

The Board of Directors
Supreme Consolidated Resources Berhad
Lot 919, Block 7, Muara Tebas Land District,
Demak Laut Industrial Park,
93050 Kuching,
Malaysia.

Dear Sirs,

Strategic Analysis of the Food and Beverages Distribution Market in Malaysia

This 'Strategic Analysis of the Food and Beverages Distribution Market in Malaysia' dated November 2018 is prepared by Protégé Associates Sdn. Bhd. ("Protégé Associates") for inclusion in the Information Memorandum of Supreme Consolidated Resources Berhad ("Supreme" or "the Company") in relation to the proposed listing of, and quotation for the entire issued capital of Supreme on the LEAP Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

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 18 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, 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 ("MDec"), Malaysia Debt Ventures Berhad ("MDV") and Malaysia Technology Development Corporation Sdn Bhd ("MTDC").

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 true 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 MALAYSIAN ECONOMIC OVERVIEW

The Malaysian economy registered a 5.9 percent growth in its real gross domestic product (“GDP”) in 2017 as compared to a 4.2 percent growth registered in 2016. The growth of the Malaysian economy is supported by the continued expansion in domestic demand. A better external trade performance also boosted the Malaysian economy as exports were spurred by robust demand for manufactured products. In the third quarter of 2018, the Malaysian economy grew by 4.4 percent, a slower pace than 4.5 percent recorded in the second quarter of 2018, due to low production in the mining and agriculture sectors.

The Malaysian economy is expected to grow by 4.8 and 4.9 percent in 2018 and 2019, respectively. The services sector is expected to remain as the largest contributor to the economy by accounting for more than half of Malaysia’s real GDP in 2017.

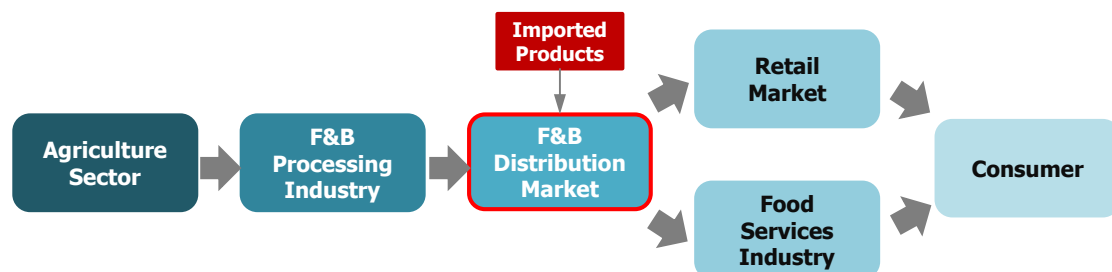
2 THE FOOD AND BEVERAGES DISTRIBUTION MARKET IN MALAYSIA

This report will begin with an introduction to the food and beverages (“F&B”) sector in Malaysia, followed by a comprehensive analysis on the F&B distribution market in Malaysia.

2.1 INTRODUCTION TO THE FOOD AND BEVERAGES SECTOR

Food and beverages (“F&B”) refer to edible items. The food and beverages sector is sophisticated and involve multiple industries as illustrated in Figure 1 below. Supreme Consolidated Resources Berhad and its subsidiaries (“SCR Group”) is principally involved in the F&B distribution market.

Figure 1: Value Chain of the F&B Sector



Note: denotes SCR Group’s participation

Source: Protégé Associates

Agriculture sector revolves around the cultivation of plants and breeding of animals. In the F&B sector, agriculture sector is the primary industry producing crops (e.g. grains, fruits and

vegetables), livestock (e.g. poultry, swine and ruminant) and fisheries, which are then supplied to the processing industry.

F&B processing industry revolves around the preparing and processing of agricultural products in raw form into marketable F&B products through various methods, among others, chopping, mixing, homogenising, cooking, pasteurising and emulsifying. It also includes food preservation process, such as refrigeration and freezing, canning, irradiation, dehydration and fermentation, as well as packaging of the processed F&B products.

These processed F&B products are then supplied to the F&B distribution market.

F&B distribution market revolves around supplying and distributing processed F&B products, both locally produced and imported products, to the next channels, namely the retail market and the food services industry.

Retail market refers to retail store that markets and sells processed F&B products to the consumers. Retail market includes but is not limited to the hypermarket, supermarket, traditional grocery and meat specialty store.

Food services industry revolves around the provision of meals to customers for immediate consumption without further processing. It includes restaurants (including restaurants in hotels), cafeterias, canteens, food stalls, etc.

SCR Group is principally involved in the F&B sector as a distributor of processed F&B products. The following section details the type of F&B products supplied by the F&B distribution market.

2.2 TYPES OF PROCESSED F&B PRODUCTS

There are three main types of processed F&B products distributed by the F&B distribution market, namely dry F&B, chilled food and frozen food. The following figure defines the difference between each type of processed F&B products. SCR Group is principally involved in the F&B distribution market by distributing dry, chilled and frozen food.

Figure 2: Types of Processed F&B Products

Term	Definition
Dry F&B	<ul style="list-style-type: none"> Processed and packaged F&B products that can be stored at room temperature; Examples include but are not limited to rice, flour, biscuits, bakery products, cereal grains, condensed milk, milk powder, eggs, oils, margarine, peanut butter, preserved fruit, coconut and nuts, preserved vegetables, potatoes and other tubers, sugar, jam, honey, spices, coffee, tea, cocoa, mineral water, soft drinks, fruits and vegetable juices and alcoholic beverages.
Chilled Food	<ul style="list-style-type: none"> Food products that are required to be stored at refrigeration temperature to maintain their quality and microbiological safety for consumption; The refrigeration temperature generally falls in between minus one (-1) degree Celsius ("°C") to 10°C; Examples include but are not limited to fresh meat, fresh fish, fresh seafood, prepared meals, fresh fruit, fresh vegetables, ready-to-cook food, dairy products, desserts, etc.

Term	Definition
Frozen Food	<ul style="list-style-type: none"> Food products that are required to be kept frozen until used in order to preserve the quality of the products; The freezing temperature generally falls at -18°C or below; Examples include but are not limited to processed fish and seafood, processed meat, ice cream, prepared meals, frozen meats, etc.

Source: Protégé Associates

The F&B distribution market is part of the larger F&B sector and is subjected to the food legislation in Malaysia. The following section details the acts and regulations governing the F&B sector in Malaysia.

2.3 GOVERNMENT RULES AND REGULATIONS

The F&B distribution market in Malaysia is subjected to the Food Act 1983 and Food Regulations 1985. The Food Act 1983 was amended in 2001 and 2006 resulting in Food (Amendment) Act 2001 and Food (Amendment) Act 2006. These legislations apply to all food sold in the country, either locally produced or imported, covering a wide range of aspect from compositional standards to food additives, nutrient supplements, contaminants, packages, containers, food labelling, procedures for taking samples, food irradiation, provision for food not specific in the regulations, and penalties.

Food legislations are continuously revised and updated to be in tandem with the latest development in food technology as well as to keep abreast with the changing consumer demands.

Food Act 1983

Food Act 1983 was enacted to protect the public against health hazards and fraud in the preparation, sale and use of food, and for matters related therewith. The Act has 5 parts and 36 sections. Under section 29, processed food imported into Malaysia is required to be relabelled in compliance to the labelling provision in the same act.

Food Regulations 1985

Food Regulations 1985 was created in relation to section 34 of the Food Act 1983. It has 10 parts, 27 schedules and 399 sections. Under the regulation 40, it is stated that no person shall import, sell, expose or offer for sale or deliver, any food intended for human consumption which contain any prohibited drugs, namely β -Agonists, Nitrofurans and its metabolites, as well as Chloramphenicol.

Health Certificates

The global food trade is guided in accordance to the Codex Alimentarius standards established by the Food and Agriculture Organisation and the World Health organisation to ensure food quality and safety.

In Malaysia, the Codex Alimentarius standards are practised by the Ministry of Health on food importation. Under the Codex Alimentarius standards, a Health Certificate from the Food Safety Agency or the competent authority from the exporting country is required for the importation of the following food into Malaysia:

- i) All types of fresh, chilled and frozen meat of bovine animals including buffalo meat;
- ii) All types of fresh, chilled or frozen meat of swine;
- iii) All types of fresh, chilled or frozen meat of lambs, goats and sheep;
- iv) All types of fresh, chilled or frozen poultry meat;
- v) Fresh, chilled or frozen edible offal of bovine animals, swine, sheep and goats;
- vi) Fresh, chilled or frozen edible offal of poultry;
- vii) Other meats and edible offal, fresh, chilled or frozen;
- viii) All types of fresh, chilled or frozen prawns and shrimps (including peeled); and
- ix) All types of semi processed shrimps and prawns.

Halal Certification

F&B with Halal certification provide the assurance to all Muslim consumers as they are processed, handled, prepared and manufactured in compliance to Syariah law or Islamic law and are not in direct contact or contaminated with the illegal substances as declared by the religion, during preparation, production and storing. The Malaysian government provides full support in promoting the halal certification process on products and services. The Halal Industry Development Corporation (“HDC”) was established by the Malaysian government in September 2006 to coordinate and develop the national Halal industry. HDC focuses on the development of Halal standards, audit and certification and capacity building for Halal products and services. In addition, HDC is mandated to assist small and medium sizes enterprises (“SMEs”) in the form of funding, licensing, tax incentives, skills upgrading as well as marketing and promotional expertise.

Manufacturers and producers, distributors and traders, sub-contract manufacturers, repacking operators, food premise operators and abattoirs from both Malaysia and abroad are eligible to apply for the Halal certification.

Malaysian Standards

In addition to the abovementioned product standards, the Department of Standards Malaysia has also published various Malaysian Standards (“MS”) to provide practical guidance for local F&B players. The published Malaysian Standards for the F&B sector are i) MS 1480 on Food Safety According to Hazards Analysis and Critical Control Point (“HACCP”); ii) MS 1500 on Halal food – Production, Preparation, Handling and Storage – General Guidelines; iii) MS 1514 on Good Manufacturing Practice for Food; and iv) MS ISO 22000 Food Safety Management Systems.

2.4 HISTORICAL MARKET PERFORMANCE AND GROWTH FORECAST

The F&B distribution market was valued at RM99.87 billion in 2017, representing an increase of 9.4 percent from RM91.26 billion in 2016. Growth in 2017 was mainly driven by a higher economic growth that improved the consumer sentiments, thus encouraged more spending

on F&B in particular premium F&B products. Figure below shows the historical market size and growth forecast for the F&B distribution market in Malaysia from 2016 to 2022.

Figure 3: Historical Market Size and Growth Forecast for the F&B Distribution Market in Malaysia, 2016-2022

Year	Market Size (RM Billion)	Growth (%)
2016	91.26	-
2017	99.87	9.4
2018	108.41	8.6
2019	117.08	8.0
2020	126.64	8.2
2021	136.82	8.0
2022	147.92	8.1

Compound annual growth rate ("CAGR") (2018-2022)(base year of 2017): 8.2 percent

Notes:

1. The F&B distribution market size is based on the total revenue of distributors of dry, chill and frozen food to both retail market and food services industry.
2. Examples of dry F&B include, among others, rice, flour, biscuits, bakery products, cereal grains, condensed milk, milk powder, eggs, oils, margarine, peanut butter, preserved fruit, coconut and nuts, preserved vegetables, potatoes and other tubers, sugar, jam, honey, spices, coffee, tea, cocoa, mineral water, soft drinks, fruits and vegetable juices and alcoholic beverages.
3. Examples of chilled food include, among others, fresh meat, fresh fish, fresh seafood, prepared meals, fresh fruit, fresh vegetables, ready-to-cook food, dairy products, desserts, etc.
4. Examples of frozen food include, among others, processed fish and seafood, processed meat, ice cream, prepared meals, frozen meats, etc.
5. All figures are rounded.

Source: Protégé Associates

Moving forward, the F&B distribution market in Malaysia is projected to expand from RM99.87 billion in 2017 to approximately RM147.92 billion in 2022, representing a CAGR of 8.2 percent during the period. Growth is expected to be driven by the changing eating habits among the urban population which has less time to shop for food and prepare meals, thus consuming more processed food such as chilled and frozen foods. In addition, growing population and tourism industry indicate a larger pool of consumers and accordingly leads to more demand for processed food.

On the supply side, Malaysia has a huge and well established livestock industry to raise, breed and produce poultry and poultry products, swine, and ruminants, as well as fisheries industry for fish farming and commercial fishing activities. Production from the livestock and fisheries industries ensure a stable supply for the food processing industry to produce chilled and frozen food for the distribution activities.

2.5 COMPETITIVE ANALYSIS

The F&B distribution market is highly fragmented, and market players face competition for distributing the similar products. In Malaysia, there are around 900 to 1,000 market players distributing meal, poultry and eggs, around 1,800 to 2,000 market players distributing fish and other seafood, and around 100 to 150 market players distributing dairy products. These market players may distribute more than one type of products and the number of market players may overlap. These market players may also participate in business activities other than the distribution of F&B products. Some of the companies involved in the distribution of dry F&B, chilled food or frozen food in Malaysia include the following companies (listed in alphabetical order). The list of companies is not exhaustive and only serve for illustration purpose.

- BGS Trading Sdn Bhd (distribution of dry, chilled and frozen food);
- Classic Fine Foods Sdn Bhd (distribution of dairy products, meat, seafood, delicatessen, pastry, pasta, fruit and vegetables);
- Eldaco (KL) Sdn Bhd (distribution of gourmet F&B products);
- Harrisons Holdings (Malaysia) Berhad (distribution of packaged F&B and fast-moving consumer goods ("FMCG"));
- HSH Frozen Foods Sdn Bhd (distribution of frozen and chilled food);
- Hong Yong Seafood Supplies Sdn Bhd (distribution of fresh, processed and frozen food);
- Lucky Frozen Sdn Bhd (distribution of chilled, frozen and ambient food products);
- Pok Brothers Sdn Bhd (distribution of frozen, chilled, dry and dairy products);
- Sangla Foods Sdn Bhd (distribution of premium imported dry food);
- SCR Group (distribution of dry, chilled and frozen food); and
- Sing Chew Coldstorage Sdn Bhd (distribution of chilled and frozen food).

2.5.1 Introduction to SCR Group

SCR Group was incorporated as an investment holding company as part of an internal restructuring exercise which later saw the acquisition of Supreme Cold Storage Sdn Bhd ("SCS"), Supreme Food Supply (M) Sdn Bhd ("SFS"), Borneo Food Land Cold Storage Sdn Bhd ("BFL") and Supreme Transportation Sdn Bhd ("STSB").

SCR Group is principally involved in the supply and distribution of F&B focusing on frozen food and dairy products, chilled food and dry food with distribution centres in Kuching and Miri in Sarawak.

2.5.2 Comparable Market Players

SCR Group is principally involved in the supply and distribution of F&B focusing on dry food, chilled food, frozen food and dairy products, with established distribution channels in Sarawak. For the financial year ended 30 September 2017, SCR recorded revenue of approximately RM112.08 million.

For comparison purposes, Protégé Associates has selected the following companies which are comparable to SCR Group. These companies are selected based on the following criteria:

- i) Established in East Malaysia;
- ii) Involved in the F&B distribution market focusing on chilled food, frozen food or dairy products or dry food; and
- iii) Recorded revenue of between RM70 million to RM100 million based on latest publicly available financial information.

The selected comparable companies are Sing Chew Coldstorage Sdn Bhd ("Sing Chew") and Hong Yong Seafood Supplies Sdn Bhd ("Hong Yong").

Sing Chew

Sing Chew was incorporated in Malaysia on 13 May 1999. Sing Chew is principally involved in import, supply and distribution of frozen food products such as meat, seafood, poultry, vegetables and processed food as well as chilled dairy and non-dairy products in Malaysia.

For the financial year ended 30 September 2017, Sing Chew recorded revenue of approximately RM76.2 million and profit before tax of RM1.4 million.

Hong Yong

Hong Yong was incorporated in Malaysia on 7 March 1997. Hong Yong is principally involved in import, export and distribution of fresh, processed and frozen foods such as fish and seafood. For the financial year ended 30 June 2017, Hong Yong recorded revenue of approximately RM124.9 million and profit before tax of around RM3.1 million.

Figure 4: Comparison between SCR Group and Selected Market Players

Company	Hong Yong	SCR Group	Sing Chew
Financial Year Ended	30.06.2017	30.09.2017	30.09.2017
Revenue (RM)	124,837,648	112,076,669	76,211,354
Profit/Loss before Tax (RM)	3,101,782	5,514,009	1,367,809
Profit before Tax margin (%)	2.5	4.9	2.0
Profit/Loss after Tax (RM)	2,080,976	4,052,810	953,654
Profit/Loss after Tax Margin (%)	1.7	3.6	1.0

Notes:

1. The list of market players is alphabetically arranged and does not constitute as a ranking;

2. The above figure only provides an indication and is not considered directly comparable due to the following reasons:
- a. Not all companies have the same financial year end; and
 - b. Not all companies carry out activities that are completely similar to each other or in the same geographical area.

Source: Companies Commission of Malaysia, SCR Group and Protégé Associate

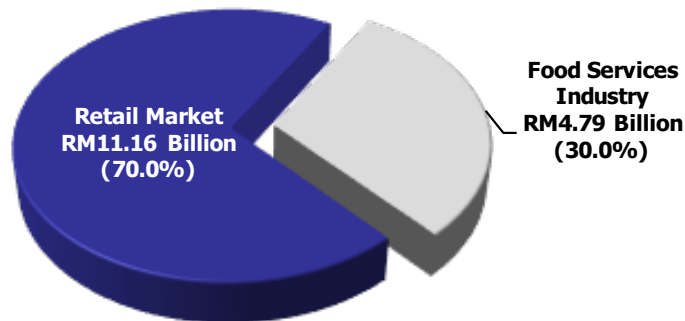
2.5.3 Market Share Analysis

In 2017, the F&B distribution market in Malaysia was valued at RM99.87 billion. Protégé Associates estimates that around 16.0 percent or RM15.98 billion of the F&B distribution market in Malaysia was attributed to the East Malaysia, while the remainder of 84.0 percent or RM83.89 billion was attributed to Peninsular Malaysia.

Out of the RM15.98 billion of the F&B distribution market size in East Malaysia, it was estimated that around 70.0 percent or RM11.18 billion was attributed to the retail market.

Figure 5: Breakdown of F&B Distribution Market in East Malaysia by Distribution Channel, 2017

**East Malaysian F&B Distribution Market in 2017:
RM15.98 billion**



Note: Breakdown of the F&B distribution market includes the following products:

- i. Dry F&B, among others, rice, flour, biscuits, bakery products, cereal grains, condensed milk, milk powder, eggs, oils, margarine, peanut butter, preserved fruit, coconut and nuts, preserved vegetables, potatoes and other tubers, sugar, jam, honey, spices, coffee, tea, cocoa, mineral water, soft drinks, fruits and vegetable juices and alcoholic beverages.
- ii. Chilled food, among others, fresh meat, fresh fish, fresh seafood, prepared meals, fresh fruit, fresh vegetables, ready-to-cook food, dairy products, desserts, etc.
- iii. Frozen food, among others, processed fish and seafood, processed meat, ice cream, prepared meals, frozen meats, etc.

Source: Protégé Associates

For the financial year ended 30 September 2017, SCR Group generated revenue of RM112.08 million. This is equivalent to an estimate of 0.7 percent share of the F&B distribution market in East Malaysia which was valued at RM15.98 billion in 2017.

2.6 DEMAND AND SUPPLY CONDITIONS

Demand and supply conditions refer to market factors that can positively or negatively affect future market size and growth by specifically altering demand or supply dynamics. These demand and supply factors can include trends, key developments or events that spur market expansion, leading to increases in sales or revenues, or developments that negatively affect market growth.

2.6.1 Demand Conditions

The following factors represent key trends, developments and events influencing market demand of the F&B distribution market in Malaysia.

Changing Eating Habits Caused by Fundamental Societal Changes

Malaysia has undergone rapid modernisation in the past few decades, attributable to the vast industrialisation of its economy over the period. Occurring hand in hand with modernisation and industrialisation is the urbanisation of the country's population, as its rural communities increasingly move to urban areas to live and work. Based on the Population and Housing Census of Malaysia in 2010, the proportion of urban population in Malaysia has been increasing from 50.7 percent (in 1991), to 62.0 percent (in 2000). In 2010, urban population in Malaysia further expanded to 71.0 percent.

As urbanisation continues, previously rural citizens are anticipated to take on higher-value jobs in the city, such as those related to skilled work, thus commanding higher incomes. More and more Malaysians move from the low income strata to the middle and high income strata, triggering a greater willingness to spend on food. People living in the urban areas have historically spent considerably more than rural communities, as they demand a greater variety of foods. Firstly, higher income urbanites consume less staple foods, and larger quantities and varieties of meat than their rural counterparts. They also consume more foods in refined/processed states such as various types of flours rather than in their raw produce state, e.g. potatoes or wheat. Additionally, they are more receptive of western-styled food and foreign diet cultures – their ready adoption of fast foods being a prime example.

Dual income households have also increased as an increasing number of women take up jobs to supplement the household income, thus leaving them with less time to shop for food and prepare meals. As convenience becomes increasingly vital to the busy lifestyles of urban Malaysian consumers, the demand and necessity of processed foods such as ready meals and frozen foods is expected to increase significantly moving forward, thereby also positively impacting the growth of the F&B distribution market in Malaysia.

Growing Population and Tourism Industry

The demand for food directly correlates with the size of the country's population. As the population grows, the amount of food consumed, including dry, chilled and frozen food increases as well.

The Malaysian population is expected to continue growing at a steady pace. According to the Population and Housing Census, Malaysia 2010, the total population of Malaysia was 28.6 million in 2010. This figure is projected to grow steadily to reach 41.5 million in 2040. Similarly in East Malaysia, the total population of Sabah, Labuan and Sarawak was 5.8 million in 2010, and is projected to reach close to 9.0 million in 2040. Hence, the F&B distribution market is also set benefit from any increase in size of the population as the size of potential demand for its products increases too.

In addition, the per capita income in Malaysia rose by 4.7 percent from RM36,094 in 2015 to RM37,791 in 2016. This figure is estimated to reach RM40,713 in 2017 and RM42,777 in 2018. An increasing income among the population is likely to improve the consumer confidence and their disposable income, thus spurring more spending on imported and premium F&B products. Accordingly, this is set to lead to more demand for the F&B distribution market.

Another factor that drives the demand for F&B distribution market arises from an increasing number of tourists that are more willing to spend, leading to potential higher demand of imported F&B products. Number of international tourist arrivals in Malaysia shrank by 3.0 percent year-on-year, from approximately 26.8 million tourists in 2016 to 26.0 million in 2017. Expenditure on food and beverages serving services has also grown accordingly, from RM10.51 billion in 2016 to RM10.93 billion in 2017. Therefore, a growing tourism industry is likely to drive the demand for F&B distribution market.

Increasing Importance of Healthy Eating among Consumers

Traditionally, processed foods like prepared meals and ready-to-cook food have been known to be less healthy than their fresh and conventionally prepared counterparts. There is also a negative perception among the general populace that processed foods in general lack nutritional value, and in many cases may pose detrimental effects to consumers' health.

The progressively hectic lifestyles of consumers have shifted their food consumption patterns towards more convenient and quick to prepare foods, which are perceived to be less nutritious than meals conventionally prepared from fresh products. Paradoxically however, consumers are also becoming more aware of the value of healthy eating habits, and how healthy eating can enhance their quality of life. There is more emphasis on getting health benefits through natural properties of the food. Thus, consumers are drawn to food that are "fresh" or "natural" as they have less additives and preservatives, and are more nutritious and healthier.

As such, the rise in health awareness has stimulated interest in other types of food, which act in competition to processed products. Most notable of these is the category of naturally healthy foods, such as whole grains, oats, soy, cranberries and green tea. These products can also leverage the health benefits of their nutrients as a selling point, and therefore will have some negative impact on the demand for processed food and the F&B distribution market, albeit small.

2.6.2 Supply Conditions

The following factors represent key trends, developments and events influencing market supply of the F&B distribution market in Malaysia.

Established Local Livestock and Fisheries Industries in the Agriculture Sector

Malaysia has a huge and well established livestock industry to raise, breed and produce poultry and poultry products, swine, and ruminants, as well as fisheries industry for fish

farming and commercial fishing activities. Production from the livestock and fisheries industries ensure a stable supply for the food processing industry to produce chilled and frozen food for the distribution activities.

The livestock industry was valued at RM6.59 billion in 2010, and has expanded by over one fold to RM13.31 billion in 2015. Growth was also supported by an increasing number of market players, which expanded from 1,089 establishments in 2010 to 1,604 establishments in 2015. As for the fisheries industry, it expanded by 51.7 percent from RM1.47 billion in 2010 to close to RM2.23 billion in 2015. Number of market players within the fisheries industry also grew from 855 establishments to 1,229 establishments during the same period.

Moving forward, the F&B distribution market is anticipated to remain supported by expansion in the livestock and fisheries industries. According to the Ministry of Finance, the livestock industry is anticipated to expand by 3.1 percent while the fisheries industry is estimated to grow by 0.2 percent. As such, the F&B distribution market may anticipate a stable supply of F&B products from the processing industry.

Disease Outbreaks Affecting Livestock Industry

Disease outbreaks affecting the livestock industry would cause a disruption in livestock population, thus leading to a lesser supply for the food processing industry to produce frozen meat within a short period of time before livestock population can be increased again. While the impact is more significant on the supply condition, it also adversely affected the demand within the market. An example which best fit this scenario would be, during the Nipah Virus outbreak in 1998, there was a large reduce in the swine sticks, leading to a greatly decreased livestock population. The avian flu outbreak and the H1N1 swine flu pandemic in 2009 to some extent scared consumers off consumption of chicken and pork, respectively. In the latter outbreak, pork was still safe for consumption; however, the outbreak's origin from the swine decreased the demand for pork. In either case, local livestock production slowed down, leading to a lower production from the food processing industry. Similar outbreaks in the future could have similar impact on livestock supply, as well as the demand and supply for frozen meat.

2.7 RELIANCE AND VULNERABILITY TO IMPORT

Due to the nature of the business, the F&B distribution market is dependent on food importation. In 2017, Malaysia imported RM51.29 billion of food, up from RM46.77 billion in 2016. On the other hand, Sabah is estimated to have imported RM4.62 billion of food in 2017 (2016: RM4.27 billion), while Sarawak is estimated to have imported RM4.82 billion of food in 2017 (2016: RM4.44 billion).

2.8 PROSPECT AND OUTLOOK OF THE F&B DISTRIBUTION MARKET IN MALAYSIA

Moving forward, the F&B distribution market is forecast to expand at a steady pace throughout the period of 2017 to 2022. It is projected to grow from RM108.41 billion in 2017 to RM147.92 billion in 2022, representing a CAGR of 8.2 percent throughout the said period.

Factors influencing the demand of the F&B distribution market mainly derive from the change in eating habits caused by fundamental and societal changes. The proportion of urban population has been increasing from 50.7 percent (in 1991), to 62.0 percent (in 2000). In 2010, urban population in Malaysia further expanded to 71.0 percent. As urbanisation continues, demand for processed food is set to increase, as urban population with busy lifestyle opt for food choices that offer better convenience.

Additionally, the Malaysian population growth has a positive correlation to the demand for food. As the population grows, the demand of food consumed, including chilled and frozen food increases as well. As the Malaysian population is projected to grow from 28.6 million in 2010 to 41.5 million in 2040, demand for food is set to grow and accordingly, spurring further expansion on the F&B distribution market.

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