to 14.74% in FYE 2022. This was mainly due to the quantum of increase in average ocean freight cost per TEU of container of 36.61% is higher than the increase in average ocean freight revenue per TEU of container of 34.81%. We moderated our premium price charged to customers for our ocean freight services in response to the easing of ocean cargo space supply towards the second half of 2022.

(b) Air freight

GP from our air freight segment accounted for 5.64%, 4.96%, 1.33% and 1.42% of our Group's GP for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively.

Comparison between FYE 2019 and FYE 2020

Notwithstanding a decrease in revenue generated from our air freight segment by 7.35% in FYE 2020, GP for this segment increased by RM0.07 million or 18.42% from RM0.38 million in FYE 2019 to RM0.45 million in FYE 2020. GP margin for our air freight segment improved from 18.39% in FYE 2019 to 23.64% in FYE 2020. This was because our Group, in addition to passing on the increase in air freight rates to our customers, was able to secure better pricing for our air freight services, following the limited supply of air cargo space due to reduction in air travel in light of the COVID-19 pandemic.

Comparison between FYE 2020 and FYE 2021

GP and GP margin for our air freight segment of RM0.44 million and 23.64% in FYE 2021 was fairly consistent with that of RM0.45 million and 23.06% in FYE 2020 as there was no material change in our air freight segment revenue and cost of sales.

<u>Comparison between FYE 2021 and FYE 2022</u>

Notwithstanding a decrease in revenue generated from our air freight segment by 4.74% in FYE 2022, GP for this segment increased by RM0.06 million or 13.64% from RM0.44 million in FYE 2021 to RM0.50 million in FYE 2022. GP margin for our air freight segment improved from 23.06% in FYE 2021 to 27.67% in FYE 2022. This was because our Group was able to secure better pricing for our air freight services.

(c) Freight forwarding

GP from our freight forwarding segment accounted for 22.68%, 20.31%, 6.42% and 4.17% of our Group's GP for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively.

<u>Comparison between FYE 2019 and FYE 2020</u>

GP for our freight forwarding segment increased by RM0.32 million or 21.19% from RM1.51 million in FYE 2019 to RM1.83 million in FYE 2020 mainly attributable to higher revenue as a result of higher business volume. Nonetheless, GP margin was fairly consistent at 62.66% in FYE 2019 and 61.60% in FYE 2020 respectively.

<u>Comparison between FYE 2020 and FYE 2021</u>

GP for our freight forwarding segment increased by RM0.29 million or 15.85% from RM1.83 million in FYE 2020 to RM2.12 million in FYE 2021 mainly attributable to higher revenue as a result of higher business volume. Nonetheless, GP margin decreased from 61.60% in FYE 2020 to 54.90% in FYE 2021. This was mainly due to partial absorption of the segment's higher cost of sales by us for competitive pricing to our customers who engaged us for freight forwarding services together with ocean freight or air freight services.

<u>Comparison between FYE 2021 and FYE 2022</u>

GP for our freight forwarding segment decreased by RM0.65 million or 30.66% from RM2.12 million in FYE 2021 to RM1.47 million in FYE 2022 mainly attributable to lower revenue generated as a result of decrease in business volume. GP margin was fairly consistent at 54.90% and 54.27% in FYE 2021 and FYE 2022 respectively.

(d) Warehousing and distribution of healthcare-related products and devices

GP from our warehousing and distribution of healthcare-related products and devices segment was RM0.16 million and RM0.30 million in FYE 2021 and FYE 2022 respectively, accounted for less than 1.00% of our Group's GP in the respective year under review.

GP margin increased from 8.61% in FYE 2021 to 17.85% in FYE 2022. This was mainly due to warehousing and distribution services commenced in FYE 2022 yielded higher margin as compared to trading of COVID-19 antigen self-test kits in FYE 2021.

12. FINANCIAL INFORMATION (CONT'D)

12.3.4 Other income

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Gain on derecognition of a subsidiary[(1)]	-	-	-	-	3	3.30	-	-
Gain on disposal of property, plant and equipment	18	40.00	-	-	19	20.88	266	20.88
Gain on foreign exchange, net								
- realised	-	-	-	-	-	-	813	63.81
- unrealised	-	-	-	-	34	37.36	97	7.61
Government grant[(2)]	12	26.67	-	-	-	-	-	-
Interest income	9	20.00	-	-	7	7.69	71	5.57
Rental income[(3)]	6	13.33	12	6.25	12	13.19	4	0.31
Wages subsidy	-	-	166	86.46	-	-	-	-
Others[(4)]	-	-	14	7.29	16	17.58	23	1.82
Total	**45**	**100.00**	**192**	**100.00**	**91**	**100.00**	**1,274**	**100.00**

Notes:

(1) Gain on derecognition of KGW Gemilang Sdn Bhd, a former subsidiary of KGW Logistics which was wound up in FYE 2021.

(2) Government grant mainly relates to overseas business travelling expenses claimed from Malaysia External Trade Development Corporation (MATRADE) for our participation in China-Asean Expo in FYE 2019.

(3) Rental income derived from sub-let of office space to Mingkun, a related company. The rental arrangement was terminated by the end of April 2022.

(4) Others mainly consist of management fee received from Mingkun, a related company, for accounting function as well as rebates from suppliers. We ceased to provide accounting service to Mingkun by the end of December 2020.

12. FINANCIAL INFORMATION (CONT'D)

Comparison between FYE 2019 and FYE 2020

Other income increased by RM0.14 million or 280.00% from RM0.05 million in FYE 2019 to RM0.19 million in FYE 2020. The increase was mainly due to a one-off subsidy of RM0.17 million received from SOCSO via Wage Subsidy Program, which was the Government's assistance to businesses as part of its COVID-19 stimulus package.

The overall increase in other income was partially offset by the non-recurrence of one-off gain on disposal of a motor vehicle and government grant received in FYE 2019 amounting to RM0.02 million and RM0.01 million respectively.

Comparison between FYE 2020 and FYE 2021

Other income decreased by RM0.10 million or 52.63% from RM0.19 million in FYE 2020 to RM0.09 million in FYE 2021. The decrease was mainly due to the non-recurrence of the aforementioned wage subsidy received in FYE 2020 amounting to RM0.17 million.

The overall decrease in other income was partially offset by the unrealised gain on foreign exchange of RM0.03 million arising from translation differences between the transaction date and the reporting date. In addition, we have a gain on disposal of a motor vehicle amounting to RM0.02 million in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Other income increased by RM1.18 million or 1,311.11% from RM0.09 million in FYE 2021 to RM1.27 million in FYE 2022. The increase was mainly due to the realised gain on foreign exchange of RM0.81 million arising from higher exchange differences between the transaction dates and settlement dates. The increase in other income was also attributable to the increase in gain on disposal of property, plant and equipment by RM0.25 million arising from the disposal of 2 motor vehicles during FYE 2022.

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12. FINANCIAL INFORMATION (CONT'D)

12.3.5 Administrative expenses

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Advertisement	92	1.62	38	0.67	32	0.29	24	0.18
Audit fee	25	0.44	33	0.58	61	0.55	107	0.78
Bank charges	37	0.65	40	0.70	79	0.71	154	1.13
Depreciation of property, plant and equipment	199	3.49	408	7.17	673	6.05	692	5.06
Directors' remunerations	635	11.15	292	5.13	406	3.65	1,322	9.66
Entertainment	145	2.55	116	2.04	85	0.76	244	1.78
Office expenses	36	0.63	44	0.77	49	0.44	39	0.29
Professional fees	75	1.32	65	1.14	90	0.81	259	1.89
Rental expenses(1)	8	0.14	6	0.11	-	-	24	0.18
Commission	1,256	22.06	1,882	33.08	5,218	46.91	4,636	33.88
Staff costs	2,394	42.04	2,309	40.58	3,862	34.72	5,268	38.50
Subscription fees(2)	82	1.44	54	0.95	130	1.17	85	0.62
Utilities	113	1.98	107	1.88	84	0.75	97	0.71
Travelling and accommodation	300	5.27	102	1.79	45	0.40	128	0.94
Upkeep expenses	123	2.16	74	1.30	99	0.89	141	1.03
Others(3)	174	3.06	120	2.11	211	1.90	462	3.37
Total	**5,694**	**100.00**	**5,690**	**100.00**	**11,124**	**100.00**	**13,682**	**100.00**

Notes:

(1) Represents short-term leases and low value underlying assets under MFRS 16.

(2) Subscription fees relating to subscription to various freight forwarders and logistics associations.

(3) Others mainly include insurance premiums, levy and license fees, printing and stationery, postage and courier and other miscellaneous expenses, each representing not more than 1.00% of our administrative expenses for each respective year under review.

12. FINANCIAL INFORMATION (CONT'D)

Comparison between FYE 2019 and FYE 2020

Total administrative expenses remained relatively consistent at RM5.69 million for both FYE 2019 and FYE 2020.

Commission increased by RM0.62 million or 49.21% from RM1.26 million in FYE 2019 to RM1.88 million in FYE 2020, in line with the increase in GP in FYE 2020. We offered commission to all employees who are able to bring in sales, as a form of motivation. We have adopted a tiered commission structure for employees in international business development department. There is a monthly department target set, which is the aggregate of the monthly target set for the respective individual employee in the department. The individual employee is entitled to a commission of 1.50% of their monthly individual target set, computed based on the GP generated from customers under the individual employee's portfolio, with the condition that the monthly department target is met. For those individual employees who have exceeded the monthly individual target while the monthly department target is met, they are entitled to an additional commission of 2.00% to 2.50% on the amount exceeding their individual target set. Employees in sales and marketing department are entitled to commission computed based on 30% of GP generated from the customers under his/her portfolio after the monthly individual target is met. All other employees are entitled to commission computed based on 30% of GP generated from the customers introduced by them to our Group.

Depreciation of property, plant and equipment increased by RM0.21 million or 105.00% from RM0.20 million in FYE 2019 to RM0.41 million in FYE 2020. The increase was mainly due to addition in land and buildings, electrical installation and renovation carried out in our office, and purchase of furniture and fittings and office equipment in FYE 2020. The addition in land and buildings was due to recognition of right-of-use assets for our rented business premises.

However, the impact of the increase in commission and depreciation of property, plant and equipment on our administrative expenses was partially offset by the following:

(i) decrease in directors' remunerations by RM0.34 million mainly due to non-recurrence of a one-off directors' fee of RM0.35 million in FYE 2019. The one-off directors' fee was paid to Dato' Roger Wong and Chow Enn Jie in recognition of their past contributions to our Group;

(ii) decrease in travelling and accommodation expenses by RM0.20 million mainly due to travel restrictions as a result of the COVID-19 pandemic; and

(iii) decrease in staff costs by RM0.09 million mainly due to reduction in provision for bonus in view of COVID-19 pandemic.

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12. FINANCIAL INFORMATION (CONT'D)

Comparison between FYE 2020 and FYE 2021

Administrative expenses increased by RM5.43 million or 95.43% from RM5.69 million in FYE 2020 to RM11.12 million in FYE 2021. The increase was mainly due to the following:

(i) increase in commission by RM3.34 million, which was in tandem with the increase in GP in FYE 2021;

(ii) increase in staff costs by RM1.55 million mainly due to yearly salary increments, recruitment of 6 new employees for various departments such as customer service as well as higher provision for bonus;

(iii) increase in depreciation of property, plant and equipment by RM0.26 million mainly due to purchase of motor vehicles, office equipment, computer and software in FYE 2021; and

(iv) increase in directors' remuneration by RM0.11 million mainly due to salary increment and provision of bonus for a director.

Comparison between FYE 2021 and FYE 2022

Administrative expenses increased by RM2.56 million or 23.02% from RM11.12 million in FYE 2021 to RM13.68 million in FYE 2022. The increase was mainly due to the following:

(i) increase in staff costs by RM1.41 million mainly due to yearly salary increments and recruitment of 18 new employees for various departments such as customer service, sales and marketing and warehousing;

(ii) increase in directors' remunerations by RM0.92 million mainly due to salary increment for directors and a full year directors' remunerations incurred for directors appointed upon incorporation of KGW Medica in June 2021; and

(iii) increase in professional fee by RM0.17 million mainly due to one-off legal fee incurred for preparation of the new banking facility agreement and valuer fee for valuation on the Target Property.

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12. FINANCIAL INFORMATION (CONT'D)

12.3.6 Other operating expenses

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bad debts written off	-	-	4	0.82	61	6.55	4	0.43
IPO expenses	-	-	-	-	-	-	936	99.57
Loss on cybercrime	-	-	119	24.24	-	-	-	-
Loss on foreign exchange, net								
- realised	120	58.54	214	43.58	870	93.45	-	-
- unrealised	85	41.46	154	31.36	-	-	-	-
Property, plant and equipment written off	-	-	-	-	-	-	[(1)]-	-
Total	**205**	**100.00**	**491**	**100.00**	**931**	**100.00**	**940**	**100.00**

Note:
(1) Represents less than RM1,000.

Comparison between FYE 2019 and FYE 2020

Other operating expenses increased by RM0.28 million or 133.33% from RM0.21 million in FYE 2019 to RM0.49 million in FYE 2020. The increase was mainly due to the following:

(i) increase in realised and unrealised loss on foreign exchange by RM0.16 million, mainly arising from exchange differences between USD and RM. Realised loss was due to exchange differences between the transaction dates and settlement dates while the unrealised loss was due to translation differences between the transaction dates and reporting dates; and

(ii) one-off loss on cybercrime of RM0.12 million due to trade payables payment made to 3 falsified bank accounts after receiving phishing emails from cybercriminals who forged the emails of our 3 suppliers to inform on the change of their respective bank payment details within the period from 4 December 2020 to 30 December 2020. We have since improved our accounts and finance department standard operating procedures to prevent such further occurrence. All our suppliers are now required to furnish their bank details by completing our supplier application form. Prior to payment processing, our accounts and finance department shall ensure bank details of suppliers are in accordance with the existing records maintained. In the event of any request for change in the bank details from supplier, our accounts and finance department shall contact the supplier's finance department to verify the change and thereafter email to the supplier's finance department to obtain written confirmation. Such email confirmation must be received before payment processing. The latest bank details shall then be updated to our suppliers' bank details records.

12. FINANCIAL INFORMATION (CONT'D)

Comparison between FYE 2020 and FYE 2021

Other operating expenses increased by RM0.44 million or 89.80% from RM0.49 million in FYE 2020 to RM0.93 million in FYE 2021. The increase was mainly due to higher realised loss on foreign exchange by RM0.66 million, in tandem with the increase in our revenue denominated in USD in FYE 2021.

However, the aforesaid impact was partially offset by the absence of unrealised foreign exchange loss and one-off loss on cybercrime during the year (FYE 2020: RM0.15 million and RM0.12 million respectively).

Comparison between FYE 2021 and FYE 2022

Other operating expenses increased by RM0.01 million or 1.08% from RM0.93 million in FYE 2021 to RM0.94 million in FYE 2022. The increase was mainly due to professional fees of RM0.94 million incurred for our IPO exercise that was expensed off during FYE 2022.

However, the aforesaid impact was partially offset by the absence of the realised loss on foreign exchange during FYE 2022 (FYE 2021: RM0.87 million).

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12. FINANCIAL INFORMATION (CONT'D)

12.3.7 Finance costs

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bank overdraft	5	3.45	7	5.43	29	16.39	3	2.52
Lease liabilities	45	31.03	40	31.01	59	33.33	61	51.26
Term loans	95	65.52	82	63.56	89	50.28	55	46.22
Total	**145**	**100.00**	**129**	**100.00**	**177**	**100.00**	**119**	**100.00**

Comparison between FYE 2019 and FYE 2020

Finance costs decreased by RM0.02 million or 13.33% from RM0.15 million in FYE 2019 to RM0.13 million in FYE 2020. The decrease was mainly due to lower term loans interest by RM0.01 million as a result of the lower outstanding balance.

Comparison between FYE 2020 and FYE 2021

Finance costs increased by RM0.05 million or 38.46% from RM0.13 million in FYE 2020 to RM0.18 million in FYE 2021. The increase was mainly attributable to the following:

(i) increase in bank overdraft interest by RM0.02 million as higher overdraft facility was utilised to finance our working capital requirements;

(ii) increase in lease liabilities interest by RM0.02 million arising from the rental lease agreements for our rented business premises and the purchase of new motor vehicles in FYE 2021; and

(iii) increase in term loan interest by RM0.01 million due to drawdown of 2 additional term loans for working capital purposes.

Comparison between FYE 2021 and FYE 2022

Finance costs decreased by RM0.06 million or 33.33% from RM0.18 million in FYE 2021 to RM0.12 million in FYE 2022. The decrease was mainly due to lower term loans interest by RM0.03 million as a result of early settlement of a term loan.

12.3.8 Income tax expenses

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Income tax expenses	259	688	4,993	5,536
Effective tax rate (%)	42.60	24.02	24.06	25.31
Statutory tax rate (%)	24.00	24.00	24.00	24.00

Our Group's effective tax rate for the FYE 2019 of 42.60% was higher than the statutory tax rate of 24.00% mainly due to certain expenses incurred which were not deductible for tax purposes such as depreciation for non-qualifying property, plant and equipment (motor vehicles and renovation works), unrealised loss on foreign exchange and entertainment expenses.

Our Group's effective tax rate for the FYE 2020 and FYE 2021 of 24.02% and 24.06% respectively were largely in line with the statutory tax rate of 24.00%.

Our Group's effective tax rate for the FYE 2022 of 25.31% was marginally higher than the statutory tax rate of 24.00% mainly due to certain expenses incurred which were not deductible for tax purposes such as IPO expenses, depreciation for non-qualifying property, plant and equipment (motor vehicles) and professional fees.

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12.3.9 PBT and PBT margin

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
PBT	608	2,864	20,751	21,871
PAT	349	2,176	15,758	16,335
PBT margin (%)	1.40	4.51	10.62	9.52
PAT margin (%)	0.80	3.43	8.06	7.11

Comparison between FYE 2019 and FYE 2020

PBT increased by RM2.25 million or 368.85% from RM0.61 million in FYE 2019 to RM2.86 million in FYE 2020, in line with the increase in GP by RM2.36 million.

PBT margin increased from 1.40% in FYE 2019 to 4.51% in FYE 2020 despite a decrease in GP margin by 1.13% in FYE 2020. The increase in PBT margin was mainly due to our relatively consistent administrative expenses in FYE 2020 as compared to FYE 2019, notwithstanding a 46.45% increase in revenue in FYE 2020.

Comparison between FYE 2020 and FYE 2021

PBT increased by RM17.89 million or 625.52% from RM2.86 million in FYE 2020 to RM20.75 million in FYE 2021, in line with the increase in GP by RM23.99 million.

PBT margin increased from 4.51% in FYE 2020 to 10.62% in FYE 2021 mainly due to higher GP margin generated from our ocean freight segment in FYE 2021. In addition, the lower rate of increase in our administrative expenses as compared to the increase in our revenue and GP has also contributed to our improved PBT margin in FYE 2021.

Comparison between FYE 2021 and FYE 2022

PBT increased by RM1.12 million or 5.40% from RM20.75 million in FYE 2021 to RM21.87 million in FYE 2022, in line with the increase in GP by RM2.22 million.

PBT margin decreased marginally from 10.62% in FYE 2021 to 9.52% in FYE 2022 mainly due to lower GP margin generated from our ocean freight segment in FYE 2022. In addition, higher rate of increase in our administrative expenses as compared to the rate of increase in our revenue and GP has also contributed to the lower PBT margin in FYE 2022.

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12. FINANCIAL INFORMATION (CONT'D)

12.4 REVIEW OF FINANCIAL POSITION

12.4.1 Assets

	Audited			
	As at 31 December			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	1,045	1,497	1,762	23,130
Deferred tax assets	7	-	55	369
	1,052	**1,497**	**1,817**	**23,499**
Current assets				
Inventories	-	-	37	14
Trade receivables	5,162	8,147	20,813	7,729
Other receivables, deposits and prepayments	143	50	56	311
Contract costs	1,125	1,934	6,616	726
Amount owing by related parties	-	28	6	-
Tax recoverable	12	5	-	-
Short-term investment	-	-	-	3,007
Fixed deposits with financial institutions	307	357	915	14,030
Cash and bank balances	2,762	2,083	19,006	10,929
	9,511	**12,604**	**47,449**	**36,746**
Total assets	**10,563**	**14,101**	**49,266**	**60,245**

Comparison between 31 December 2019 and 31 December 2020

Our Group's total assets increased by RM3.54 million or 33.52% from RM10.56 million as at 31 December 2019 to RM14.10 million as at 31 December 2020. This was mainly due to the increase in current assets by RM3.09 million. The increase in current assets was mainly due to increase in trade receivables by RM2.99 million which was in tandem with the increase in our Group's revenue.

Comparison between 31 December 2020 and 31 December 2021

Our Group's total assets increased by RM35.17 million or 249.43% from RM14.10 million as at 31 December 2020 to RM49.27 million as at 31 December 2021. This was mainly due to the increase in current assets by RM34.85 million.

The increase in current assets was mainly due to:

(i) increase in cash and bank balances by RM16.92 million and trade receivables by RM12.67 million, in line with further growth in our Group's revenue; and

(ii) increase in contract costs by RM4.68 million due to higher ocean freight charges paid in advance to ocean carriers as at 31 December 2021, pending amortisation over the course of the relevant customers' shipments, on a percentage of completion basis derived from time lapse between days travelled from the port of loading to the port of discharge.

Comparison between 31 December 2021 and 31 December 2022

Our Group's total assets increased by RM10.98 million or 22.29% from RM49.27 million as at 31 December 2021 to RM60.25 million as at 31 December 2022. This was mainly due to the increase in non-current assets by RM21.68 million.

The increase in non-current assets was mainly attributable to the increase in property, plant and equipment by RM21.37 million, mainly arising from the purchase of the Target Property and motor vehicles.

However, the overall increase in non-current assets was partially offset by the decrease in current assets by RM10.70 million. The decrease in current assets was mainly attributable to:

(i) decrease in trade receivables by RM13.08 million mainly due to prompt collections from customers;

(ii) decrease in cash and bank balances by RM8.08 million; and

(iii) decrease in contract costs by RM5.89 million due to lower ocean freight charges paid in advance to ocean carriers as at 31 December 2022, pending amortisation over the course of the relevant customers' shipments, on a percentage of completion basis derived from time lapse between days travelled from the port of loading to the port of discharge.

The decrease in the aforesaid current assets were partially offset by the increase in fixed deposits with financial institutions by RM13.11 million and short-term investment by RM3.01 million. The short-term investment represents a fixed return investment with maturity period of 1 month.

12.4.2 Liabilities

	Audited			
	As at 31 December			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Non-current liabilities				
Bank borrowings	659	596	1,214	18,256
Lease liabilities	640	730	745	768
Deferred tax liabilities	-	10	-	-
	1,299	**1,336**	**1,959**	**19,024**
Current liabilities				
Trade payables	2,530	3,453	13,177	2,386
Other payables and accruals	2,158	1,451	11,880	5,594
Contract liabilities	1,674	2,176	7,011	2,271
Amount owing to Directors	959	186	1	-
Bank borrowings	178	1,090	356	761
Lease liabilities	213	331	382	385
Income tax payable	94	444	2,703	1,394
	7,806	**9,131**	**35,510**	**12,791**
Total liabilities	**9,105**	**10,467**	**37,469**	**31,815**

Comparison between 31 December 2019 and 31 December 2020

Our Group's total liabilities increased by RM1.36 million or 14.93% from RM9.11 million as at 31 December 2019 to RM10.47 million as at 31 December 2020. This was mainly due to the increase in current liabilities by RM1.33 million.

The increase in current liabilities was mainly due to:

(i) increase in trade payables by RM0.92 million which was in tandem with the increase in our Group's cost of sales; and

(ii) increase in bank borrowings by RM0.91 million mainly due to utilisation of bank overdraft facility to finance our Group's working capital requirements.

However, the overall increase in current liabilities was partially offset by the decrease in amount owing to directors by RM0.77 million, resulting from repayment for advances from director.

Comparison between 31 December 2020 and 31 December 2021

Our Group's total liabilities increased by RM27.00 million or 257.88% from RM10.47 million as at 31 December 2020 to RM37.47 million as at 31 December 2021. This was mainly due to the increase in current liabilities by RM26.38 million.

The increase in current liabilities was mainly due to:

(i) increase in other payables and accruals by RM10.43 million mainly due to dividend payable of RM6.00 million and accruals for commission of RM4.19 million;

(ii) increase in trade payables by RM9.72 million which was in tandem with further increase in our Group's cost of sales;

(iii) increase in contract liabilities by RM4.84 million due to timing differences with higher billings issued to our customers compared to the revenue recognised based on the percentage of completion method. The percentage of completion was determined based on the number of days travelled as at year end over the total travel days from the port of loading to the port of discharge; and

(iv) increase in income tax payable by RM2.26 million.

However, the overall increase in current liabilities was partially offset by the decrease in bank borrowings under current liabilities by RM0.73 million mainly due to repayment of overdraft facility. In addition, amount owing to directors further reduced by RM0.18 million, resulting from repayments to directors during FYE 2021.

Comparison between 31 December 2021 and 31 December 2022

Our Group's total liabilities decreased by RM5.65 million or 15.08% from RM37.47 million as at 31 December 2021 to RM31.82 million as at 31 December 2022. This was mainly due to the decrease in current liabilities by RM22.72 million.

The decrease in current liabilities was mainly due to:

(i) decrease in trade payables by RM10.79 million mainly due to prompt payment to suppliers;

(ii) decrease in other payables and accruals by RM6.29 million mainly due to the accrued dividend of RM6.00 million that was paid in FYE 2022; and

(iii) decrease in contract liabilities by RM4.74 million due to the timing differences with lower billings issued to clients compared to the revenue recognised based on stage of completion method. The stage of completion was determined based on the number of days travelled as at year end over the total travel days from the port of loading to the port of discharge.

However, the overall decrease in current liabilities was partially offset by the increase in non-current liabilities by RM17.07 million. The increase in non-current liabilities was mainly due to the increase in bank borrowings by RM17.04 million, arising from the term loan secured for the purchase of the Target Property.

12.5 SIGNIFICANT FACTORS AFFECTING OUR GROUP'S OPERATIONS AND FINANCIAL PERFORMANCE

Our Group's business operations and financial performance have been and will continue to be affected by internal and external factors including, but not limited to, the following:

(i) Fluctuation in ocean freight rates

As our revenue is mainly derived from our ocean freight services for international shipments, our business operations and financial performance are subject to the fluctuation in ocean freight rates. Ocean freight charges accounted for approximately 72.32%, 75.55%, 89.47% and 91.47% of our Group's total cost of sales for FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively. Fluctuation of ocean freight rates is an inherent risk of the logistics industry, particularly those with major operations in ocean freight services like our Group. Since mid-2022 up to the LPD, ocean freight rates have been volatile and on decreasing trend. We expect the ocean freight rates to remain volatile in the future. There can be no assurance that our business operations and financial performance will not be adversely affected by the continued volatility and fluctuation in ocean freight rates.

(ii) Dependency on our business partners such as foreign freight forwarders and other service providers

Our business is dependent on our relationship with our suppliers including ocean carriers, licensed customs agents and other freight forwarders to enable us to arrange and coordinate shipments for our customers' cargo. A secure and efficient shipment of our customers' cargo to meet their delivery requirements is therefore dependent on the timely performance and quality of the respective services provided by our suppliers. As such, we may be affected by non-performance, late performance or poor performance by our suppliers. Poor quality services of our suppliers or any interruption of services provided by our suppliers may have an adverse impact on our business operations and financial performance.

(iii) Competition in the industry

We operate in a highly fragmented and competitive industry in Malaysia. We directly and indirectly compete with other logistics service providers on a local, regional and international basis in the form of pricing, range of services provided, and network of customers and suppliers.

We also face competition from certain ocean carriers which have set up business divisions to offer similar logistics services that we provide. Intense competition from other logistics service providers within the market may reduce the growth in our customer base and adversely affect our market share. If we are unable to remain competitive and build on our competitive strengths going forward, our business operations and financial performance could be adversely affected.

(iv) Fluctuation in foreign exchange rates

Our Group's revenue is mainly derived from our ocean freight services for international shipments. Quotes from our suppliers for ocean cargo space are usually in USD and some of our customers pay us in USD. Our Group's revenue denominated in USD was approximately 22.95%, 23.11%, 46.90% and 55.48% of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. Our Group's purchases made in USD was approximately 8.06%, 6.64%, 24.07% and 59.03% of our total cost of sales for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively.

Presently, we do not enter into hedging transactions to manage our exposures to currency risk for receivables and payables which are denominated in foreign currencies. As such, there is no assurance that any significant fluctuation in foreign currency exchange rate will not have a material and adverse impact on our overall financial performance.

(v) Political, economic and regulatory risks in Malaysia and the markets we serve

As our Group's revenue is mainly derived from our ocean freight services for international shipments, our business operations and financial performance are subject to political, economic and regulatory conditions in those countries for our customers' shipments. Adverse changes in the aforementioned conditions such as changes in political leadership, risk of war, changes in government policies regarding taxation, import duties, and tariffs, methods of taxation, and changes in economic conditions could affect the demand for our customers' products and may lead to a decline in the demand for our logistics services. This may in turn lead to an adverse effect on our business operations and financial performance.

12.6 LIQUIDITY AND CAPITAL RESOURCES

(i) Working capital

Our business operations have been financed through a combination of internal and external sources of funds. Internal sources comprise shareholders' equity and cash generated from business operations while external sources are credits granted by our suppliers and banking facilities from financial institutions such as term loans, finance leases and bank overdrafts. The principal utilisation of these funds are for our business operations and growth.

Based on our audited combined statement of financial position as at 31 December 2022, our Group has cash and cash equivalents (excluding bank overdraft and fixed deposits pledged with financial institutions) of RM27.49 million. The cash and cash equivalents shall be mainly utilised as working capital for our daily operations and to fund our expansion in headcount to scale up operations, purchase of equipment to enhance our warehousing and distribution capabilities at the Target Property as well as to fund the start-up cost for the e-commerce solutions business.

As at 31 December 2022, our Group's gearing ratio was 0.70 times and our current ratio was 2.87 times. As at the LPD, we have unutilised bank overdraft of RM1.00 million that may be utilised by us to fund our operations.

After taking into consideration our cash and cash equivalents, the expected cash flow to be generated from our operations, the amount that is available under our existing banking facilities, as well as proceeds expected to be raised from our Public Issue, our Board is of the view that we will have adequate working capital to meet our present and foreseeable requirements for at least 12 months from the date of this Prospectus.

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(ii) Cash flows

The table below sets forth a summary of our Group's combined statements of cash flows for the Period Under Review. This should be read in conjunction with the Accountants' Report as set out in Section 13 of this Prospectus.

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net cash from operating activities	966	226	20,322	17,978
Net cash used in investing activities	(121)	(495)	(438)	(21,326)
Net cash from / (used in) financing activities	734	(1,177)	(1,595)	11,189
Net increase / (decrease) in cash and cash equivalents	1,579	(1,446)	18,289	7,841
Effect of exchange rate changes	(108)	(129)	30	147
Cash and cash equivalents at beginning of the financial year	1,291	2,762	1,187	19,506
Cash and cash equivalents at end of the financial year[(1)]	**2,762**	**1,187**	**19,506**	**27,494**

Note:

(1) The components of cash and cash equivalents are set out below:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	2,762	2,083	19,006	10,929
Short-term investment	-	-	-	3,007
Fixed deposits with financial institutions	307	357	915	14,030
	3,069	2,440	19,921	27,966
Less: Bank overdrafts	-	(896)	-	-
Less: Fixed deposits pledged for bank borrowings	(307)	(357)	(415)	(472)
	2,762	1,187	19,506	27,494

FYE 2019

Net cash from operating activities

Our Group recorded net cash from operating activities of RM0.96 million in FYE 2019. Our collections of RM44.59 million was mostly offset by our payments of RM43.63 million. Such payments were mainly for:

(i) payment to trade suppliers of RM39.95 million;

(ii) staff cost and directors' remunerations of RM3.47 million, including salaries, bonus, commission, allowances and statutory contributions; and

(iii) tax payment of RM0.21 million.

Net cash used in investing activities

Our Group's net cash used in investing activities amounted to RM0.12 million in FYE 2019. This was mainly due to the payment made for electrical installation and renovation in our offices, purchase of computer and software, furniture and fittings and office equipment amounting to a total of RM0.14 million.

The net cash used in investing activities was partially offset by proceeds from disposal of a motor vehicle of RM0.02 million.

Net cash from financing activities

Our Group's net cash from financing activities amounted to RM0.73 million in FYE 2019. This was mainly due to the following:

(i) proceeds from issuance of share capital of RM0.75 million;

(ii) net advances from director of RM0.60 million for working capital; and

(iii) interest received of RM0.01 million.

Net cash from financing activities was partially offset by repayment of lease liabilities of RM0.20 million, repayment of term loan of RM0.16 million, interest paid of RM0.14 million and net placement of fixed deposits pledged with financial institutions of RM0.13 million.

FYE 2020

Net cash from operating activities

Our Group recorded net cash from operating activities of RM0.23 million in FYE 2020. Our collections of RM62.86 million was mostly offset by our payments of RM62.63 million. Such payments were mainly for:

(i) payment to trade suppliers of RM58.79 million;

(ii) staff cost and directors' remunerations of RM3.52 million, including salaries, bonus, commission, allowances and statutory contributions; and

(iii) tax payment of RM0.31 million; and

(iv) interest paid of RM0.01 million.

We recorded lower net cash from operating activities for FYE 2020 despite higher revenue generated. This was mainly due to higher sales transactions closer to the end of FYE 2020 where payment has yet to be collected from customers as at 31 December 2020. As a result, trade receivables increased by RM2.99 million as at 31 December 2020 as compared to 31 December 2019. In addition, the lower net cash from operating activities was also due to prompt payment made to our suppliers which resulted in the overall improvement of our trade payables turnover period from 26 days in FYE 2019 to 20 days in FYE 2020.

Net cash used in investing activities

Our Group's net cash used in investing activities amounted to RM0.50 million in FYE 2020. This was mainly due to the payment made for further electrical installation and renovation in our offices, purchase of furniture and fittings, office equipment and computer and software amounting to a total of RM0.47 million. In addition, our Group has given advances to related parties by making payment on behalf for certain administrative expenses amounting to RM0.03 million.

Net cash used in financing activities

Our Group's net cash used in financing activities amounted to RM1.18 million in FYE 2020. This was due to the following:

(i) net repayment to director of RM0.77 million;

(ii) repayment of lease liabilities of RM0.19 million;

(iii) interest paid of RM0.12 million;

(iv) placement of fixed deposits pledged with financial institutions of RM0.05 million; and

(v) net repayment of term loan of RM0.05 million.

<u>**FYE 2021**</u>

Net cash from operating activities

Our Group recorded net cash from operating activities of RM20.32 million in FYE 2021. Our collections of RM189.64 million was partially offset by our payments of RM169.32 million. Such payments were mainly for:

(i) payment to trade suppliers of RM161.18 million;

(ii) staff cost and directors' remunerations of RM5.29 million, including salaries, bonus, commission, allowances and statutory contributions;

(iii) tax payment of RM2.82 million; and

(iv) interest paid of RM0.03 million.

We recorded significantly higher net cash from operating activities in FYE 2021, mainly due to the substantial increase in our total revenue by RM131.89 million or 207.62% compared to FYE 2020. The overall improvement in our operating cash flow was also contributed by better collection from customers where our trade receivables turnover period has improved from 38 days in FYE 2020 to 27 days in FYE 2021.

Net cash used in investing activities

Our Group's net cash used in investing activities amounted to RM0.44 million in FYE 2021. This was mainly due to the purchase of motor vehicles, office equipment, computer and software, electrical installation and renovation, furniture and fittings and signboard amounting to a total of RM0.48 million.

The net cash used in investing activities was partially offset by repayment from related parties of RM0.02 million and proceeds from disposal of a motor vehicle of RM0.02 million.

Net cash used in financing activities

Our Group's net cash used in financing activities amounted to RM1.60 million in FYE 2021. This was mainly due to the following:

(i) dividend paid of RM1.60 million;

(ii) repayment of lease liabilities of RM0.39 million;

(iii) net repayment to directors of RM0.18 million;

(iv) interest paid of RM0.15 million; and

(v) placement of fixed deposits pledged with financial institutions of RM0.06 million.

The net cash used in financing activities was partially offset by net drawdown of term loan of RM0.78 million.

FYE 2022

Net cash from operating activities

Our Group recorded net cash from operating activities of RM17.98 million in FYE 2022. Our collections of RM245.24 million was mostly offset by our payments of RM227.26 million. Such payments were mainly for:

(i) payment to trade suppliers of RM212.57 million;

(ii) staff cost and directors' remunerations of RM7.53 million, including salaries, bonus, commission, allowances and statutory contributions; and

(iii) tax payment of RM7.16 million.

We recorded lower net cash from operating activities for FYE 2022 despite higher revenue generated. This was mainly due to higher tax payment of RM7.16 million made in FYE 2022 as compared to RM2.82 million paid in FYE 2021, in line with the higher effective tax rate of the Group in FYE 2022.

Net cash used in investing activities

Our Group's net cash used in investing activities amounted to RM21.33 million in FYE 2022. This was mainly due to the full payment for the purchase consideration of the Target Property of RM20.20 million together with the relevant stamp duty and legal fee of RM0.88 million as well as purchase of motor vehicles, computer and software, furniture and fittings, office equipment and renovation in our offices amounting to a total of RM0.53 million.

The net cash used in investing activities was partially offset by the proceeds from disposal of 2 motor vehicle of RM0.27 million and repayment from related parties of RM0.01 million.

Net cash from financing activities

Our Group's net cash from financing activities amounted to RM11.19 million in FYE 2022. This was mainly due to drawdown of term loan amounted to RM18.18 million for the Target Property, proceeds from issuance of share capital of RM0.30 million and interest received of RM0.07 million.

The net cash from financing activities was partially offset by the following:

(i) dividend paid of RM6.00 million;

(ii) repayment of term loans of RM0.73 million,

(iii) repayment of lease liabilities of RM0.45 million;

(iv) interest paid of RM0.12 million; and

(v) placement of fixed deposits pledged with financial institutions of RM0.06 million.

(iii) Borrowings

As at 31 December 2022, our Group's total outstanding borrowings (excluding lease liabilities in relation to rental lease arrangement) stood at RM19.76 million, all of which were interest-bearing and denominated in RM. Details of our borrowings are set out below:

	As at 31 December 2022		
	Payable within 12 months	Payable after 12 months	Total
Type of facility	RM'000	RM'000	RM'000
Term loans	761	18,256	19,017
Lease liabilities	195	552	747
Total	**956**	**18,808**	**19,764**
Gearing (times)(1)			**0.70**

Note:
(1) Calculated based on total outstanding borrowings (excluding lease liabilities in relation to rental lease arrangement of RM0.40 million) divided by total shareholders' equity of RM28.43 million.

The details of the types of credit facilities that our Group uses and its utilised balances as at LPD are as follows:

Types of credit facilities	Tenure	Purpose	Range of effective interest rates per annum (%)	Facilities limit RM'000	Balance outstanding as at LPD RM'000
Term loan 1	78 months	Working capital	(1)3.50	(4)500	391
Term loan 2	78 months	Working capital	(1)3.50	(4)500	383
Term loan 3	240 months	Purchase of Target Property	(2)4.15	(4)18,180	17,778
Bank overdraft	On demand	Working capital	(3)8.15	1,000	-
Lease liabilities	60 months	Purchase of motor vehicles	(1)3.87- 9.92	(4)1,006	667
Total					**19,219**

Notes:
(1) Based on fixed rate.
(2) Based on 2.70% below base financing rate per annum.
(3) Based on 1.50% above base financing rate per annum.
(4) Fully drawn down.

All our Group's borrowings are interest bearing and our Group has not defaulted on payment of principal sums and/or interest in respect of any borrowings for the Period Under Review and up to the LPD. We do not encounter any seasonality in our borrowing requirements.

As part of the terms of the banking and leasing facilities extended to our Group, Dato' Roger Wong has individually, and together with Chow Enn Jie (our Sales and Marketing Director) have jointly and severally, provided personal guarantees to 5 financial institutions extending these facilities.

In conjunction with our Listing, we have applied to the financiers to obtain a release and/or discharge of the personal guarantees by Dato' Roger Wong and Chow Enn Jie by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financiers. Until such release and/or discharge are obtained from the respective financiers, these personal guarantees will continue to be in place to guarantee the banking facilities extended to our Group.

As at the LPD, we have received conditional approvals from the aforesaid 5 financiers to release the above personal guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financiers. Please refer to Section 10.1.1(b) of this Prospectus for further information.

As at the LPD, our Group has not breached any terms and conditions, or covenants associated with credit arrangement or bank loan which can materially affect our financial position and results of business operations or investment holders of their securities.

As at the LPD, save as disclosed above, our Group did not use any other financial instruments or enter into any hedging arrangement of any type with any financial institution which may affect our business operations.

(iv) Treasury policies and objectives

Our operations have been predominantly funded by shareholders' equity, internally generated funds from our operations and external funds including borrowings from various financial institutions as well as credit terms granted by our suppliers.

Our credit facilities as at the LPD are disclosed in the previous section above.

As at the LPD, we have unutilised bank overdraft of RM1.00 million that may be utilised by us to fund our operations.

Our Group manages our exposure to interest rate movements by obtaining the most favourable interest rates available and by maintaining a balanced portfolio mix of fixed and floating rate borrowings.

(v) Financial instruments for hedging purposes

During the Period Under Review and up to the LPD, our Group has not used any financial instruments for hedging purposes.

(vi) Contingent liabilities

As at the LPD, we do not have any contingent liabilities which will or may substantially affect our financial results or position upon becoming enforceable.

(vii) Material litigation, claims or arbitration

As at the LPD, neither our Company nor our Subsidiaries are involved in any legal action, proceeding, prosecution or arbitration, either as plaintiff or defendant, which may have a material adverse effect on our business operations or financial position, and our Directors are not aware of any legal proceeding, pending or threatened, or of any fact that may give rise to any legal proceeding which may have a material adverse effect on our business operations or financial position.

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(viii) Capital expenditure and divestiture

Capital expenditure

Our Group's capital expenditure for the Period Under Review and up to LPD are as follows:

	At cost				
	Audited				Unaudited
	FYE 2019	FYE 2020	FYE 2021	FYE 2022	From 1 January 2023 up to LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land	-	-	-	16,178	-
Freehold building	-	-	-	4,906	-
Rented properties	168	393	-	58	-
Computer and software	26	46	51	67	4
Furniture and fittings	25	73	10	23	-
Motor vehicles	-	-	760	840	-
Office equipment	19	59	65	16	-
Electrical installation and renovation	69	289	45	30	-
Signboard	-	-	8	-	-
Total	**307**	**860**	**939**	**22,118**	**4**

FYE 2019

Our Group's capital expenditure of RM0.31 million in FYE 2019 was primarily attributable to right-of-use assets amounting to RM0.17 million arising from the adoption of MFRS 16 'Leases'. The said right-of-use assets were our Group's rented office premises.

During FYE 2019, our Group's capital expenditure also consisted of RM0.07 million attributable to the electrical installation and renovation, RM0.03 million for the purchase of computer and software, RM0.02 million for the purchase of furniture and fittings and RM0.02 million for the purchase of office equipment, all used in our offices.

FYE 2020

Our Group's capital expenditure of RM0.86 million in FYE 2020 was primarily attributable to right-of-use assets (our Group's newly rented office premises) amounting to RM0.39 million. In addition, our Group's capital expenditure for the FYE 2020 also comprised RM0.29 million for electrical installation and renovation, RM0.07 million for the purchase of furniture and fittings, RM0.06 million for the purchase of office equipment and RM0.05 million for the purchase of computer and software, all used in our offices.

FYE 2021

Our Group's capital expenditure of RM0.94 million in FYE 2021 was primarily attributable to right-of-use assets (motor vehicles) amounting to RM0.76 million. These motor vehicles were purchased for the use by management. In addition, our Group's capital expenditure for the FYE 2021 also comprised RM0.07 million for the purchase of office equipment, RM0.05 million for the purchase of computer and software, RM0.04 million for the electrical installation and renovation, RM0.01 million for the purchase of furniture and fittings, and the remaining of RM0.01 million for the purchase of signboard, all for our offices.

FYE 2022

Our Group's capital expenditure of RM22.12 million in FYE 2022 was primarily attributable to freehold land and freehold building amounting to RM16.18 million and RM4.91 million respectively. The acquisition of the freehold land and building (Target Property) has been completed in December 2022.

In addition, our Group's capital expenditure also included RM0.84 million and RM0.06 million for right-of-use assets (motor vehicles and newly rented office premise respectively), RM0.07 million for the purchase of computer and software, RM0.03 million for the electrical installation and renovation, RM0.02 million for the purchase of furniture and fittings and RM0.01 million for the purchase of office equipment, all for our offices.

1 January 2023 up to LPD

Our Group's capital expenditure of RM3,600 for the financial period from 1 January 2023 up to the LPD was attributable to the purchase of computer and software.

Capital divestiture

Our Group's capital divestiture for the Period Under Review and up to LPD are as follows:

	At NBV				
	Audited				Unaudited
	FYE 2019	FYE 2020	FYE 2021	FYE 2022	From 1 January 2023 up to LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Computer and software	-	-	-	(2)-	-
Furniture and fittings	-	-	-	(2)-	-
Motor vehicles	(1)-	-	1	1	-
Office equipment	-	-	-	(2)-	-
Electrical installation and renovation	-	-	-	(2)-	-
Total	**(1)-**	**-**	**1**	**1**	**-**

Notes:
(1) Represents zero NBV.

(2) Represents write-offs of property, plant and equipment that were no longer in use.

FYE 2019

Our Group's capital divestiture in FYE 2019 was primarily attributable to the disposal of a motor vehicle with zero NBV to a related party for a disposal price of RM0.02 million, resulting in a gain on disposal of RM0.02 million.

FYE 2020

There was no capital divestiture in FYE 2020.

FYE 2021

Our Group's capital divestiture in FYE 2021 was primarily attributable to the disposal of a motor vehicle with NBV of RM0.001 million to a third party for a disposal price of RM0.02 million, resulting in a gain on disposal of RM0.02 million.

FYE 2022

Our Group's capital divestiture in FYE 2022 was primarily attributable to the disposal of two (2) motor vehicles with total NBV of RM0.001 million to third parties for a total disposal price of RM0.27 million, resulting in a total gain on disposal of RM0.27 million. In addition, we have also identified and write-off some computer and software, furniture and fittings, office equipment as well as electrical installation and renovation that were fully depreciated and no longer in use.

1 January 2023 up to LPD

There was no capital divestiture for the period from 1 January 2023 up to LPD.

(ix) Material capital commitment

As at LPD, save for the material capital commitment of RM3.52 million in relation to the renovation of the Target Property as disclosed in Sections 4.8.1 and 10.1, there are no other material capital commitment incurred or known to be incurred by our Group.

(x) Key financial ratios

The table below sets forth the key financial ratios based on our Group's combined financial statements for the Period Under Review:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
Trade receivables turnover period (days)(1)	41	38	27	23
Trade payables turnover period (days)(2)	26	20	19	15
Inventory turnover period (days)(3)	-	-	-	-
Current ratio (times)(4)	1.22	1.38	1.34	2.87
Gearing ratio (times)(5)	0.79	0.53	0.18	0.70

Notes:

(1) Computed based on average of the opening and closing trade receivables over total revenue for the year and multiplied by 365 days for each financial year.

(2) Computed based on average of the opening and closing trade payables over total cost of sales for the year and multiplied by 365 days for each financial year.

(3) Inventory comprises healthcare-related products. The amount of inventory is minimal and amounted to nil, nil, RM0.04 million and RM0.01 million for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. As such, the computation on average inventory turnover period is not meaningful.

(4) Computed based on current assets over current liabilities as at each financial year end.

(5) Computed based on total borrowings and lease liabilities (excluding lease liabilities in relation to rental lease arrangement) over total shareholders' equity as at each financial year end.

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12. FINANCIAL INFORMATION (CONT'D)

(a) Trade receivables turnover

The table below sets forth a summary of our Group's trade receivables for the Period Under Review:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Average trade receivables[(1)]	4,919	6,655	14,480	14,271
Revenue[(3)]	43,379	63,525	195,419	229,695
Trade receivables turnover period (days)[(2)]	41	38	27	23

Notes:

(1) The average trade receivables is calculated by dividing the summation of the trade receivables at the beginning of the financial year and the trade receivables at the end of the financial year by two.

(2) Computed based on the average trade receivables over total revenue for the year and multiplied by 365 days for each financial year.

(3) Breakdown of our Group's revenue by cash sales and credit sales are as follows:

	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Cash sales[(1)]	14,312	21,901	[(2)]95,296	[(2)]86,961
Credit sales	29,067	41,624	100,123	142,734
Total revenue	**43,379**	**63,525**	**195,419**	**229,695**

Notes:

(1) Referring to customers on cash term (logistics services) and customers on cash sales (trading of COVID-19 antigen self-test kits). Nevertheless, payment from logistics services customers may not be collected on the same day the invoice was issued, but will be collected before the bill of lading is issued to customers, usually within 1 week from the invoice date.

(2) Cash sales from trading of COVID-19 antigen self-test kits are minimal at less than 1.00% of the total cash sales of our Group in the respective financial year.

All our Group's trade receivables are classified as current assets. We offer cash term or up to 45 days credit terms for our logistics services customers and cash term or up to 30 days credit terms for our warehousing and distribution of healthcare-related products and devices customers. Credit terms are assessed and approved on a case-by-case basis after taking into consideration, amongst others, the background and credit-worthiness of the customer, payment history of the customer as well as our relationship with the customer.

Our trade receivables turnover period has improved from 41 days to 38 days and subsequently to 27 days and 23 days in FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. The improvement in our trade receivables turnover period was primarily due to improvement in collections from our customers during the Period Under Review.

Our Group has put in efforts to continuously improve our collection processes and procedures through close monitoring and follow up actions with trade debtors so as to reduce the risk of default. In addition, our Group consistently reviews our exposure to credit risk and we put in place stringent credit control policy.

We provide credit terms only to recognised and credit worthy customers and we deal with the rest of the customers on cash term basis. New customers for our logistics services are on cash term basis by default. Certain new customers for our warehousing and distribution of healthcare-related products and devices and the recurring customers for all our services are allowed to apply for credit term from us, subject to approval. Upon application for credit term, a customer is required to fill up our credit application form and authorise us to carry out CTOS search. We shall assess the creditworthiness of the relevant customer mainly based on the CTOS SME Score and credit term shall only be given to customer with a scoring of 'Good' or above.

The ageing analysis of our Group's trade receivables as at 31 December 2022 is as follows:

	Within credit period(1)	**Exceed credit period(2) (past due days)**					**Total**
		1 - 30	**31 - 60**	**61 - 90**	**91 - 120**	**More than 120**	
Net trade receivables as at 31 December 2022 (RM'000)	3,520	2,854	832	172	310	41	**7,729**
Proportion of total trade receivables (%)	45.54	36.93	10.76	2.23	4.01	0.53	**100.00**
Subsequent collections as at LPD (RM'000)	3,517	2,854	832	172	310	35	7,720
Net trade receivables after subsequent collections (RM'000)	**3**	**-**	**-**	**-**	**-**	**6**	**9**
Proportion of trade receivables after subsequent collections as at LPD (%)	33.33	-	-	-	-	66.67	100.00

Notes:

(1) Represents cash on delivery ("**COD**") invoices issued on 31 December 2022 and invoices with credit term of up to 45 days which were not past due as at 31 December 2022.

(2) Following note (1) above, this includes COD invoices where payment was not collected on the same day the invoices were issued.

Our Group's total trade receivables past due as at 31 December 2022 is RM4.21 million, representing 54.46% of total trade receivables. Subsequent to 31 December 2022 and up to LPD, we collected RM7.72 million, representing 99.88% of the total trade receivables as at 31 December 2022.

We have not encountered any major disputes with our trade receivables. With respect to our overdue trade receivables, we have generally been able to collect payment eventually as evidenced by our subsequent collections of past due trade receivables after 31 December 2022. Our management is of the view that these overdue trade receivables are recoverable and we will closely monitor the recoverability of the overdue trade receivables on a regular and on-going basis.

Generally, we will assess the adequacy of impairment loss allowance on the overall trade receivables balance at every reporting period and the need for bad debts write off based on our historical collection experience. Our impairment on trade receivables and bad debts written off for the Period Under Review are as follows:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Impairment losses/ (reversal of impairment) on trade receivables, net	39	30	103	(120)
Bad debts written off	-	4	61	4

The impairment losses on trade receivables for the Period Under Review consists of specific allowance and lifetime expected credit loss allowance. The impairment loss of RM0.04 million in FYE 2019 and RM0.03 million in FYE 2020 was mainly in relation to specific allowance for several customers. The impairment loss of RM0.10 million in FYE 2021 was mainly in relation to specific allowance of RM0.02 million for a customer and lifetime expected credit loss allowance of RM0.08 million from all trade receivables, considering the probability of default.

The increase in bad debts written off from RM0.01 million in FYE 2020 to RM0.06 million in FYE 2021 was attributable to non-recoverable trade receivables from 3 customers.

The reversal of impairment on trade receivables in FYE 2022 of RM0.12 million was relevant to the reversal of the lifetime expected credit loss allowance on trade receivables as a result of reduction in expected risk of default.

(b) Trade payables turnover

The table below sets forth a summary of our Group's trade payables for the Period Under Review:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Average trade payables(1)	2,657	2,992	8,315	7,782
Cost of sales	36,733	54,513	162,424	194,477
Trade payables turnover period (days)(2)	26	20	19	15

Notes:

(1) The average trade payables is calculated by dividing the summation of the trade payables at the beginning of the financial year and the trade payables at the end of the financial year by two.

(2) Computed based on the average trade payables over total cost of sales for the year and multiplied by 365 days for each financial year.

All our Group's trade payables are classified as current liabilities. The normal credit terms granted by our suppliers to us range from cash terms to 45 days. Other credit terms are assessed and approved on a case-by-case basis.

Our trade payables turnover period has improved from 26 days to 20 days and subsequently to 19 days and 15 days in FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. The improvement in our trade payables turnover period was mainly due to prompt payments to our suppliers in order to maintain good business relationships and uninterrupted supports from the suppliers.

The ageing analysis of our Group's trade payables as at 31 December 2022 is as follows:

	Within credit period(1)	Exceed credit period (past due days)(2)				Total
		1-30	31 - 60	61 - 90	Over 90	
Trade payables as at 31 December 2022 (RM'000)	420	1,486	235	195	50	**2,386**
Proportion of total trade payables (%)	17.60	62.28	9.85	8.17	2.10	**100.00**
Subsequent payments as at LPD (RM'000)	420	1,483	212	189	30	2,334
Trade payables after subsequent payments (RM'000)	**-**	**3**	**23**	**6**	**20**	**52**
Proportion of trade payables after subsequent payments as at LPD (%)	-	5.77	44.23	11.54	38.46	100.00

Notes:

(1) Represents COD invoices received on 31 December 2022 and invoices with credit term of up to 45 days which were not past due as at 31 December 2022.

(2) Following note (1) above, this includes COD invoices where payment was not made on the same day the invoices were issued.

Our Group's total trade payables past due as at 31 December 2022 is RM1.97 million, representing 82.40% of total trade payables. Subsequent to 31 December 2022 and up to LPD, we have made payments of RM2.33 million, representing 97.82% of the total trade payables as at 31 December 2022, of which RM1.91 million were relating to trade payables past due as at 31 December 2022.

As at LPD, there were no disputes in respect of our total outstanding trade payables and no legal action has been initiated by our suppliers to demand for payment from us.

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12. FINANCIAL INFORMATION (CONT'D)

(c) Current ratio

The table below sets forth a summary of our Group's current ratio for the Period Under Review:

	Audited			
	As at 31 December			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Current assets	9,511	12,604	47,449	36,746
Current liabilities	7,806	9,131	35,510	12,791
Current ratio (times)[(1)]	1.22	1.38	1.34	2.87

Note:
(1) Current ratio is calculated based on current assets over current liabilities.

Our Group's current ratio increased from 1.22 times as at 31 December 2019 to 1.38 times as at 31 December 2020. This was mainly attributable to the increase in current assets from RM9.51 million as at 31 December 2019 to RM12.60 million as at 31 December 2020, representing an increase of RM3.09 million or 32.49%, without a corresponding increase in current liabilities. The increase in current assets was mainly due to increase in trade receivables which increased by RM2.99 million or 57.95% from RM5.16 million in FYE 2019 to RM8.15 million in FYE 2020.

Our Group's current ratio decreased from 1.38 times as at 31 December 2020 to 1.34 times as at 31 December 2021. This was mainly attributable to the increase in current liabilities from RM9.13 million as at 31 December 2020 to RM35.51 million as at 31 December 2021, representing an increase of RM26.38 million or 288.94%. The said increase was mainly attributable to the increase in trade and other payables and accruals as well as contract liabilities which collectively increased by RM24.99 million or 352.97% from RM7.08 million as at 31 December 2020 to RM32.07 million as at 31 December 2021. The increase in trade payables by RM9.72 million was in tandem with the increase in our Group's cost of sales in FYE 2021, whilst the increase in other payables and accruals by RM10.43 million was mainly due to dividend payable and accruals for commission. Meanwhile, the increase in contract liabilities by RM4.84 million was due to timing differences with higher billings issued to our customers compared to the revenue recognised based on the percentage of completion method.

Our Group's current ratio increased from 1.34 times as at 31 December 2021 to 2.87 times as at 31 December 2022. This was mainly attributable to the decrease in current liabilities from RM35.51 million as at 31 December 2021 to RM12.79 million as at 31 December 2022, representing a decrease of RM22.72 million or 63.98%, with a lower quantum of decrease in current assets. The decrease in current liabilities was mainly due to decrease in trade payables, other payables and accruals as well as contract liabilities which collectively decreased by RM21.82 million or 68.04% from RM32.07 million as at 31 December 2021 to RM10.25 million as at 31 December 2022.

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(d) Gearing ratio

The table below sets forth a summary of our Group's gearing ratio for the Period Under Review:

	Audited			
	As at 31 December			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Total borrowings(1)	1,154	1,942	2,099	19,764
Total equity attributable to shareholders of the Company	1,459	3,637	11,797	28,430
Gearing ratio (times)(2)	0.79	0.53	0.18	0.70

Notes:

(1) Total borrowings include term loans, bank overdraft and lease liabilities (excluding lease liabilities in relation to rental lease arrangement of RM0.54 million as at 31 December 2019, RM0.81 million as at 31 December 2020, RM0.60 million as at 31 December 2021 and RM0.40 million as at 31 December 2022).

(2) Gearing ratio is calculated based on total borrowings over total equity attributable to shareholders of the Company.

Our Group's gearing ratio improved from 0.79 times as at 31 December 2019 to 0.53 times as at 31 December 2020 despite our total borrowings increased by RM0.79 million as at 31 December 2020. The improvement is due to higher quantum of increase in our total shareholders' equity by RM2.18 million as at 31 December 2020, as a result of the increase in retained earnings.

Our Group's gearing ratio improved further from 0.53 times as at 31 December 2020 to 0.18 times as at 31 December 2021 despite our total borrowings increased by RM0.16 million as at 31 December 2021. The improvement is due to higher quantum of increase in our total shareholders' equity by RM8.16 million as at 31 December 2021, mainly attributable to further increase in retained earnings.

Our Group's gearing ratio increased from 0.18 times as at 31 December 2021 to 0.70 times as at 31 December 2022 mainly due to increase in bank borrowings as we had in December 2022 drawn down a term loan amounting to RM18.18 million for the purchase of the Target Property.

12.7 ACCOUNTING POLICIES AND AUDIT QUALIFICATION

There was no accounting policy adopted which is peculiar to our Group because of the nature of our business or the industry we operate in during the Period Under Review. The Accountants' Report did not contain any audit qualification for the Period Under Review.

12.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during the Period Under Review. There is no assurance that our financial performance will not be adversely affected by the impact of changes in government, economic, fiscal or monetary policies or factors moving forward. Risks relating to government, economic, fiscal or monetary policies or factors which may adversely and materially affect our business operations are set out in Section 9 of this Prospectus.

12.9 IMPACT OF INFLATION

Inflation has not had a material impact on our business, financial condition or results of operations for the Period Under Review. However, there is no assurance that our business operations and financial performance will not be adversely affected by the impact of inflation in the future.

12.10 IMPACT OF FOREIGN EXCHANGE RATE

Our Group is exposed to foreign exchange risk as some of our sales and purchases are denominated in foreign currencies as follows:

	AUD RM'000	EUR RM'000	GBP RM'000	SGD RM'000	USD RM'000	Total RM'000
FYE 2019						
Revenue	-	(1)-	-	11	9,954	9,965
Purchases	14	179	15	3	2,962	3,173
FYE 2020						
Revenue	-	-	-	54	14,680	14,734
Purchases	-	169	(1)-	14	3,617	3,800
FYE 2021						
Revenue	-	-	-	20	91,657	91,677
Purchases	38	126	24	44	39,096	39,328
FYE 2022						
Revenue	-	-	-	32	127,428	127,460
Purchases	6	128	3	64	114,803	115,004

Note:
(1) Represents less than RM1,000.

The transactional currency exposure arising from financial assets and liabilities that are denominated in a currency other than our functional currency of RM for the Period Under Review are as follows:

	AUD RM'000	EUR RM'000	GBP RM'000	SGD RM'000	USD RM'000	Total RM'000
As at 31 December 2019						
Financial assets						
Trade receivables	-	(1)-	-	11	878	889
Cash and bank balances	-	-	-	-	1,879	1,879
	-	(1)-	-	11	2,757	2,768
Financial liabilities						
Trade payables	14	42	8	8	701	773
Net exposure	**(14)**	**(42)**	**(8)**	**3**	**2,056**	**1,995**

12. FINANCIAL INFORMATION (CONT'D)

	AUD RM'000	EUR RM'000	GBP RM'000	SGD RM'000	USD RM'000	Total RM'000
As at 31 December 2020						
Financial assets						
Trade receivables	-	-	-	9	2,224	2,233
Cash and bank balances	-	-	-	-	1,266	1,266
	-	-	-	9	3,490	3,499
Financial liabilities						
Trade payables	-	2	(1)-	2	940	944
Net exposure	**-**	**(2)**	**(1)-**	**7**	**2,550**	**2,555**
As at 31 December 2021						
Financial assets						
Trade receivables	-	-	-	7	9,668	9,675
Cash and bank balances	-	-	-	-	7,714	7,714
	-	-	-	7	17,382	17,389
Financial liabilities						
Trade payables	-	10	2	23	12,334	12,369
Net exposure	**-**	**(10)**	**(2)**	**(16)**	**5,048**	**5,020**
As at 31 December 2022						
Financial assets						
Trade receivables	-	-	-	-	2,478	2,478
Other receivables, deposits and prepayments	-	-	-	-	37	37
Fixed deposits with financial institutions	-	-	-	-	13,558	13,558
Cash and bank balances	-	-	-	-	1,274	1,274
	-	-	-	-	17,347	17,347
Financial liabilities						
Trade payables	-	5	2	-	1,392	1,399
Net exposure	**-**	**(5)**	**(2)**	**-**	**15,955**	**15,948**

Note:
(1) Represents less than RM1,000.

Kindly refer to Note 34.3(iv) of the Accountants' Report included in Section 13 of this Prospectus for the sensitivity analysis on our PAT to a 10% strengthening and weakening of AUD, EUR, GBP, SGD and USD exchange rate against RM, with all other variables held constant.

We do not enter into any currency hedging transactions to manage our exposures to currency risk for our receivables and payables which are denominated in foreign currencies. We monitor and manage our foreign exchange exposure through natural hedge by maintaining USD-denominated bank account for receipts and payments in USD.

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12.11 IMPACT OF INTEREST RATE

Our exposure to interest rate risks relates primarily to our borrowings from banks. We manage our net exposure to interest rate risks by obtaining financing at acceptable borrowing costs and by monitoring the changes in interest rates on an ongoing basis. We do not enter into interest rate hedging transactions as the cost involved outweighs the potential risk impact of interest rate fluctuation.

A sensitivity analysis performed on our Group based on our outstanding floating rate bank borrowings as at 31 December 2022 indicates that our PAT for FYE 2022 would increase or decrease by approximately RM69,084, as a result of increase or decrease in interest rates by 50 basis points on these borrowings, assuming all other variables remain constant.

Our financial results for the Period Under Review were not materially affected by fluctuations in interest rates.

12.12 TREND ANALYSIS

Based on our track record for the Period Under Review, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

(i) During the Period Under Review, more than 85.00% of our revenue was derived from the ocean freight segment. We expect this segment to continue contributing significantly to our revenue in the future;

(ii) During the Period Under Review, North America has been our main focus for logistics services. In addition of continuing to focus in this region for our logistics services, we will also be addressing business opportunities from shipments to and from other regions of the world;

(iii) The main component of our cost of sales was derived from ocean freight segment which accounted for more than 90.00% of our total cost of sales during the Period Under Review. Moving forward, our cost of sales is expected to fluctuate in tandem with the growth of our business and would mainly depend on, amongst others, fluctuation of ocean freight rates; and

(iv) We achieved a GP margin of 15.32%, 14.19%, 16.88% and 15.33% for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. Moving forward, our GP margin will depend on, amongst others, our continued ability to manage our costs efficiently and price our services competitively.

The financial position and results of operation of our Group have been, and will continue to be affected by various key factors primarily relating to the industry in which we are operating in. As at the LPD, except as disclosed in this Section 12, the IMR Report in Section 8 of this Prospectus, risk factors in Section 9 of this Prospectus and to the best of our Board's knowledge and belief, our operations have not been and are not expected to be affected by any of the following:

(i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have a material favourable or unfavourable impact on our financial performance, finance position, operations, liquidity and capital resources of our Group;

(ii) material commitment for capital expenditure;

(iii) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position; and

(iv) known events or uncertainties that have had or that we reasonably expect to have, a material unfavourable impact on our financial performance, financial position, operations, liquidity and capital resources in relation to interruptions to our business operations pursuant to the COVID-19 pandemic.

Our Board is optimistic about the future prospects of our Group given the positive outlook of the logistics industry in Malaysia as set out in the IMR Report in Section 8 of this Prospectus, and our Group's competitive strengths, as well as our future plans and business strategies as set out in Sections 7.16 and 7.23 of this Prospectus respectively.

12.13 ORDER BOOK

Order book is not relevant to our business as we are a logistics services provider which provides logistics services to meet the on-going demand of our customers.

12.14 DIVIDEND POLICY

We may declare dividends by ordinary resolution to be approved by our shareholders at a general meeting, but we may not pay dividends in excess of the amount recommended by our Board. Our Board may also declare an interim dividend without the approval of our shareholders. In making recommendations for dividends for approval by our shareholders, our Board will consider various factors including, amongst others, our Group's:

(i) ability to generate positive operating cash flow;

(ii) working capital needs and availability of cash;

(iii) capital expenditure and business expansion;

(iv) compliance with financial covenants of loan agreements, if any;

(v) compliance with requirements of Section 132 of the Act;

(vi) overall financial performance and condition; and

(vii) prospects taking into account the general economic and business conditions prevailing.

The dividends declared and paid for the Period Under Review and up to the LPD are as follows:

	FYE 2019	**FYE 2020**	**FYE 2021**	**FYE 2022**	**Up to the LPD**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
KGW Logistics	-	-	(1)7,500	-	-
Mattroy Logistics	-	-	(2)100	-	-
Total	**-**	**-**	**7,600**	**-**	**-**

Notes:
(1) RM1.50 million was paid on 31 December 2021, and RM6.00 million was paid on 18 March 2022.

(2) Paid on 27 December 2021.

We do not intend to declare further dividend prior to our Listing.

We currently do not have a fixed dividend policy. Our ability to distribute dividends or make other distributions to shareholders is subject to various factors, such as profits recorded and excess of funds not required to be retained for working capital of our business.

Our ability to declare and pay dividends is subject to the discretion of the Board. However, the intention to recommend dividends should not be treated as a legal obligation to do so. The level of dividends should also not be treated as an indication of our future dividend policy.

As we are an investment holding company, our income, and therefore our ability to pay dividends, depend on the dividends we receive from our subsidiaries. The payment of dividends by our subsidiaries will in turn depend on their distributable profits, financial performance, financial condition and capital expenditure plans.

Save for certain banking restrictive covenants which our Group is subject to, there are no dividend restrictions imposed on our Group as at the LPD. There are no specific legal, financial or economic restrictions on our Subsidiaries to declare and pay dividends to us.

12.15 SIGNIFICANT CHANGES

Save as disclosed in this Prospectus, there is no significant changes that have occurred which may have a material effect on our financial position and results of operations subsequent to the FYE 2022 up to the LPD.

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