

**14. INDEPENDENT MARKET RESEARCH REPORT**

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(Prepared for inclusion in the Prospectus)

F R O S T & S U L L I V A N

Strategic Analysis of the  
International Freight Forwarding Industry  
in Malaysia

December 2004

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## EXECUTIVE SUMMARY

### *Overview of the Global Economy*

In 2003, the world gross domestic product (GDP) growth remains unchanged at 3.0 percent. This is a good improvement from an average of 2.1 per cent estimated over 2001-2002. Global growth below 2.5 percent is generally considered to be a recession in the world economy. For 2004, world GDP growth is forecasted to increase by 3.9 per cent and it will mark the first year of recovery from a 2 year global recession.

In the developing nations, GDP growth is expected to achieve 5.3 per cent in 2004. This is an increase of 1.2 per cent over 2003-2004. The domestic demand continues to lag in the developing world, as such, the growth dynamic in this segment of the world remain evidently export-led. China continues to lead the pack with its GDP growth expected to re-accelerate to 7.9 per cent in 2004 after average gains of 7.5 per cent in 2002-2003. Elsewhere in Asia, the acceleration is expected to be more subdued. Excluding China, growth in Asia ex Japan is expected to hit only 4.6 per cent in 2004, only a slight increase from 4.1 per cent in 2002-2003. This is backed by robust export performance and higher contribution from domestic demand.

The industrial CPI is expected to inch up fractionally to just 1.8 per cent in 2004, following average gains of just 1.5 per cent in 2002-2003. Looking forward, inflation should remain stable in the short term. The outlook for the global economy has improved significantly with growth becoming broader based. External demand is therefore expected to be sustained in an external environment of stronger growth in the major industrial economies and higher growth in the Asian region.

However, uncertainties, especially geopolitical ones, are keeping investors cautious, throughout most parts of the world. In the developing countries, investment behavior has become a key element of the outlook. They are especially vulnerable to jitters in the financial markets. Sudden reversals in capital flows can dampen investments sharply and weaken the growth momentum. Hence, countries with strong policies in place are more likely to avoid or smoothly absorb external financial shocks. The downside risks to the forecasts include the emergence of other flash points in the Middle East, terrorist reprisals, possible hike in US interest rate, the cooling of the Chinese economy and the high oil prices. The softening of the US economy is expected as it tightens its monetary policy after a strong recovery momentum and gradual inflationary pressure, coupled with the tapering off of the tax-cut stimulus in the coming months. However, the consensus is that the US slowdown is not likely to be significant will not lead the world nor US into a recession.

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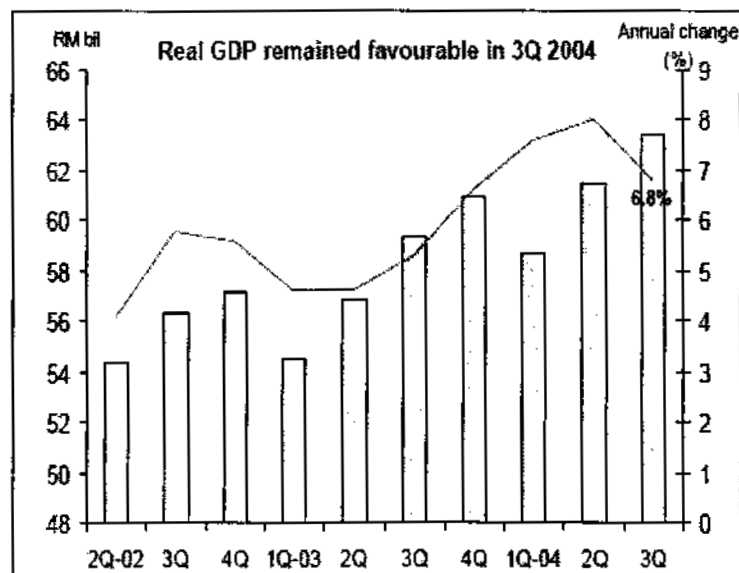
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The expected slowdown of growth in the Chinese economy in the second half of the year 2004 is expected to have an impact on its demand for exports. China has been working hard to tighten its economic policy by mitigating overinvestment, which may result in an overheated economy, through raising bank loan requirements and restricting bank credits to selected industries in hopes of steering the economy toward a soft landing. Meanwhile, the situation will be further complicated if the current high crude-oil prices are prolonged. Possible impacts could include a slowdown in global economic growth, a full blown recession in the US and also a hard landing for the Chinese economy. However, the risks of high oil prices are limited because the global economy is currently in a "low-inflation environment" and expected to withstand inflationary pressures.

### Overview of the Malaysian Economy

The Malaysian economy has entered 2004 on a stronger overall growth performance and GDP is expected to expand by 7.0 per cent. According to Bank Negara, the 2<sup>nd</sup> quarter in 2004 was particularly strong, rising by 8.0 per cent – the highest quarterly growth since the 3<sup>rd</sup> quarter of 2000 (Figure 1-1), while the GDP for the 3<sup>rd</sup> quarter of 2004 continued to remain favorable at 6.8 per cent. The growth was attributed to the expansion in private sector demand and buoyant external demand.

Figure 1-1: Gross Domestic Product (GDP) Growth Rate



Source: Bank Negara Malaysia, 2004

— GDP Growth in percentage (%)  
 □ GDP Growth in RM billion

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Figure 1-2 illustrates that in 2003, Malaysia's GDP grew by 5.3 per cent driven by higher consumer spending, soaring exports and stronger growth in investments. In 2004, all sectors in the economy are expected to show positive growth, with the manufacturing sector leading the way with 10.5 per cent compared with 8.3 per cent in 2003, as the global electronics industry is seen to be improving and with strong domestic demand.

Figure 1-2: Real Gross Domestic Product (GDP) Contributors by Sector in Malaysia (% change).

	CHANGE (%)			SHARE OF GDP (%)		
	2003	2004 (Estimate)	2005 (Forecast)	2003	2004 (Estimate)	2005 (Forecast)
<b>GDP</b>	5.3	7.0	6.0	100.0	100.0	100.0
<b>Agriculture</b>	5.7	2.8	2.4	8.7	8.3	8.1
<b>Mining</b>	5.9	5.0	5.5	7.2	7.1	7.0
<b>Manufacturing</b>	8.3	10.5	7.6	30.8	31.8	32.3
<b>Construction</b>	1.9	0.5	1.8	3.2	3.0	2.9
<b>Services</b>	4.4	6.0	5.8	57.6	57.1	57.0

Source: Economic Report 2004/2005

The manufacturing sector, along with the services sector, are expected to be the main engines of growth in 2004 and 2005. This is mainly supported by the pick up in the global electronics industry and improved domestic demand. The latest indicators suggest that an upturn in the global semiconductor cycle is imminent. The expansion in the electronics industry would be driven mainly by the wireless and PC markets, due to rising demand for wireless applications as well as the PC replacement cycle as well as improved investors' confidence. Meanwhile, in the domestic-oriented industries group, growth will be supported by improved demand for motor vehicles and the expansion in the construction-related materials industries.

While improving global and regional economies had lifted export growth, the economy also got a lift from household spending and government consumption. There was also the economic stimulus package by the Government to counter the effects of the Iraq war and SARS. Low interest rates and readily available financing, together with high commodity prices, had a positive effect on consumer spending. Consumer spending will continue to be the dominant factor driving the economy. However, private investment is also expected to pick up. This is expected to sustain economic growth momentum and allow the Government to slowly ease off its economic stimulus measures. Private investments showed an up-cycle while stronger loans applications and higher investment approvals, particularly in the manufacturing sector, pointed to expanded business activity going forwards.

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The Malaysian economy is expected to strengthen further in 2004. The combined effects of an improved external environment, indication of strong domestic activity and private sector investment expansion in Malaysia significantly improves our growth prospects for 2004. Several downside risks are present that may adversely impact the economy and undermine the above projections. They include a possible hike in the US interest rate, the risk of a "hard landing" as the China endeavours to steer the country's growth rate to manageable level, a prolonged high oil prices, delayed corporate spending and the consequent demand for electronics products.

***Malaysian Budget 2005***

Malaysia's GDP is expected to grow at a slower pace of 6 per cent in 2005 due to inflationary pressure, interest rate hikes, uncertainty over oil prices and a probable slowdown in the economy of China. The services sector will remain the largest contributor to GDP at 57 per cent, mainly supported by higher consumer spending, growth in tourism, communications and finance activities. Meanwhile, the manufacturing sector will continue to spearhead growth albeit at a slower pace as demand for electronic products tapers in the global semiconductor cycle.

***Market Dynamics***

The freight forwarding industry in Malaysia is a highly fragmented industry, with many players but few leading ones with substantial market domination. The freight forwarding industry can be classified into domestic and international freight forwarding. The primary difference between the domestic and international freight forwarding classifications lies in the geographical reach in the movement of goods. Domestic freight forwarding involves the movement of goods *only* within Peninsular Malaysia and East Malaysia. International freight forwarding provides a much more extensive geographical reach with their capability to deliver goods on a global scale. It is involved in the movement of goods globally at the most competitive cost.

Other significant differences catered by the international freight forwarding industry compared to their domestic counterparts include a more extensive range of services, multimodality in the movement or delivery of goods, competitive pricing, and international network or alliances.

The extensive range of services offered in the international freight forwarding industry include containerization services which comprise less-than-container load ("LCL") consolidation and full-

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container-load ("FCL"). Other supporting services such as warehousing and distribution, customs brokerage and project management are crucial in the movement of goods on an international scale. These services are provided exclusively by international freight service providers in the international freight forwarding industry.

Multimodality is also an important element in the international freight forwarding industry. There are three basic modes available in the movement of goods internationally, through sea, rail and air. Sea is the most widely used mode as it is cheaper and able to move goods in a much larger scale for a given trip compared to the other modes of transportation. The massive and cost-efficient movement of goods by sea is preferred by most customers.

The movement of cargo by rail is used as the rail line is able to reach a wider spread geographically in a country covering the urban and rural areas. In Malaysia, Keretapi Tanah Melayu Berhad ("KTMB") is the sole operator for rail services accessible from seaports and inland container depots ("ICD").

Air freight services are used for high value cargoes, perishables and urgent deliveries domestically as well as internationally.

### ***Economic Prospects and Outlook***

The Malaysian economy is expected to strengthen further in 2004, building on the strong growth momentum in the second half of 2003 and brighter prospects for global growth in 2004. Real GDP is expected to expand by 7.0 per cent, compared to 5.3 per cent in the previous year, underpinned by stronger domestic demand and reinforced by more favorable external demand.

The general global economic recovery is expected to boost external demand and business for the local manufacturing and services sectors. Boosted by this, Bank Negara Malaysia has projected the Malaysian economy to grow by 7.0 per cent in 2004. The optimistic outlook is driven by the gradual improvement in the global electrical and electronics industry, and in the economies of key export markets like ASEAN members, Japan, China, the US and Europe. Domestic demand is also expected to remain strong in 2004.

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The development of the international freight forwarding industry is largely dependant on the economic developments at the global and regional scales. International trade plays an important role in driving the growth of the international freight forwarding industry and is dictated largely by the demand for exports in the manufacturing sector as well as the developments under the intermediate services sub-sector (primarily transport and infrastructure) under the services sector.

The manufacturing sector is expected to be the main sectoral contributor to Malaysia's GDP in 2004. Japan and China remain the largest exporters and importers in Asia. Malaysia is ranked 18th in terms of export and import, ahead of Thailand, Indonesia and the Philippines.

The improved performance of 2003, coupled with moves toward greater transparency in government decisions and a stronger anticorruption stance, has created favorable conditions for 2004. GDP growth exceeded forecasts in 2003, supported by solid expansion in manufacturing and strong demand for exports. The manufacturing sector in Malaysia increased by 8.3 per cent as the global economic recovery accelerated in the second half of the year to lift demand for electronic goods, the country's major export. GDP growth is forecast to edge up to 7.0 per cent, with strong export demand and private consumption projected to counteract the planned decline in government spending.

With world economic growth expected to strengthen further in 2004, the outlook for exports is positive. They are likely to expand by 8.0-10.0 per cent in 2004, which would be a strong result after a strong improvement in 2003. Imports are also expected to grow by an approximately similar margin. With still faster GDP growth expected in 2004, coupled by further expansion in the manufacturing sector, this will be a boon to the international freight forwarding industry.

The continuous emphasis on the development of infrastructure and infrastructure-related services (primarily the transport sub-sector of the intermediate services sector) under the Government's 8<sup>th</sup> Malaysian Plan 2001-2005 ("8MP") will also contribute positively to the international freight forwarding industry. This is in line with the Government's plan to develop Malaysia into an integrated multimodal transport solution provider and international trans-shipment hub. Strong support by the Malaysian Government due to the strong emphasis on the inflow of foreign funds and retention of domestic funds via international trade will also have a positive effect on the industry's prospects. Hence, the medium term to long term growth prospects of the international freight forwarding industry in Malaysia looks encouraging.



## STRATEGIC ANALYSIS OF THE INTERNATIONAL FREIGHT FORWARDING INDUSTRY IN MALAYSIA

### 1. Market Overview

The manufacturing sector and the services sector (mainly the transport sub-sector under the intermediate services sector) in Malaysia have been the primary growth drivers in the international freight forwarding industry in Malaysia. Figure 2-1 below illustrates the contribution to the real GDP by both the manufacturing and services sectors in Malaysia.

Figure 2-1: Real Gross Domestic Product (GDP) Contribution by the Manufacturing and Services Sectors in Malaysia (% change).

Year	Real GDP (%)	Manufacturing (%)	Services (%)
2001	0.3	-5.8	5.8
2002	4.1	4.0	4.1
2003	5.3	8.3	4.4
2004 <sup>e</sup>	7.0	10.5	6.0
2005 <sup>f</sup>	6.0	7.6	5.8

*e – Estimate, f – Forecast*

*Source: Economic Report 2004/2005*

In 2003, output growth in the manufacturing sector gained momentum especially in the second-half of the year, following the broad-based recovery in the global economy and strengthening domestic demand. Manufacturing production growth strengthened to 10.5 per cent in 2004, compared to 8.3 per cent in 2003, with expansion across a wide range of products in both the export-oriented and domestic-oriented industries. However, the manufacturing sector is forecasted to grow slightly slower in 2005 to 7.6 per cent as demand for electronic products tapers in the global semiconductor cycle.

The services sector remained resilient in 2003, despite the adverse effects of the Severe Acute Respiratory Syndrome (“SARS”) that occurred in the early part of the year. Overall, the impact of SARS affected the retail, tourism and travel-related sectors. However, the impact of SARS proved transitory and these sub-sectors recovered rapidly in the second-half of the year. In addition, the strong loan growth finance sub-sector, increased use of new services in the cellular

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telecommunications sub-sector, and sustained volume of international trade in the transport sub-sector ensured that growth in the services sector remained resilient. The projected growth for the services sector is expected to increase by 6.0 per cent in 2004, reflecting higher expansion across most sub-sectors, particularly the robust expansion in trade in the transport sub-sector. Table 2-2 illustrates the significant increase in growth change for the transport, storage and communication sub-sector under the services sector in Malaysia for the period 2002-2003.

Figure 2-2: Real Gross Domestic Product (GDP) Contribution by the Manufacturing and Services Sectors in Malaysia (% change).

	2002	2003
<b>Services</b>	<b>4.1</b>	<b>4.1</b>
<i>Intermediate services</i>	4.3	5.2
Transport, storage and communications	2.6	5.6
Finance, insurance, real estate and business services	5.3	4.9
<i>Final Services</i>	4.1	3.4
Electricity, gas and water	3.9	6.2
Wholesale and retail trade, hotels and restaurants	2.6	1.5
Government services	6.7	5.6
Other services	4.6	3.2

Source: Bank Negara Malaysia, 2003

The encouraging projected growth in both the main drivers – manufacturing sector and services sector – for the international freight forwarding industry anticipates a positive growth trend ahead for the industry. The industry is also boosted by the positive growth expected in trade-related and trans-shipment activities.

With the recent announcement by Bank Negara Malaysia (“BNM”) on Malaysia’s robust economic activity in the second quarter of 2004, this adds to the encouraging prospects for the international freight forwarding industry in Malaysia. Expansion strengthened further with growth in real GDP rising at a pace of 8 per cent in the second quarter of 2004, from 7.6 per cent in the first quarter of

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2004. The real GDP growth continued to remain favorable at 6.8 per cent in the third quarter of 2004. Growth was broad based across all sectors, with the strengthening growth in the manufacturing and services sectors identified as key contributors. The expansion was supported by stronger growth in export-oriented industries and sustained growth in domestic-oriented industries. The growth reflected stronger external demand, in particular for electronics, and the improving domestic demand and continued recovery in the investment cycle. More robust economic activity for the final and intermediate services products lead to value added growth in the services sector strengthening to 6.2 per cent, from previous 4.7 per cent in the fourth quarter of 2003. Expanding external and domestic trade activity and tourist arrivals induced stronger growth in the intermediate services segment particularly in the transport, storage and communications sub-sector.

Malaysia's robust economic activity in the first quarter of 2004, couple with the expansion and upgrade of the transportation infrastructure under the 8MP, particularly ports and roads, are expected to increase the international freight forwarding industry's capacity further.

#### **International Freight Forwarding Industry in Malaysia**

The international freight forwarding industry in Malaysia is directly correlated to the growth of international trade activities. This is largely due to the fact that the need for the movement of goods internationally depends on the consumption or demand of goods being exported/imported. Figure 2-3 below provides the annual statistics of Malaysia's external trade from 1998 to 2003. The Department of Statistics of Malaysia has forecasted that total exports (f.o.b.) will grow by 11.1 per cent in 2004, driven by an increase in manufactured goods. Total imports are also expected to experience similar growth by 15.4 per cent in the same year. The forecasted growth in manufactured goods and total imports will largely be contributed by higher global consumption of intermediate, capital and consumption goods.

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Figure 2-3: Imports, Exports and Balance of Trade

Year	Imports (c.i.f) (RM 'million)	Exports (f.o.b) (RM 'million)	Balance of Trade (RM 'billion)
1998	228,124	286,563	54,438
1999	248,476	321,559	73,082
2000	311,458	373,270	61,811
2001	280,229	334,283	54,054
2002	302,589	354,077	51,488
2003	317,746	398,882	81,136

Source: Department of Statistics of Malaysia, 2003

**Note:**

\*Classes of goods excluded from the external trade statistics are:

- Transit cargo, that is, goods transported under customs control from one customs office to another.
- Trans-shipment cargo, that is goods transferred under the control of the relevant authorities from the importing means of transport to the exporting means of transport **within** the area of control of the same authorities, which is the office of **both** importation and exportation.

**Note (cont'd):**

\*(c.i.f):

**Imports** are valued on a **c.i.f** (cost, insurance and freight) basis that is the value of the goods in the market at the statistical / customs frontier of the importing country, including all charges for transport and insurance whilst in transit **but** excluding the cost of unloading from the carrier **unless** it is borne by the carrier.

\*(f.o.b):

**Exports** are valued on a **f.o.b** (free on board) basis, that is, the value of the goods in the market at the statistical/customs frontier of the exporting country, including all cost of transporting the goods to the statistical/customs frontier, export and other duties payable as well as the cost of loading the goods onto the carrier **unless** the latter cost is borne by the carrier.

The principal business in the international freight forwarding industry involves the movement of goods within the stipulated time, in good order and at the most competitive cost at an international scale.

The movement of goods across borders in international trade activities is carried out via sea, rail and air. Sea is the most widely used mode as it is cheaper and able to move goods in a much larger scale for a given trip in relative to the other modes of transportation. The massive and cost-efficient movement of goods by sea is preferred by most customers. The strategic locations of the Malaysian ports and the enhanced port developments over the years under the 8<sup>th</sup> Malaysian Plan 2001-2005 ("8MP") have positioned Malaysia as one of Asia's leading export/import nation.

Malaysia, with a coastline measuring 1900km, has more than 30 seaports of varying kinds. The world class ports in Peninsula Malaysia are Port Klang (comprising Westport, Northport and Southport) in Selangor, Port of Tanjung Pelepas ("PTP") and Pasir Gudang Port in Johor, Kuantan Port in Pahang, and Penang Port in Penang. In East Malaysia, the major ports are Bintulu Port and Kuching Port in Sarawak, and Kota Kinabalu Port in Sabah. Almost all of these ports have the capability to handle the 3 mains segments of sea freight cargo: containerized cargo, bulk cargo, and

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tanker cargo. Bulk cargo comprises items such as iron ore, soybeans, coal and goods other than oil and high-value finished goods. Tanker cargo comprises liquid bulk cargo, such as oil which is dependent on supply. Container cargo involves the consignment of manufactured (finished & semi-finished) goods in 20', 40' and 45' container units. The containerized cargo segment is the most significant growth contributor to the total freight input/output in Malaysia. There are two types of containerized cargos: less-than-container load ("LCL") and full container load ("FCL"). LCL involves the packing of multiple consignments into a container, and FCL involves the loading of a full container cargo at origin source premises. The growth in containerized cargos in Malaysian ports is illustrated in Figure 2-4 below, and the increase in the medium term is expected to be driven by the robust growth of Far Eastern, South-East Asian and South Asian ports (*Source: Rating Agency Malaysia, 2004*).

Figure 2-4: Total Container by TEUs at the Major Ports in Malaysia

Port (Container TEUs)	Klang	P.Pinang	Johor	Kuantan	Bintulu	PTP	Total
1993	771,901	330,922	168,315	9,681	17,298	-	1,298,117
1994	943,846	386,000	238,008	12,192	21,521	-	1,601,567
1995	1,133,811	433,474	302,898	22,591	24,511	-	1,917,285
1996	1,409,594	454,765	377,890	40,821	28,331	-	2,311,401
1997	1,684,508	506,863	429,448	54,855	32,571	-	2,708,245
1998	1,820,007	510,307	439,661	50,989	29,536	-	2,850,500
1999	2,550,419	566,409	558,056	56,056	36,418	-	3,767,358
2000	3,206,753	635,780	659,181	60,376	47,609	418,218	5,029,917
2001	3,759,512	604,294	638,718	76,339	66,139	2,049,487	7,194,489
2002	4,533,212	634,042	684,066	91,525	105,106	2,668,512	8,716,463

Source: Ministry of Transport of Malaysia, 2003

Port Klang remains the busiest port in Malaysia with an average container activity of approximately 4.5 million twenty foot equivalent unit i.e. 20" container ("TEUs") in year 2002. Furthermore, the total ship traffic into Port Klang is rated the highest at 15,276 ships in year 2002, accounting for 39.1 per cent of the total shipping activities in Malaysia's major ports, as illustrated in Figure 2-5.

Figure 2-5: Shipping Activities at the Major Ports in Malaysia

Port (Ships)	Klang	P.Pinang	Johor	Kuantan	Bintulu	Kemaman	PTP	Total
1993	6,832	6,043	4,355	1,217	2,383	312	-	21,142
1994	7,286	6,219	5,259	1,324	2,500	269	-	22,857
1995	7,870	6,465	4,525	1,358	3,181	261	-	23,660
1996	9,553	6,556	5,887	1,536	3,373	253	-	27,158
1997	10,984	7,071	6,089	1,643	3,824	367	-	29,978
1998	10,752	7,585	6,004	1,419	3,202	320	-	29,282
1999	11,349	7,371	6,001	1,516	3,365	281	-	29,883
2000	12,416	7,263	6,485	1,677	4,047	280	692	32,860
2001	14,207	7,460	6,242	1,855	4,375	266	2,283	36,688
2002	15,276	7,328	6,603	2,067	5,019	317	2,483	39,093

Source: Ministry of Transport of Malaysia, 2003

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Furthermore, shipping activities are expected to increase in line with the increase in trans-shipment cargo. The higher volume of trade is expected to lead to higher growth for the international freight forwarding industry.

The strong correlation between the international freight forwarding industry and Malaysia's port activities through external trade has provided the impetus to the Malaysian Government to continue the provision of port development programs and the necessary funding. Under the 8MP, approximately RM3 billion has been allocated for the development of ports in Malaysia. Figure 2-6 below indicates the development allocation under the 8MP. It is planned that additional berths would be constructed at West Port, Port Klang, PTP in Johor and Bintulu Port in Sarawak. In addition, port development is also expected to focus on continuous improvements in capacity, upgrading of equipment and facilities, as well as the enhancement of the efficiency and productivity of port and port-related services. This can only enhance the prospects of the international freight forwarding business in Malaysia.

Figure 2-6: Eighth Malaysian Plan Development Allocation - Infrastructure 2001 to 2005

Sector	8MP Allocation Original (RM 'mil)	8MP Allocation Revised (RM 'mil)	Estimated Expenditure 2001-2003 (RM 'mil)	Balance 2004-2005 (RM 'mil)
Transport	21,222	30,941	18,228	12,713
Roads	14,002	18,614	10,316	8,297
Urban Transport	705	930	459	471
Rail	4,081	6,301	5,124	1,177
Ports	1,500	3,040	1,122	1,918
Airports	932	2,054	1,205	848

Source: Eighth Malaysian Plan, 2001-2005

The Malaysian Government has also allocated RM18.6 billion to further improve the current road infrastructure. A further RM6.3 billion has been budgeted to improve and extend the existing rail connections to further support the complimentary port activities. This is in line with the Government's plan to provide an integrated multimodal transport solution to the international freight forwarding industry. Thus, the long term growth prospects of the international freight forwarding industry is encouraging as the Government has, under the 8MP, placed continuous emphasis on the development of the supporting role of infrastructure and utilities to facilitate the growth of other sectors, particularly the manufacturing and services sector, which will benefit the international freight forwarding industry.

Additionally, the Malaysian Government has also encouraged local players, as well as ship owners, in the international freight forwarding industry to work together to reduce the outflow of "invisible" funds from Malaysia in the form of freight (and insurance). This is largely applicable to Malaysia's

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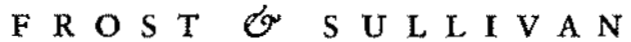
national trade development interest via sea trade as more than 80 per cent of cargo by volume comprises sea borne cargo (*Source: The Star Newspaper, May 2004*). The Malaysian Government claims that international freight forwarding involving local players will gradually induce foreign direct/indirect investments into the country and more importantly, result in the retention of funds within Malaysia. Malaysia's development efforts on infrastructure under the 8MP will facilitate both the inflow of foreign direct/indirect investments as well as the retention of funds, resulting from greater utilization of Malaysian services in the international freight forwarding industry. In light of the projected increase in Malaysia's international trading capacity fueled by the global economic recovery, this suggests the significant role of players in the international freight forwarding industry.

Rail is another mode used in the movement of goods in the international freight forwarding industry. Rail is one of the primary modes of transportation used for the movement of goods between Malaysia and Bangkok. In Malaysia, Keretapi Tanah Melayu Berhad ("KTMB") is the sole operator for rail services accessible from seaports and inland container depots ("ICD"). The rail line stretches from the southern borders of Johor through the northern borders in Padang Besar. From Padang Besar, KTM in cooperation with the State Railway of Thailand ("SRT") extends the rail service to and from Bangkok. This mode of transport connects Malaysia with Bangkok in a shorter transit compared with sea.

Cargos are also delivered internationally via air but are usually limited to smaller cargos, high-value and sensitive goods, and urgent deliveries. This explains the high delivery cost in the movement of goods via air.

The growth in multimodal international freight forwarding in Malaysia has been accelerated by the Government's infrastructure development plans over the recent years. The 8MP plans to develop an integrated multimodal transport solution and further enhance Malaysia's position as an international trans-shipment hub. The facilitation of the growth of the manufacturing and services sector, coupled with the growth in demand for containerized cargos, have paved the way for a higher demand for multimodal international freight service providers in the international freight forwarding industry. Together, these will amplify the capacity of international trade activities and the international freight forwarding industry in Malaysia.

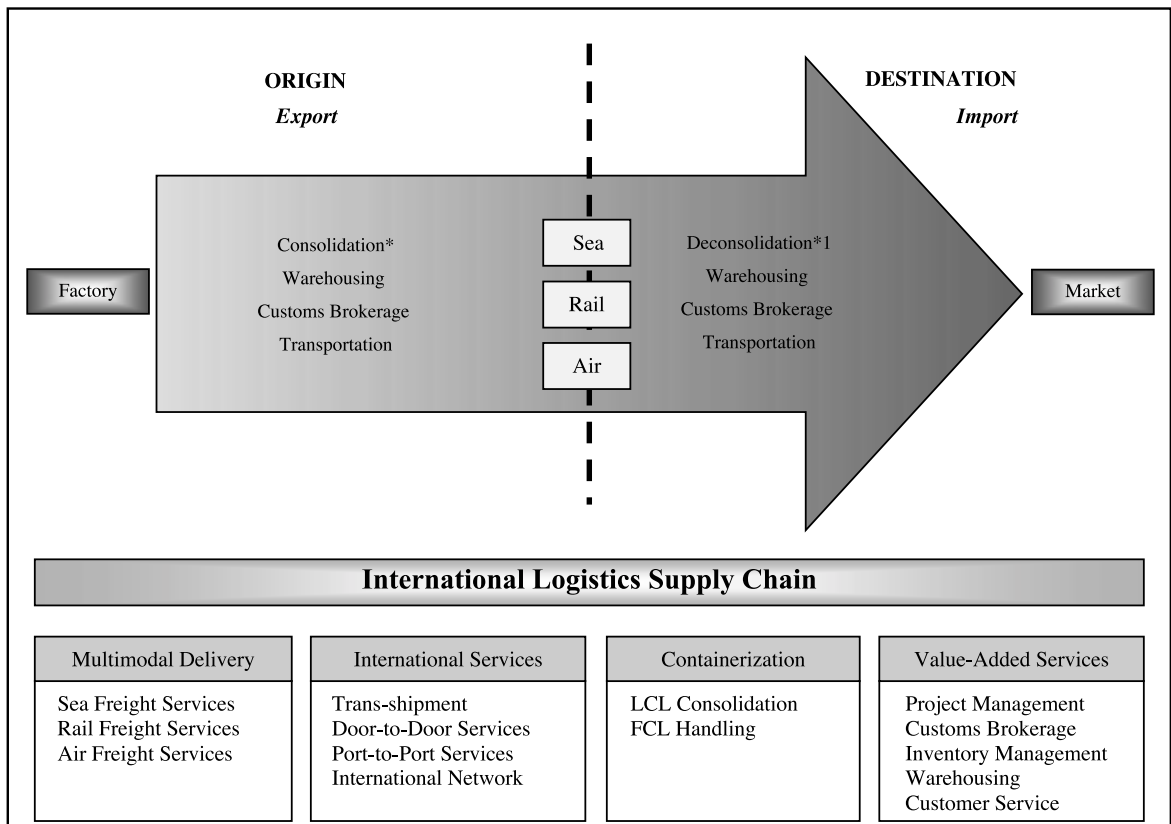
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**1-1 Introduction**

The role of multimodal international freight service providers is a crucial one in the international freight forwarding industry. It encompasses the provision of services in the physical distribution of goods on an international scale through multimodal forms of transportation. The range of services and mobility requirements involved in the movement of goods from points of production to final points of sale and consumption is part of a value-added activity in the international logistics supply chain. It is value-added because international freight service providers form part of the set of all operations required for the goods to be made available in the international markets or to specific destinations. The value-added activity involved in the movement of goods comprises all functions of movement and handling of goods, particularly multimodal transportation services (sea, rail and air), trans-shipment and warehousing services (e.g. consignment, storage, inventory management) etc. Chart 2-1 illustrates a simplified diagram of a typical point-to-point movement of goods and the value-added services provided by multimodal international freight service providers in an international logistics supply chain.

Chart 2-1: Simplified Diagrammatic Illustration of Point-to-Point Movement of Goods in an International Logistics Supply Chain



Source: Frost & Sullivan, 2004

\* Consolidation & deconsolidation of cargos include stuffing/unstuffing, handling etc.



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**14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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**F R O S T & S U L L I V A N**

Multimodal international freight service providers function as value-added logistics providers. They provide time-definite transportation of LCL and FCL cargos between markets worldwide, offering international capability with local expertise. They organize the movement of goods from origin to destination among sea, rail and air carriers; pick-up and delivery of goods; and customs clearance.

Exporters/importers will find many advantages in working with multimodal international freight service providers. Multimodal international freight service providers are able to provide maximum space availability and flexibility as well as frequent sailing (via sea) at more competitive rates, through their international network/alliances or contracts with multiple major transporters (via sea, rail, and air). They also help exporters/importers choose and manage the best transportation options for the movement of goods through international borders. Multimodal international freight service providers also operate a network of distribution centres and warehouses for cargo storage, which are essential facilities in international trade and trans-shipment. This is especially crucial for the trans-shipment of LCL cargos in Free Commercial Zone ("FCZ") areas. Other benefits include order processing and arrangements, customs brokerage, project management, etc.

The movement of goods from the production site or from origin to the final destination of the consignee is a complex undertaking. The role of a multimodal international freight service provider is a crucial one and is widely seen as a fulcrum in the international logistics supply chain. They offer a wide range of services in overseeing the point-to-point movement of goods internationally with the option of multi modes of transportation. The range of services necessary is dependent on the nature of the freight and its destination.

International freight service providers must be differentiated from domestic freight service providers. The difference is clear. It lies in the geographical reach of the freight service providers. International freight service providers are involved in the synchronization of the flow or movement of goods through international network connections. Domestic forwarding of goods will be confined primarily to the transportation of goods within Peninsular Malaysia and East Malaysia. Hence, the range of services offered by domestic freight service providers is also limited. The involvement of multimodality in the movement of goods by international freight service providers provides them with a clear competitive advantage.

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

Multimodal international freight service providers facilitate the movement of goods by providing a wide range of advisory and strategic services to the exporter/importer. They are multimodal specialists and are well placed to select the most strategic mode of transportation best suited for the type of product and the final destination at the very competitive costs. Most multimodal international freight service providers handle sea, land and air transportation. The range of value-added services apart from the transportation of goods include booking space and customs clearance for air cargo, sea cargo, land transportation, rail freight services, door-to-door pick up and delivery services etc. The multimodality of international freight service providers is essential to increase efficiency in the exports and imports of goods worldwide.

Globalization has influenced the gradual flow of goods internationally and in a more liberal fashion. Today, the flow of goods – particularly large scale goods – are directed through major gateways and hubs, mainly large ports and major airports, also highway or rail intersections with access to a market area. The changing trend and increasing capacity of globalization and market liberalization has been accompanied by a changing, and increased necessity, for multimodal international freight services.

### ***Service Definition***

The fundamental role of multimodal international freight service providers is to provide services for multimodal point-to-point distribution of goods on an international scale in the most economical, efficient and flexible manner. Figure 2-8 below illustrates the services offered as well as the types of involvement and types of cargo.

Figure 2-8: Range of Services offered by an International Freight Service Provider

Services	Involvement	Cargo Type
Sea Freight Services	Worldwide Import	LCL /FCL
	Worldwide Export	LCL/FCL
	Trans-shipment	LCL/FCL
Rail Freight Services	Import (Thailand)	LCL/FCL
	Export (Thailand)	LCL/FCL
Air Freight Services	Worldwide Import	Palletize Cargo/ULD*
	Worldwide Export	Palletize Cargo/ULD*
Supporting Services	Warehouse and Distribution	Bonded/General
	Custom Brokerage	Import/Export
Project Management		

Note: \*ULD is the generic term for air cargo containers

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**14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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**F R O S T & S U L L I V A N**

There are primarily four types of services offered by international freight service providers in Malaysia: the three main transportation modes of freight services – sea freight services, rail freight services, and air freight services – and supporting services. Each respective transportation mode of freight services involves international trade or export/import of goods. Sea freight services and rail freight services are generally the preferred mode of choice for containerized cargos i.e. LCL and FCL. Air freight services are generally used for smaller cargos involving urgent deliveries. Hence, the cost involved in air freight services is more expensive and is usually billed by volume-weight or actual weight in kilograms. The respective services are examined further in the following sections.

*Sea Freight Services*

Sea freight is the most widely used mode in the movement of goods globally. It is also the most preferred choice of carrier for containerized cargos. Containerized cargos can be transported from origin to destination by either LCL consolidation or FCL.

LCL containerized cargos are common in point-to-point distribution when specialized and specific orders have to be satisfied. LCL consolidation involves the consolidation of multiple and/or smaller consignments into a container. Sea freight services and/or rail freight services are generally the mode of choice for LCL cargos. Full containerized cargos are also generally moved via sea and rail for both import and export. An international freight service provider also provides freight services as an NVOCC, whereby they become the intermediary agent between the customers and the carriers. NVOCC is short for Non-Vessel Operating Common Carrier which involves the purchase and selling of space provided by shipping carriers.

International freight service providers often have a strong international network or alliances with major ocean carriers and international agents/partners located at major ports of the world. These alliances and/or partnerships provides exporters/importers the benefit of wider frequency and flexible sailing schedules, additional vessel space, and faster transit time and often cheaper rates. This is essential in both LCL consolidation and FCL handling of highly specified delivery schedules of export/import goods.

The international network and alliances of highly qualified agency/partners enable international freight service providers a much wider geographical reach of export/import markets. This is a competitive advantage as it provides the ability to penetrate new or

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

emerging export/import markets which may not be within the reach of less-established players. The movement of exported/imported cargos under the sea freight services generally takes place at the major ports in Malaysia, namely Port Klang, Penang, PTP, Pasir Gudang Port, etc.

*Rail Freight Services*

In Malaysia, this service mode of choice involves the movement of cargos between Malaysia and Thailand. The rail line stretches from the southern borders of Johor through the northern borders in Padang Besar. From Padang Besar, KTM in cooperation with the State Railway of Thailand (“SRT”) extends the rail service to and from Bangkok. This mode of transport connects Malaysia with Bangkok in a shorter transit time compared with sea. Chart 2-2 provides an illustration of the connecting rail line terminals provided by KTMB between Malaysia and Thailand.

Chart 2-2: Connecting Rail Line Terminals between Malaysia and Thailand



Source: KTMB

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**14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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**F R O S T & S U L L I V A N**

KTMB is the sole provider of the rail line services in Malaysia and its rail line is accessible from the seaports to Inland Container Depot (“ICD”). KTMB’s services for freight comprise of:

- Domestic containerized freight services
- Conventional freight services - bulk carrier, cement, fuel, etc.
- Land bridge services to Thailand

International freight service providers, through KTMB, organize both LCL consolidation and FCL for exports/imports. Rail freight between Port Klang and Bangkok is accepted favorably by exporters/importers because it takes approximately three days and effectively lessen the delivery time by about 2-3 days as compared with sea freight.

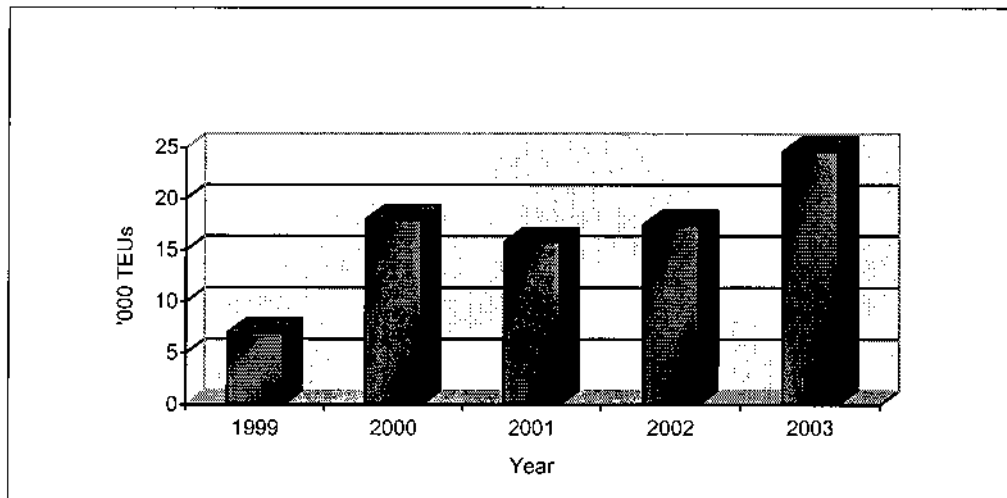
Currently, Port Klang is directly well-linked through the Malaysian rail line network to various sea and inland ports in Malaysia, Thailand and Singapore. A total of 22 block train services moves in and out of the terminal on a weekly basis. There are currently 11 outbound services per week, each service connecting the terminals between Malaysia and Thailand.

The Malaysian railways (KTMB) with SRT commence container block train service between Malaysia (Port Klang, Kuala Lumpur, Penang) and Thailand (Bangsue and Lat Krabang, Bangkok) since 1999. The service runs a distance of 1,500km with approximately 60 hours. As of October 2003, KTMB diversified its services to seven routes with 32 block train services per week. The seven routes are Port Klang-Bangkok, Port Klang-Lat Krabang, Port Klang-Hatyai, Port Klang-Surat Thani, Singapore-Bangkok, Singapore-Hatyai, and Singapore-Surat Thani. The capacity of the block train is set at a minimum capacity of 24 wagons or 48 TEUs and the maximum capacity of 27 wagons or 54 TEUs. Figure 2-3 on the following page shows the number of containers in TEUs carried by these routes since the commencement of operation in 1999 up to October 2003. The composition of goods consists approximately of 40% general merchandise, 20% foodstuff, 20% manufactured goods, 10% electrical parts, 5% of rubber, the remaining 5% being miscellaneous goods.

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

F R O S T &amp; S U L L I V A N

Chart 2-3: KTMB Railways International Container Service for the Period 1999–Oct 2003



Source: KTMB and Asia Development Bank, 2003

The potential cargo demand since the commencement of the rail freight services motivated the two railways authorities, KTMB and SRT, to participate in the possible operation of railway land-bridge between Bangkok and Singapore. The major ultimate transformation of the railways land-bridge into reality was mainly contributed by the following factors:

- (a) AFTA benefits – trade tariff rates had been continuously reduced in line with the commitments under the AFTA framework; this gave substantial incentive to embark on cross-border cargo business
- (b) Privatization – both the railways operators, KTMB and SRT, had been under pressure of privatization as the privatization of selected public services companies was one of the important policy agenda of the two governments. Therefore, the management of KTMB and SRT understood the necessary shift from conventional public services towards market-oriented efficient services
- (c) Competitive advantage – dialogues between public and private sectors in the transportation business has been activated to realize mutual benefits and to gain strong competitiveness
- (d) Efficient cargo traffic management – requests by privatized public services and port operators to diversify its services to achieve more efficient cargo traffic management
- (e) Trans-shipment potential – trans-shipment of Bangkok bound cargo via Port Klang and then by rail to Bangkok.

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**14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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**F R O S T & S U L L I V A N**

- (f) Efficiency – scheduled container block train service between Bangkok and Port Klang could offer comparative advantage over the conventional route of Port Klang-Singapore-Bangkok, in terms of time and cost
- (g) New business opportunity – favorable political and cultural relationship enable both countries, Malaysia and Thailand, to embark on new business opportunities.

*Air Freight Services*

The goods carried through air freight are generally high-value and time sensitive goods. Due to the speed of delivery, air freight is generally more expensive compared with sea and rail freight. This is because air freight is billed by the volume-weight or actual weight in kilograms.

*Supporting Services*

Other supporting services that are provided include warehousing and inventory management, customs brokerage, project management, distribution, etc.

*Market Segmentation*

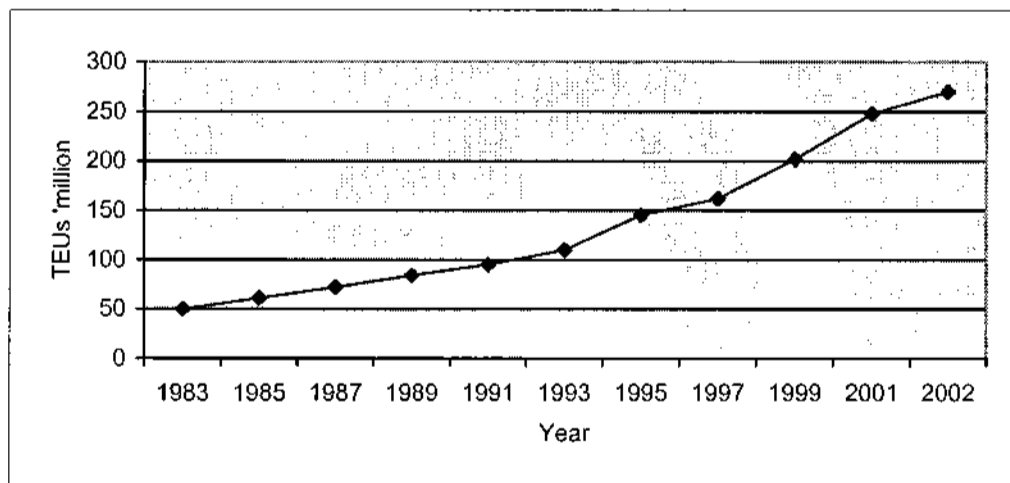
The international freight forwarding industry can be segmented into sea freight services, rail freight services, air freight services and other supporting services.

Of the three multimode freight service segments of the market – sea, rail, and air – the highest throughput is generated from sea freight. The bulk of Malaysia's throughput from sea freight comes from the steady heightened demand of containerized goods from exporters and importers. Containerized trade on a global basis currently accounts for approximately 62.0 per cent of the total freight tonnage moved and over the past 20 years, containerized cargo has expanded by an average of 9.8 per cent per annum (*Source: Drewry Shipping Consultants, 2004*). This is indicated in Chart 2-4 below. Malaysia is strategically located within striking distance of major trade routes from the East and West. The Strait of Malacca is the shortest sea route between East Asia and the Western countries. Every year, there are approximately 50,000 vessels moving through it, making it one of the busiest waterways in the world.

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

F R O S T &amp; S U L L I V A N

Chart 2-4: Global Throughput (in TEUs 'million)



Source: Drewry Shipping, 2004

An average of 25,000 billion ton-km of freight is transported annually by sea transportation compared to 7,000 by rail and 3,000 by road. This represents 71 per cent of all freight shipped globally. In terms of weight, 96 per cent of the world trade is carried via sea freight. (Source: *The Geography of Transport Systems*, 2002)

Multimodality represents an important component of an international freight service provider's business as it supports mobility and movement of goods. Major modes of transportation include sea, rail, and air transport, each having to adapt to specific freight and schedule demands. This adaptation has also been geographical as mobility is being serviced differently around the world. The last decades have also underlined the growing importance of multimodalism in the international freight forwarding industry, which enabled a higher level of integration between modes, mainly through containerization i.e. LCL consolidation and FCL handling.

Multimodal transportation has opened many opportunities for complementarity between modes. It should be noted that the choice of mode and its flexibility is one of the most basic consideration in the selection of international freight service providers in the international freight forwarding industry.

Some international freight service providers specialize in one or two transportation modes such as sea or air. Some have extensive networks that will prove more effective than others. However, the number of international freight service providers in Malaysia with both the *multimode specialization* of transportation and *extensive international network* are limited despite the large number of players in the international freight forwarding



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**F R O S T & S U L L I V A N**

industry. The identified leading multimodal international freight service providers in Malaysia include Freight Management (M) Sdn Bhd ("FMM"), Globelink Container Line (M) Sdn Bhd ("Globelink"), Interocean Freight Services Sdn Bhd ("Interocean Freight"), and Tri-Mode System (M) Sdn Bhd ("Tri-Mode").

***Substitutes and Competing Services***

There is no external substitute or competing service to the multimodal international freight service providers in the international freight forwarding industry. Multimodal international freight service providers principally derive its revenue from the provision of value-added services to the international logistics chain.

Although there is no substitute for the services provided by multimodal international freight service providers, competition amongst the players remains the main threat nonetheless. Players in the industry will compete amongst each other on the range of services offered and on pricing.

***Industry Life Cycle***

The international freight forwarding industry in Malaysia has reached a maturity stage. Nevertheless, the industry remains extremely competitive and will experience stages of growth in view of increasing growth in international trade through globalization and market liberalization. However, the ever-demanding efficiency of cross-border movement of goods by international traders has progressively shifted the paradigms of the international freight forwarding industry's life cycle. This is evident in the introduction of integrated one-stop freight service providers, the adoption of business-to-business, and e-commerce systems to enhance the logistics supply chain, and the increasing merger of alliances between international freight service providers across the world.

***Dependence on Other Industries***

The international freight forwarding industry in Malaysia depends largely on the performance of manufacturing and trade sectors of the economy. Essentially, it is the growth of production (especially manufacturing) and consumption (consumer and industrial goods) activities and infrastructure activities (roads, ports etc) that are basic drivers of the international freight forwarding industry.

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

***Key Players in the Industry***

The international freight forwarding industry in Malaysia is a highly fragmented industry and comprise of many players. Hence, the identification of leading multimodal international freight service providers by Frost & Sullivan in this report does not constitute and is not limited to the actual quantity of leading players present in the international freight forwarding industry in Malaysia. The leading international freight service providers in Malaysia can generally be categorized into the respective market segments, mainly sea freight services and rail freight services. These two market segments are the predominant segments in the international freight forwarding industry in Malaysia. Due to the restraints and unavailability of certain specific data, the leading players listed in this report are identified through Frost & Sullivan's secondary research by means of interviews and questionnaires with relevant parties involved in the international freight forwarding industry. These parties include port and rail operators, major shipping lines, and freight service companies.

***Sea Freight Services***

Some of the leading international sea freight service providers in the Malaysian containerized sea freight services segment are listed in Figure 2-9. These international freight service providers have been identified in terms of the range of services offered to customers and by market presence in the international export/import of goods.

Figure 2-9: The Leading Players for International Containerized Sea Freight Services in Malaysia for LCL Consolidation and FCL Services (Sorted by Alphabetical Order)

LCL	FCL
Freight Management (M) Sdn Bhd	Freight Management (M) Sdn Bhd
Globelink Container Line (M) Sdn Bhd	Globelink Container Line (M) Sdn Bhd
Interocean Freight Services (M) Sdn Bhd	Interocean Freight Services (M) Sdn Bhd
Malaysia Groupage Services Sdn Bhd	Multicargo Express Sdn Bhd
Nippon Express (M) Sdn Bhd	Quanterm Freight (M) Sdn Bhd
Quanterm Freight (M) Sdn Bhd	Topocean Consolidation SVC Sdn Bhd
Seaswift Freight Systems (M) Sdn Bhd	Transways Logistics (M) Sdn Bhd
Tri-mode System (M) Sdn Bhd	Tri-Mode System (M) Sdn Bhd
WSA Lines (M) Sdn Bhd	WSA Lines (M) Sdn Bhd

Source: Frost & Sullivan, 2004

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

The leading international freight service providers listed in Figure 2-9 offers international movement of containerized goods via sea freight. This includes LCL consolidation and FCL services for both exports/imports of cargos, as well as value-added services such as warehousing and inventory management, distribution, custom brokerage, project management etc. These arrangements can be made for the total supply of services for an end-to-end delivery or as part of the international logistics supply chain dependent on customers' requirements.

*Rail Freight Services*

There are currently only three players involved in the provision of international rail freight services in the movement of exported/imported goods in Malaysia. The leading players are as listed in Figure 2-10 below.

Figure 2-10: The Players for International Containerized Rail Freight Services in Malaysia for LCL Consolidation and FCL Services (Sorted by Alphabetical Order)

LCL	FCL
Freight Management (M) Sdn Bhd	Freight Management (M) Sdn Bhd
TS TransAsia Sdn Bhd	TS TransAsia Sdn Bhd
TS Allied Trans Sdn Bhd	TS Allied Trans Sdn Bhd

Source: Frost & Sullivan, 2004

Freight Management (M) Sdn Bhd ("FMM") is one of three leading international freight service providers in Malaysia offering rail freight services. FMM commenced its rail freight services in 1999 and have since become one of three leading Malaysian international freight service providers offering rail freight services for exports/imports of goods between Malaysia and Thailand. FMM is currently managing approximately 1,600 TEUs a month. However, they plan to increase the frequency of their services thus, increasing its container movements to approximately 2,000 TEUs a month.

TS TransAsia Sdn Bhd ("TS TransAsia"), formerly known as TS TransRail Sdn Bhd, is part of the Tuck Sun Logistics Group. TS TransAsia offers terminal-to-terminal rail freight service between Malaysia and Thailand. It also offers overland trans-shipment option between Port Klang, Malaysia and Bangkok, Thailand.

FMM together with TS TransAsia are the pioneers in the Landbridge services for containerized and conventional cargos between Malaysia and Thailand back in 1999.

TS Allied Trans Sdn Bhd ("TS Allied") is believed to be a third party carrier and provides only rail freight services from Port Klang to Haadyai.

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

**Market Share**

The international freight forwarding industry in Malaysia comprise of many players providing international freight services. Due to the industry's highly fragmented nature, capturing an accurate market share amongst the international freight service providers remain a challenging task. However, the industry boasts of several leading local players with substantial market presence in the industry. The leading international freight service providers in Malaysia in the containerization segment of the international freight forwarding industry, for both LCL consolidation and FCL services, are identified as listed, but not limited to, in Figure 2-11.

Figure 2-11: The Leading Players for International for LCL Consolidation and FCL Services in Malaysia (Sorted by Alphabetical Order)

LCL	FCL
Freight Management (M) Sdn Bhd	Freight Management (M) Sdn Bhd
Globelink Container Line (M) Sdn Bhd	Globelink Container Line (M) Sdn Bhd
Interocean Freight Services (M) Sdn Bhd	Interocean Freight Services (M) Sdn Bhd
Malaysia Groupage Services Sdn Bhd	Multicargo Express Sdn Bhd
Nippon Express (M) Sdn Bhd	Quanterm Freight (M) Sdn Bhd
Quanterm Freight (M) Sdn Bhd	Topocean Consolidation SVC Sdn Bhd
Seaswift Freight Systems (M) Sdn Bhd	Transways Logistics (M) Sdn Bhd
Tri-mode System (M) Sdn Bhd	Tri-Mode System (M) Sdn Bhd
WSA Lines (M) Sdn Bhd	WSA Lines (M) Sdn Bhd

Source: Frost & Sullivan, 2004

**Competitive Analysis**

Multimodality in freight services has become an increasingly important element within the range of services offered by the international freight service providers. Multimodality compliments and value-adds the range of services offered in the movement of goods internationally. The pool of international freight service providers, not limited to those listed in Figure 2-11, can be further classified into multimodal international freight service providers. This classification encompasses international freight service providers in Malaysia who are able to offer multi-mode movement of goods. The number of international freight service providers in Malaysia with both the *multimode coverage* of transportation and *extensive international network* are limited despite the large number of players in the international freight forwarding industry. FMM has been identified as a leading multimodal international freight service provider in this classification.

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**14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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**F R O S T & S U L L I V A N**

FMM is principally involved in the provision of multimodal international freight services, comprising LCL consolidation and FCL, via sea, rail, and air. In addition to that, FMM caters to LCL consolidation domestically between Peninsula Malaysia and East Malaysia. FMM is regarded as one of the leading Malaysian international sea freight service providers in the containerization segment. FMM is also one of the leading international rail freight service providers into Thailand, out of the only three players in international rail freight services. These are the main leading attributes of FMM's position as the market leader as a multimodal international freight service provider in the international freight forwarding industry.

FMM also provides a suite of supporting point-to-point services which include warehousing and distributions, customs brokerage and project management, hence making the FMM an essential link in international trade between Malaysia's exporters/importers and their international counterparts.

## **1-2 Industry Dynamics**

### ***Critical Success Factors***

- Long established relationship with international network/alliances – multimodal international freight service providers are required to have international network/alliances to remain competitive on a global scale. This can be in the form of having a branch or offices in certain parts of the world or having partners/agents around the world to ascertain that the goods are well managed.
  
- Pricing – competitive pricing is essential in the movement of goods on an international scale. With global competition exporters/importers are hard pressed to source for the best possible freight charges to help keep their cost low. International freight service providers with substantial volume of freight are able to obtain volume discount from carriers, thus enabling the exporters/importers to benefit from the discount

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**14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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**F R O S T & S U L L I V A N**

- **Reliability** – Most exporter/importers are now shipping their goods on a JIT (“Just-In-Time”) concept, hence efficiency and reliability in the movement of goods are crucial to remain competitive in the international freight forwarding industry. International freight service providers with proven track records, established business processes, and service orientated are able to provide an efficient coordination of freight movement to ensure that cargos are shipped as planned. In addition, international freight service providers with fixed or committed regular schedules, allow exporters/importers to meet the demand of JIT.
- **International certification and recognition** – ISO is the world’s largest developer of standards. Its principal role includes the development of standards which will bring about crucial positive economic and social repercussions. The ISO 9000 category, in particular, is among ISO’s most widely known and successful standards to date. It is concerned with quality management and has become an international reference for quality requirements in business to business dealings. International freight service providers with the ISO 9000 category international standardization award indicate recognition of their quality management and customer service. This is widely regarded as one of the critical success factors in the international freight forwarding industry since it recognizes the acceptability of a given player’s quality of management and customer service at an international level.
- **Extensive port coverage** – International freight service providers with an extensive port coverage means exporters/importers need only to deal with a single party for all their international freight service needs. This is a critical success factor in the international freight forwarding industry as most exporter/importers deals with buyers/suppliers in multiple countries. Hence, dealings with such International freight service providers will lessen their shipping coordination time and effort.
- **Customer Service** – Accurate and prompt service feedbacks or information allows exporters/importers to coordinate and plan their export/import more efficiently. A breakdown in customer service may mean that the recipient/consignee do not have sufficient materials to continue their productions or sales. The impact of such failures is far reaching as this may cause a chain reaction of failures through the entire supply chain of goods and services.

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

Therefore, an adequately trained customer service team backed with advance IT technology is a critical to the success in the provision of international freight services.

*Key Industry Drivers*

Figure 2-12: Market Drivers Ranked in Order of Impact, 2004-2008

Rank	Market Driver	Short-Term Impact	Medium-Term Impact
		2004-2005	2006-2008
1.	Worldwide network/alliances	High	High
2.	International trade – exports & imports	Medium	High
3.	Demand for manufactured goods	Medium	High
4.	Demand for LCL shipment	Medium	High

Source: Frost & Sullivan

*Worldwide Network and Alliances of Freight Service Providers*

International freight service providers with a strong global network and alliance would be in demand. The impact of this factor is expected to remain high during the forecast period.

*International Trade Activities - Import and Export*

Trade activities such as imports and exports drive the international freight forwarding industry. It is through international freight forwarding that goods are able to be transported into the markets all over the world. The impact of this factor is expected to remain medium to high during the forecast period, as global economic growth contributes to higher frequency of international trade activities. This will have a spill-over effect on the international freight forwarding industry.

*Increase in Demand for Manufactured Export Goods*

The manufacturing sector in Malaysia continued its uptrend as output increases. This growth is due to the robust growth in both export and domestic-oriented industries. Higher growth in the electronics and electrical sector helped strengthen the export-oriented industries, particularly the increasing global demand for electronic products such as computers, communications and cellular devices. Expansion in the domestic-oriented

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

industries was contributed by higher global demand for Malaysia's products, e.g. rubber products. The impact of this driver is expected to remain medium to high during the forecast period.

*Demand for Less Than Full Container Load ("LCL") Freight Shipments*

Companies that have LCL freight shipments will seek the services of an international freight service provider as the latter will have the ability to coordinate and consolidate these shipments accordingly. Most companies regardless of size would have needs to ship their cargo as LCL freight, e.g. small orders, semi-finished products, small manufactured items, partial shipment of orders, samples etc. Moreover, with the realization of AFTA, there will be an increase of exchange of semi-finished products between centres/factories located in the ASEAN region. The impact of this factor is expected to remain medium to high in the forecast period.

*Key Industry Restraints*

Figure 2-13: Market Restraints Ranked in Order of Impact, 2004-2008

Rank	Market Restraints	Short-Term Impact	Medium-Term Impact
		2004-2005	2006-2008
1.	Global Economic Slowdown	Medium	High
2	Seasonality	Low	Low
3	Malaysian Ports Security Risk	Low	Low

Source: Frost & Sullivan

*Economic Slowdown*

Any slowdown in global economy will inevitably affect the balance of demand and supply of regional economies. Consumption and demand for manufactured goods will decline, followed by lower outputs in the global manufacturing industry. The result is lower international trade activities i.e. export/import. The impact of this driver is expected to remain medium to high during the forecast period.

*Seasonality*

The consumption or demand for some goods may be highly seasonal. The peak seasonal periods are usually followed by troughs or dips in demand in the short term. This will affect the international freight forwarding industry. The impact of this restraint is expected to remain low throughout the forecast period.



## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

*Malaysia Ports Security Risk*

After the 11 September 2001 ("911") terrorist attacks, security concerns have been high. The impact of this factor is expected to remain low during the forecast period as confidence will be restored. Malaysia's recent participation in the Container Security Initiative is expected to ease the flow of goods to the United States of America.

*Barriers to Entry and Exit*

Figure 2-13: Barriers to Entry and Exit Ranked in Order of Impact, 2004-2008

Rank	Market Restraints	Short-Term Impact	Medium-Term Impact
		2004-2005	2006-2008
1.	Capital	High	High
2	International Networking	High	High
3	Established Track Record	High	High
4	Pioneering Advantage	High	High
5	Industry Expertise and Skill	High	Medium
6	Professional Indemnity and Liability Insurance	Medium	Medium
7.	Understanding of freight procedures and regulations	Medium	Medium

Source: Frost & Sullivan

*Capital*

High capital outlay will be required to operate as a competitive international freight service provider. Capital outlay are channeled to setting up costs, warehouse facilities, IT infrastructure, labour costs etc. The high capital involved in setting up and sustaining the competitiveness as an international freight service provider can hinder potential entrants.


*International Networking*

Building a viable and strong international network is not an easy task for a new entrant as relationship with partners need time to be established. New entrants in the industry may not have the long established relationship compared with established local players with their respective international partners. This can hinder the international movement of goods as well as affect market penetration, and as such poses a high entry barrier.

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**14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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F R O S T  S U L L I V A N*Established Track Record*

Potential customers would prefer a reliable and reputable international freight service provider with an established working knowledge and reputation in the international freight services community. This would pose a challenge to new entrants as they would face difficulty in establishing their credentials as they are new to the industry and have no proven results or records. This poses a high barrier to entry.

*Pioneering Advantage*

The pioneering efforts that break into new area of business opportunities are a deterrent to new entrants, who may not have the similar established set-up, experience and resources to sustain the initial heavy cost and venture.

*Industry Expertise and Skill*

It is relatively important to have the industry expertise and skill. These operational processes are streamlined and improved through the years and information technologies are used to optimize operations. Thus, for a new entrant, time will be needed before the organization is structured and well versed with the industry.

*Professional Indemnity and Liability Insurance*

As a responsible international freight service provider handling cargo movement, all aspects of the freight services operations ought to be sufficiently insured against any eventualities and mishaps. Their ability to provide adequate, and sometimes costly, insurance coverage may hinder new entrants that are unable to cope.

*Understanding of Freight Procedures and Regulations*

Due to the vast and diverse freight regulations and procedural requirements, new entrants, especially foreign entrants, will experience much difficulty in penetrating the local market.

**1-3 Government Directions, Regulations, Policies and Incentives**

The long term growth prospects of Malaysia's international freight forwarding industry looks encouraging following last year's Mid-Term Review of the 8MP, which is the country's five-year development blueprint spanning the period 2001-2005. The revised growth projection of Malaysia's GDP at an average rate of 6.0-7.0 per cent per annum in

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**14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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**F R O S T & S U L L I V A N**

2004 and 2005, coupled with the further allocation of development funds in the economic sector, indicates a spell of growth period ahead for the industry.

The Malaysian Government revealed a further RM50 billion has been allocated for development expenditure in 2004-2005. The new allocation of development funds would be set aside mainly for the economic sector (42 per cent), followed by the social sector (41 per cent), security sector (10 per cent), and for general administration (6.8 per cent). Allocation for the economic sector will be primarily channeled for infrastructure and utility development. An allocation of approximately RM12.7 billion will go towards the financing of newly-approved infrastructure projects in the transport sub-sector – of this amount, RM8.3 billion will be set aside for construction of roads to improve accessibility and open new corridors for development. Further funds are also allocated for the development of the KTMB rail connections and the port industry.

The international freight forwarding industry in Malaysia has also received positive encouragement by the Transport Ministry of Malaysia to improve its performance and competitiveness on a global scale, with recent strong emphasis on inflow and retention of “invisible” funds through trade. Local players in the industry are urged to co-operate amongst themselves in order to boost greater utilization of Malaysian services in the international freight forwarding industry.

Future prospects of the international freight forwarding industry in Malaysia is encouraging as the Government has, under the 8MP, placed continuous emphasis on the development of the supporting role and utilities to facilitate the growth of other sectors, particularly the manufacturing and services sectors. This is in line with the Government’s plan/efforts to provide an integrated multimodal logistics solution to the international freight forwarding industry and enhance Malaysia’s position as a central trans-shipment hub in South-East Asia. This will help boost the international freight forwarding industry in Malaysia.

At present, there is no official governing body that governs the international freight forwarding industry in Malaysia. However, there are authorities that regulate the supporting service activities in Malaysia, namely:

- (i) The Royal Malaysian Customs (under the Ministry of Finance); and
- (ii) The Commercial Vehicles Licensing Board (“CVLB”) (under the Ministry of Entrepreneur and Co-operative Development).

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14. **INDEPENDENT MARKET RESEARCH REPORT** *(Cont'd)*

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All companies in the freight forwarding industry that operate in or provide customs brokerage services and bonded warehousing services require license(s) issued from the Royal Malaysian Customs. Under the Royal Malaysian Customs regulation, the company directors are required to demonstrate proven knowledge of customs procedures and attend an interview with the Customs Department. Companies are assessed on their qualifications and proven knowledge before the issuance of license. The issuance of license for supporting services in customs brokerage and bonded warehousing is subject to approval by the Ministry of Finance.

The CLVB, under the Ministry of Entrepreneur and Co-operative Development, controls the issuance of licenses for operation of commercial vehicles, namely carrier vehicles (such as trucks and prime movers) and public service vehicles. The CLVB aims to ensure that commercial vehicle requirements are adequate and met, while rendering efficient and effective service in tandem with current developments.

## 2. Industry Outlook

### 2-1 Entry of New Players

As the industry is highly fragmented, there are players entering and exiting the market as well as those hanging on to survive. It is an uphill task trying to compete with and against the existing established international freight service providers.

This is due to the competitive structure of this industry on price as well as range of services. The nature of the business is as such, an entrant would need a high capital outlay as well as to create and establish ties amongst the other players in the industry. Established relationships and extensive network with the sea, rail and air carriers as well as international partnerships with agents/partners are also vital, especially involving the movement of goods on a global scale.

As there are many dealings with trade externally, it is essential to build international network connections globally. Existing strongly established network in the exclusive international freight forwarding industry is a strong barrier to entry for new players.

### 2-2 Technology Advancement

Developments of in-house softwares to support the increasing volume of documentation resulting from increasing trading volume. Provides international freight service providers with swifter response capabilities to meet customers' needs and involves the minimization of paper trail. This can also minimize miscommunication between office and physical loading/unloading bays

As the world advances with more innovative and sophisticated technological advancements, employees in this industry would have to be trained and taught about the additional skills and knowledge required. Moreover, with the rapid growth of the Internet and the usage of various Information Technology (IT) applications, employee's skills in multi-tasking, productivity and efficiency are very important as this gives the company a competitive edge over the other market players.

### 2-3 Industry Outlook

In the era where technological advances and evolving trends are occurring at a phenomenal rate and product life cycle is getting shorter, it has become mission critical to get new products to the market as quickly as possible. This means that the role of multimodal international freight service providers has become even more vital to the competitive growth of manufacturers. They need a reliable logistics partner who can effectively build and manage their supply chains, leaving them free to concentrate on their strategies and core business issues like product development. In addition, the fast growing E-commerce has put the fulfillment logistics in the forefront. There is a demand for specialist knowledge, need for multi-skills and multi-disciplines.

Manufacturing becomes more complex and time sensitive, businesses require good logistics to ensure that their products get to the market in good time. International freight service provider's growth strategy should be to expand local businesses and also to regionalize services through joint ventures, branch offices and business tie-ups.

Product and technology life cycles are becoming shorter, hence there is a need to fully exploit the relatively short market window before competition emerges. Therefore, there is extreme pressure on companies to be cost-effective and price competitive. As a result, many have outsourced non-core activities and functions to remove inefficiencies within the organization. Hence, the emergence of smaller fringe freight service providers.

Manufacturing and markets are no longer restricted to national boundaries. Production locations shift according to cost and skills availability. As a result, large volumes of components, semi-finished and finished products are moved between manufacturing locations and the market place across borders. The management of international logistics supply chain provided by the international freight service providers is critical to cost reduction through reduced inventories, obsolescence, shipping errors, storage space and administration.

As manufacturing becomes more complex and time sensitive, coupled with the need to penetrate markets in light of globalization and market liberalization, businesses require reliable and efficient value-added logistics services to ensure that their products get to

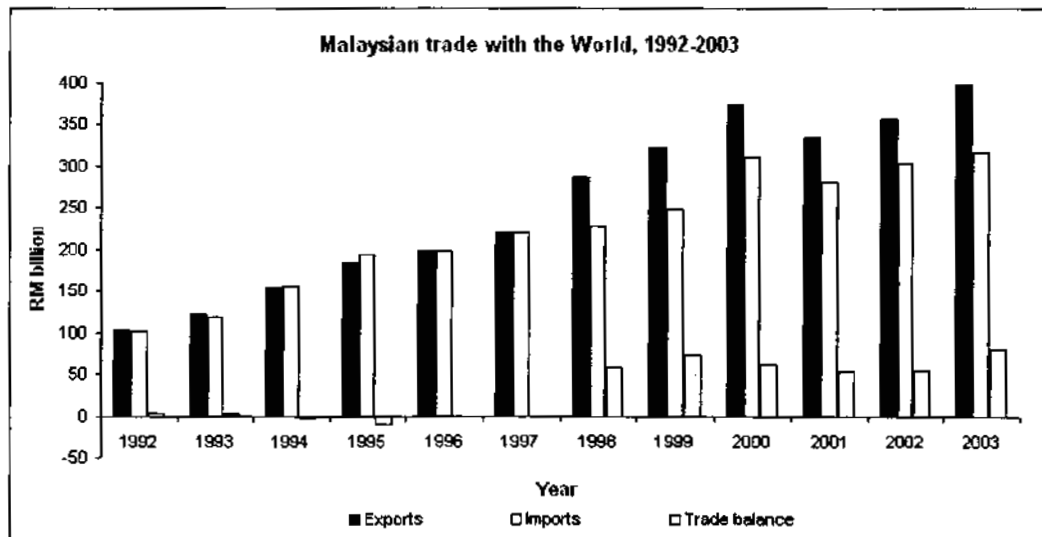
## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

market in good time and remain competitive. The role of multimodal international freight service providers becomes increasingly imperative.

Malaysia's improved economic performance of 2003 has created favorable conditions for further growth in 2004. GDP growth is forecast to edge up to 7.0 per cent, with strong export demand and private consumption projected to counteract the planned decline in government spending. With the world economic growth expected to strengthen further in 2004, the outlook for exports is positive. They are likely to expand by 8-10 per cent in 2004, which would be a solid result after the strong improvement in 2003. Imports are also expected to grow by 8-10 per cent. Chart 2-5 indicates the Malaysian trading trend with the world for the period 1992-2003. Malaysia's trading with the world have been experiencing steady uphill trend over the past decade, despite the Asian financial crisis in 1997-98.

Chart 2-5: Malaysian Trade with the World 1992-2003



Source: MATRADE, 2004

Further to the increasing trend of Malaysia's trading capacity, it is projected that world container volume is expected to grow 10 per cent to nine million TEUs by the year 2007, according to The Journal of Commerce. The biggest increase is likely to come from vessels larger than 7,000 TEU, with container volume expected to grow by nearly 60 per cent per year by 2007 (Source: Asian Shipper, 2003).

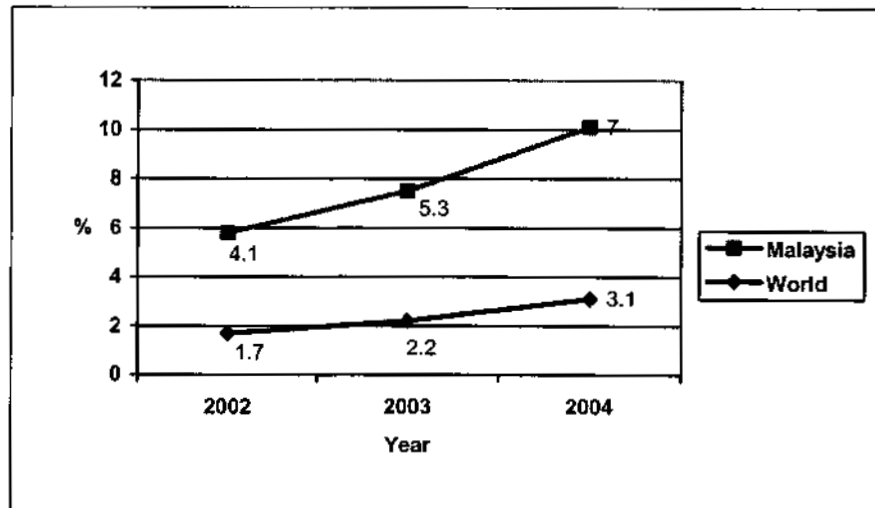
The projected significant increase in container volume will translate to higher containerization demand in the form of both LCL consolidation and FCL. This will mark further prospects of growth for the containerization business in the sea freight services

## 14. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

## F R O S T &amp; S U L L I V A N

segment of the Malaysian market. Leading international freight service providers offering containerization services will benefit substantially from this.

Chart 2-6: World GDP Growth vs Malaysia Real GDP Growth



Source: World Bank and BNM Report, 2003 & 2004

Chart 2-6 above indicates the annual growth in tandem between World GDP and the Real GDP of Malaysia for the actual period of 2002-2003 and forecasted growth for the year 2004. The encouraging GDP growth, both globally and for Malaysia, indicates bright prospects for the international freight forwarding industry in Malaysia. The growth spurred by international trade will have a positive spill-over effect on the multimodal international freight service providers globally. Coupled with the development plans in the 8MP for the development of ports and infrastructure to enhance Malaysia's international freight forwarding capabilities, and the emphasis on the inflow of foreign funds and retention of domestic funds by the Malaysian Government, this can only signal very positive signs for the leading multimodal international freight service providers.

With the recent encouraging announcement by BNM on Malaysia's second quarter growth results, there are positive indications that prospects for higher growth in 2004 will propel further. The prospects for higher growth in 2004 are largely contributed by the favorable developments in the global economy, reinforced by a strong domestic economy.

Expansion in the US economy has been stronger than expected and prospects remain favorable. The sustainability of the recovery in the US appears to be more entrenched. Current indicators point to robust growth and sustainability in economic expansion in



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14. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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Japan, while continued expansion in consumption and investment are expected to support growth in the Euro area (*Source: Bank Negara Malaysia*). Growth for the regional economies has been revised upwards, amidst robust intra-regional trade following the strong upturn in global electronics and stronger expansion in aggregate domestic demand. The region as a whole will continue to benefit from greater integration and rising intra-regional trade as well as international trade which have mutually reinforced the stronger momentum and growth process in Asia.

## 15. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



### **FREIGHT MANAGEMENT HOLDINGS BHD**

(Company No. 380410-P)

WISMA FREIGHT MANAGEMENT

Lot 8, Lingkar Sultan Mohamad 2, Bandar Sultan Suleiman, 42000 Port Klang, Selangor, Malaysia.

Tel: (603) 3176 1111 (20 Lines) - Export (603) 3176 3888 (10 Lines) - Import

Fax: (603) 3176 2188 (5 Lines) E-Mail Address: gen@fmmalaysia.com.my

**Registered office:**

Suite 13A-2

Menara Uni.Asia

1008 Jalan Sultan Ismail

50250 Kuala Lumpur

20 December 2004

The shareholders of **Freight Management Holdings Bhd**

Dear Sir/Madam,

On behalf of the Board of Directors of Freight Management Holdings Bhd ("FMH" or "Company"), I report after due and careful enquiry that during the period from 30 June 2004 (being the date to which the last audited accounts of the Company and its subsidiary companies have been made) to the date hereof (being a date not earlier than fourteen days before the issuance of this Prospectus) that:

- (i) the businesses of FMH and its subsidiary companies have, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or of its subsidiary companies;
- (iii) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) save as disclosed in Section 12.1.3 of this Prospectus, there are no contingent liabilities by reason of any guarantees or indemnities given by the Company or any of its subsidiary companies;
- (v) since the last audited accounts of the Company and its subsidiary companies, there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which we are aware of; and
- (vi) since the last audited accounts of the Company and its subsidiary companies, save as disclosed in the Accountants' Report enclosed in this Prospectus, there have been no changes in the published reserves or any unusual factors affecting the profits of FMH and its subsidiary companies.

Yours faithfully

For and on behalf of the Board of Directors

**Freight Management Holdings Bhd**

Chew Chong Keat  
Managing Director

Subject To The Standard Trading Conditions As Issued By The Federation Of Malaysian Freight Forwarders. A Copy Is Available Upon Request

•International Freight Forwarder •Worldwide LCL Consolidator •Project Cargoes Specialist •Member Of Through Transport Mutual Insurance Association •