5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS

THE FOLLOWING SECTIONS ON THE GLOBAL AND MALAYSIAN ECONOMY, THE OVERVIEW OF THE FREIGHT FORWARDING INDUSTRY AND THE OVERVIEW AND PROSPECTS OF THE INTERNATIONAL FREIGHT FORWARDING INDUSTRY IN MALAYSIA ARE EXTRACTED FROM THE INDEPENDENT MARKET RESEARCH REPORT DATED DECEMBER 2004 PREPARED BY FROST & SULLIVAN, THE INDEPENDENT MARKET RESEARCH CONSULTANT. SUCH INFORMATION IS NOT INTENDED TO BE EXHAUSTIVE BUT REFLECTS SOME OF THE FACTORS THAT ARE CONSIDERED RELEVANT TO THE UNDERSTANDING OF THE BUSINESS AND PROFITABILITY OF THE FM GROUP BASED ON PREVAILING REGULATIONS, ECONOMIC TRENDS AND DEVELOPMENTS.

5.1 OVERVIEW OF THE GLOBAL ECONOMY

In 2003, the world 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 Consumer Price Index 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.

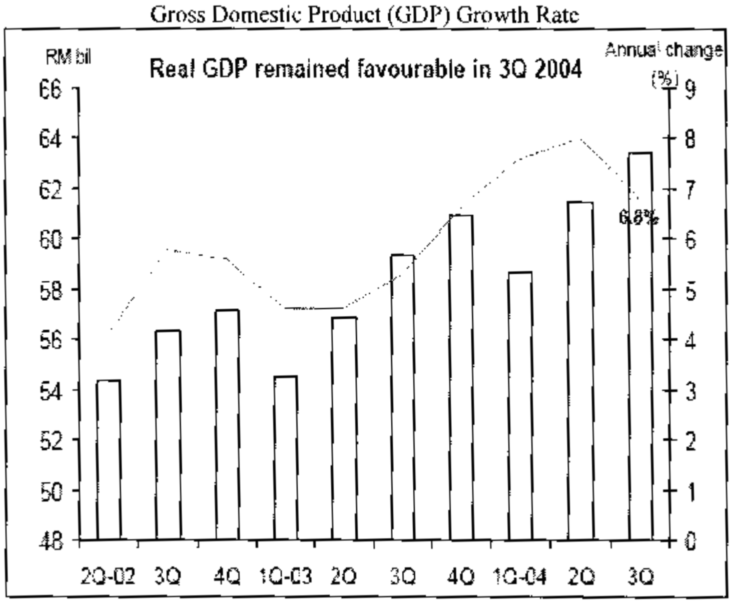
However, uncertainties, especially geopolitical ones, are keeping investors cautious, throughout most parts of the world. In the developing countries, investment behaviour has become a key element of the outlook. They are especially vulnerable to jitters in the financial markets. Sudden reversals in 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 and will not lead the world or US into a recession.

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 loans 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 is expected to withstand inflationary pressures.

5.2 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 2nd quarter in 2004 was particularly strong, rising by 8.0 per cent – the highest quarterly growth since the 3rd quarter of 2000 while the GDP for the 3rd 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.

Gross Domestic Product (GDP) Growth Rate



GDP Growth in percentage (%)
GDP Growth in RM'billion

In 2003, Malaysia's GDP grew by 5.3 per cent driven by higher consumer spending, soaring exports and stronger growth in investments as shown in the table below. 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.

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

The manufacturing sector, along with the services sector, are expected to be the main engine 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 personal computers markets, due to rising demand for wireless applications and personal computers 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 forward.

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 the 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 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.

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.

5.3 MARKET DYNAMICS OF THE FREIGHT FORWARDING INDUSTRY

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 West Malaysia and East Malaysia. International freight forwarding provides a much more extensive geographical reach with its 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 its 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 includes containerisation services which comprise LCL consolidation and 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, KTMB is the sole operator for rail services accessible from seaports and inland container depots.

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

5.4 OVERVIEW OF THE 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. Table 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.

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

Notes:
**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.*

**(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 8th Malaysian Plan 2001-2005 ("8MP") have positioned Malaysia as one of Asia's leading export/import nations.

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: containerised cargo, bulk cargo, and 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 containerised cargo segment is the most significant growth contributor to the total freight input/output in Malaysia. There are two types of containerised cargos: LCL and 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 containerised cargos in Malaysian ports is illustrated 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.

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

Port Klang remains the busiest port in Malaysia with an average container activity of approximately 4.5 million 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 below.

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

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. Table below indicates the development allocation under the 8MP. It is planned that additional berths would be constructed at WestPort, 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.

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

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.

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 cargos between Malaysia and Bangkok. In Malaysia, 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, KTMB 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 containerised 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.

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 national trade development interest *via* sea trade as more than 80 per cent of cargo by volume comprises sea borne cargo. 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 utilisation of Malaysian services in the international freight forwarding industry. In light of the projected increase in Malaysia's international trading capacity fuelled by the global economic recovery, this suggests the significant role of players in the international freight forwarding industry.

5.4.1 Role of Multimodal International Freight Service Providers

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.

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 organise the movement of goods from origin to destination among sea, rail and air carriers; pick-up and delivery of goods; and customs brokerage.

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 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 synchronisation 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.

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 brokerage 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.

Globalisation 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 globalisation and market liberalisation has been accompanied by a changing, and increased necessity, for multimodal international freight services.

5.4.2 Range of Services Offered by an International Freight Service Provider

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.

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 containerised 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 containerised cargos. Containerised cargos can be transported from origin to destination by either LCL consolidation or FCL.

LCL containerised cargos are common in point-to-point distribution when specialised 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 containerised 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 located at major ports of the world. These alliances 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.

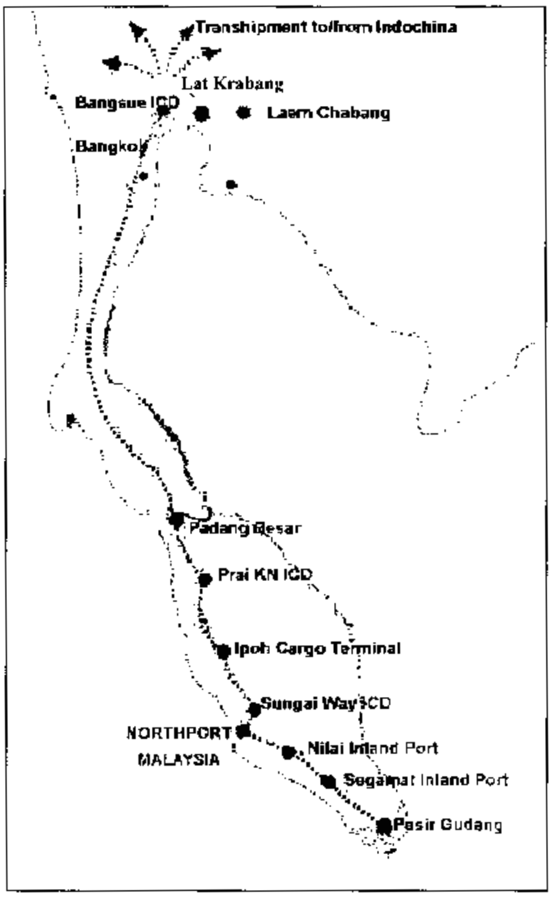
The international network and alliances of highly qualified agency/partners enable international freight service providers a much wider geographical reach of export/import markets. This is a competitive advantage as it provides the ability to penetrate new or emerging export/import markets which may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

The connecting rail line terminals between Malaysia and Thailand are set out below:



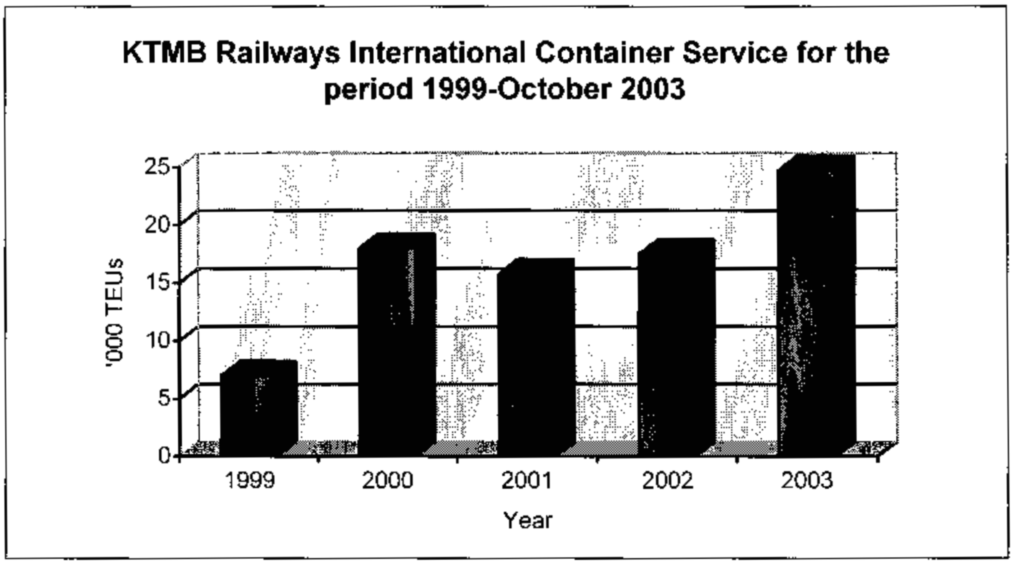
KTMB is the sole provider of the rail line services in Malaysia and its rail line is accessible from the seaports to Inland Container Depot ("ICD"). KTMB's services for freight comprise of:

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

International freight service providers, through KTMB, organise both LCL consolidation and FCL for exports/imports. Rail freight between Port Klang and Bangkok is accepted favourably 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 move 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.

KTMB together with SRT, have provided 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. The chart below 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.



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) Privatisation – both the railways operators, KTMB and SRT, had been under pressure of privatisation as the privatisation of selected public services companies was one of the important policy agendas of both the Malaysian and Thai 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 was activated to realise mutual benefits and to gain strong competitiveness

(d) Efficient cargo traffic management – requests by privatised 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.

(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 – favourable political and cultural relationship enabled 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.

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 containerisation i.e. LCL consolidation and FCL handling.

Multimodal transportation has opened many opportunities for complementarities 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 specialise 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 specialisation* of transportation and *extensive international network* are limited despite the large number of players in the international freight forwarding industry. The identified leading multimodal international freight service providers in Malaysia include FMM, Globelink Container Line (M) Sdn Bhd, Interocean Freight Services Sdn Bhd and Tri-Mode System (M) Sdn Bhd.

5.4.3 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 globalisation and market liberalisation. 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.

5.4.4 Key Industry Drivers

The key market drivers ranked in order of impact are set out below:

Rank	Market Driver	Short-Term Impact 2004-2005	Medium-Term Impact 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

(a) 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.

(b) 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.

(c) Increase in Demand for Manufactured Export Goods

The manufacturing sector in Malaysia continued its uptrend as output increased. This growth has been 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 industries was contributed by higher global demand for Malaysia's agricultural products such as rubber products, especially rubber gloves. The impact of this driver is expected to remain medium to high during the forecast period.

(d) Demand for 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 irregardless 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 realisation 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.

5.4.5 Key Industry Restraints

The key market restraints ranked in order of impact are set out below:

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

(a) 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.

(b) 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.

(c) Malaysia Ports Security Risk

After the 11 September 2001 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.

5.4.6 Barriers To Entry And Exit

The key barriers to entry and exit ranked in order of impact are set out below:

Rank	Market Restraints	Short-Term Impact 2004-2005	Medium-Term Impact 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

(a) Capital

High capital outlay will be required to operate as a competitive international freight service provider. Capital outlay are channelled to setting up costs, warehouse facilities, information technology ("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.

(b) 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.

(c) 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.

(d) 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.

(e) 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 optimise operations. Thus, for a new entrant, time will be needed before the organisation is structured and well verse with the industry.

(f) 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.

(g) 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.

5.4.7 Government Directions, 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 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 channelled 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 utilisation of Malaysian services in the international freight forwarding industry.

Future prospects of the international freight forwarding industry in Malaysia are 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.

5.4.8 Government regulations and relevant laws

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).

All companies in the freight forwarding industry that operate in or provide customs brokerage services and bonded warehousing services require licence(s) issued from the Royal Malaysian Customs. Under the Royal Malaysian Customs regulations, 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 licence. The issuance of licence for the operability/provision of supporting services in customs brokerage and bonded warehousing is subject to equity conditions imposed by the Royal Malaysian Customs, which requires a 51% Bumiputera shareholding in the subject company.

The CLVB, under the Ministry of Entrepreneur and Co-operative Development, controls the issuance of licences 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.

5.5 OUTLOOK OF THE INTERNATIONAL FREIGHT FORWARDING INDUSTRY

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 fulfilment logistics in the forefront. There is a demand for specialist knowledge, need for multi-skills and multi-disciplines.

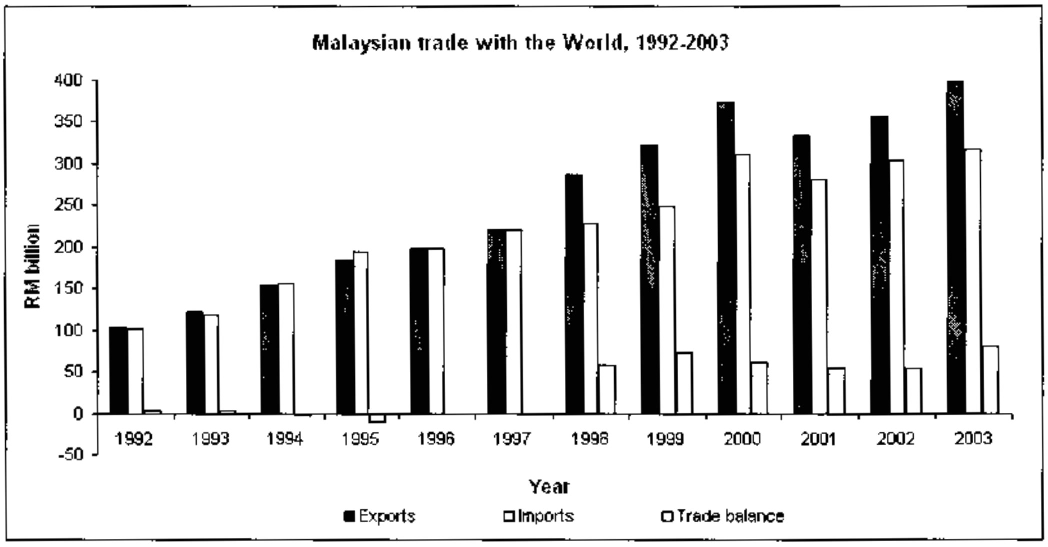
Manufacturing becomes more complex and time sensitive, businesses require good logistics to ensure that their products get to the market in good time. International freight service provider's growth strategy should be to expand local businesses and also to regionalise services through joint ventures,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

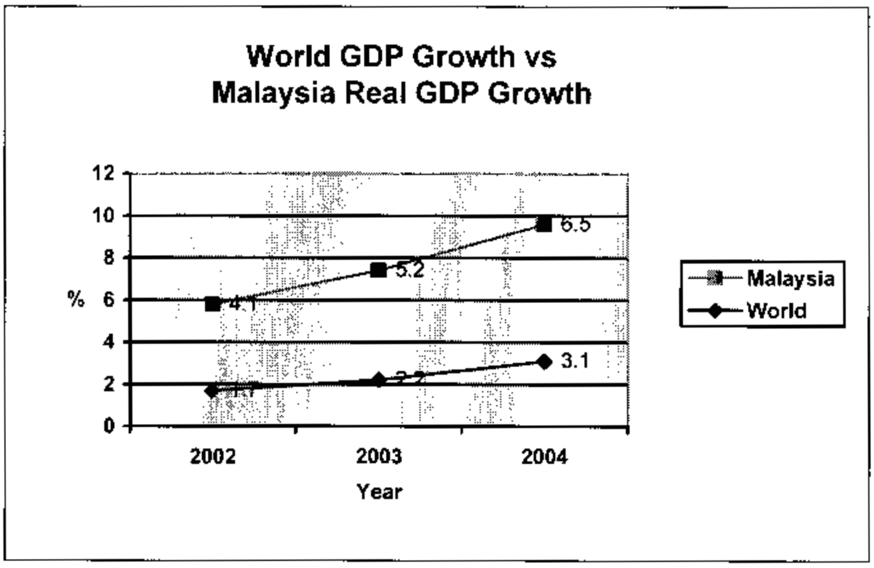
As manufacturing becomes more complex and time sensitive, coupled with the need to penetrate markets in light of globalisation and market liberalisation, businesses require reliable and efficient value-added logistics services to ensure that their products get to market in good time and remain competitive. The role of multimodal international freight service providers becomes increasingly imperative.

Malaysia's improved economic performance of 2003 has created favourable 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 . The chart below 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.



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.

The projected significant increase in container volume will translate to higher containerisation demand in the form of both LCL consolidation and FCL. This will mark further prospects of growth for the containerisation business in the sea freight services segment of the Malaysian market. Leading international freight service providers offering containerisation services will benefit substantially from this.



The above chart 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 Bank Negara Malaysia 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 favourable developments in the global economy, reinforced by a strong domestic economy. Expansion in the United States of America ("US") economy has been stronger than expected and prospects remain favourable. 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 Japan, while continued expansion in consumption and investment are expected to support growth in the European Union. 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.

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6. INFORMATION ON THE FM GROUP

6.1 INCORPORATION AND PRINCIPAL ACTIVITIES

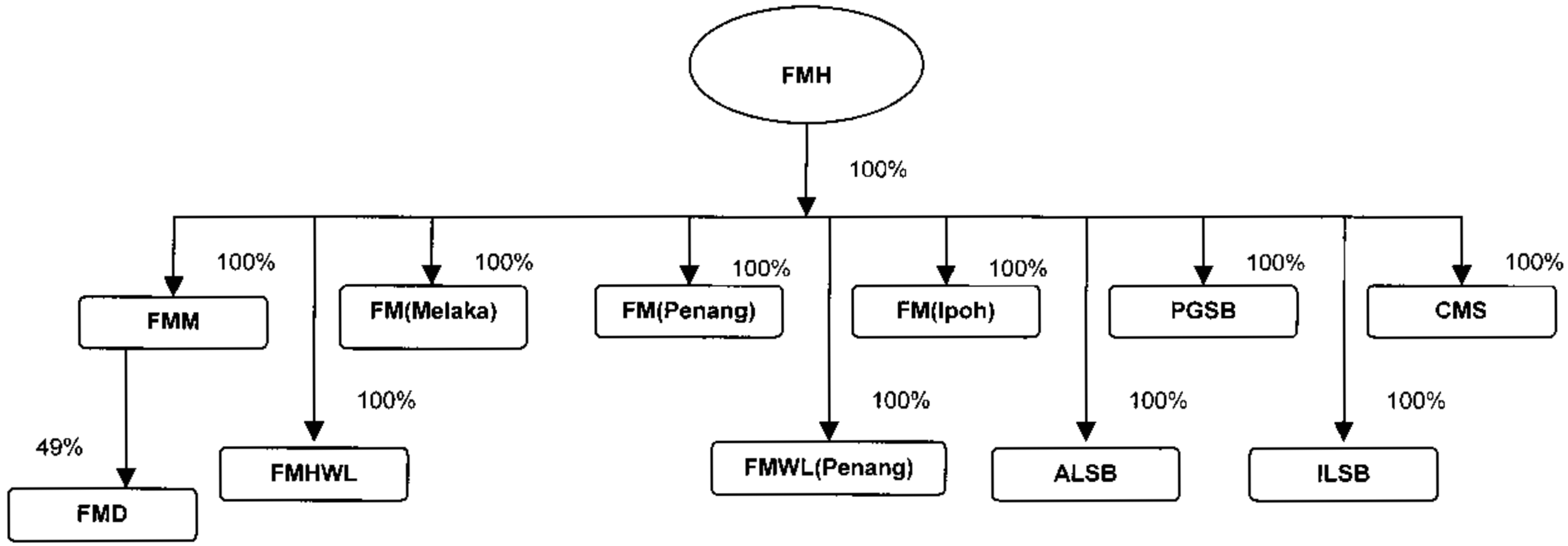
FMH was incorporated in Malaysia under the Act on 20 March 1996 as a private limited company under the name of Freight Management (Holdings) Sdn Bhd. On 8 April 2004, the Company changed its name to Freight Management Holdings Sdn Bhd and was subsequently converted into a public limited company and assumed its present name on 13 May 2004.

FMH is principally an investment holding company and provides management services to its subsidiary and associated companies. The principal activities of FMH's subsidiary and associated companies are as follows:

Company	Effective equity interest held (%)	Principal activities
Subsidiaries of FMH		
FMM	100	Provision of freight services
FM(Ipoh)	100	Provision of freight services
FM(Melaka)	100	Provision of freight services
FM(Penang)	100	Provision of freight services
FMHWL	100	Provision of freight services
FMWL(Penang)	100	Provision of freight services
CMS	100	Provision of freight services
PGSB	100	Property investment holding
ILSB	100	Dormant
ALSB	100	Provision of freight services
Associate of FMM		
FMD	49	Provision of warehouse services

6. INFORMATION ON THE FM GROUP *(Cont'd)*

The corporate structure of FMH is as follows:



6.2 SHARE CAPITAL

The present authorised share capital of FMH is RM100,000,000 comprising 200,000,000 ordinary shares of RM0.50 each.

The present issued and paid-up capital of FMH is RM23,990,380 comprising 47,980,760 Shares.

Details of the changes in the issued and paid-up share capital of FMH since its incorporation are as follows:

Date of allotment	No. of ordinary shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
20.03.1996	3	1.00	Subscribers' shares	3
26.11.2004	-	0.50	Share split of par value for every existing ordinary share of RM1.00 into RM0.50	3
30.11.2004	35,549,566	0.50	Issue of 35,549,566 new ordinary shares of RM0.50 each pursuant to the Acquisition of FMM	17,774,786
01.12.2004	3,562,078	0.50	Issue of 3,562,078 new ordinary shares of RM0.50 each pursuant to the Acquisition from Minority Shareholders	19,555,825
02.12.2004	8,869,110	0.50	Issue of 8,869,110 new ordinary shares of RM0.50 each pursuant to the Capitalisation of Advances	23,990,380

6.3 FLOTATION SCHEME

In conjunction with, and as an integral part of, the listing of and quotation for the entire enlarged issued and paid-up share capital of FMH on the Second Board of Bursa Securities, the Company undertook a flotation scheme, which was approved by the SC and MITI on 8 November 2004 and 22 July 2004 respectively. Details of the Flotation Scheme are as follows:

(a) **Share Split**

FMH undertook a share split which involved a change in the par value of FMH's ordinary shares from RM1.00 into RM0.50 each, by way of sub-division of the par value for each existing ordinary share of RM1.00 in FMH.

(b) **Acquisitions**

(i) **Acquisition of FMM**

FMH acquired the entire issued and paid-up share capital of FMM from Chew Chong Keat, Yang Heng Lam and Gan Siew Yong comprising 2,000,000 ordinary shares of RM1.00 each for a purchase consideration of RM17,774,783 satisfied by the issuance of 35,549,566 new Shares at par.

The purchase consideration of RM17,774,783 was arrived at on a willing buyer – willing seller basis after taking into consideration the unaudited consolidated NTA of FMM of RM17,774,783 as at 31 December 2003.

(ii) **Acquisition of ILSB**

FMH acquired the entire issued and paid-up share capital of ILSB from FMM, Chew Chong Keat, Yang Heng Lam and Gan Siew Yong comprising 40,000 ordinary shares of RM1.00 each for a cash consideration of RM1.

The cash consideration of RM1 was arrived at on a willing buyer – willing seller basis after taking into consideration the unaudited net tangible liabilities of ILSB of RM8,047 as at 31 December 2003.

(c) **Acquisitions from Minority Shareholders**

FMH acquired the remaining equity interest in the subsidiaries of FMM, namely ALSB, FM(Ipoh), FM(Penang) and FMHWL, not held by FMM from the minority shareholders after the Acquisitions for a total purchase consideration of RM1,781,039 satisfied by the issuance of 3,562,078 new Shares at par.

The total purchase consideration of RM1,781,039 was arrived at on a willing buyer – willing seller basis after taking into consideration the aggregate unaudited NTA of the respective subsidiaries of FMM of RM8,087,213 as at 31 December 2003.

(d) **Transfers**

(i) **Transfer of FMWL(Penang)**

FM(Penang) transferred its entire equity interest in FMWL(Penang) to FMM comprising 75,000 ordinary shares of RM1.00 each in FMWL(Penang), representing 30% of the issued and paid-up share capital, for a total cash consideration of RM165,660.

The purchase consideration for the Transfer of FMWL(Penang) was arrived at on a willing buyer – willing seller basis after taking into consideration the unaudited NTA of FMWL(Penang) of RM552,199 as at 31 December 2003. The purchase consideration constitutes an intercompany debt between FM(Penang) and FMM.

(ii) **Transfer of Equity Interests**

Upon the completion of the Transfer of FMWL(Penang), FMM transferred its entire equity interest in its subsidiaries, namely ALSB, CMS, FM(Ipoh), FM(Melaka), FM(Penang), FMHWL, FMWL(Penang) and PGSB to FMH for a total cash consideration of RM9,300,094.

The total purchase consideration of RM9,300,094 was arrived at on a willing buyer – willing seller basis after taking into consideration the aggregate unaudited NTA of the respective subsidiaries of FMM as at 31 December 2003. The total purchase consideration constitutes an intercompany debt between FMM and FMH.

(e) **Capitalisation of Advances**

FMH capitalised an aggregate of RM4,434,555 debt owed by FMM to Chew Chong Keat, Yang Heng Lam and Gan Siew Yong into new Shares credited as fully paid up, on the basis of 1 new Share for every RM0.50 debt.

(f) **Public Issue**

Pursuant to this Prospectus, the Public Issue will be undertaken, details of which are set out in Section 3 of this Prospectus.

(g) **Listing on the Second Board of Bursa Securities**

FMH will seek admission to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up share capital of FMH comprising 85,200,000 Shares on the Second Board of Bursa Securities.

6.4 ESOS

FMH had on 26 November 2004 obtained the approval of the existing shareholders of the Company to establish an ESOS in order to retain and motivate eligible Directors and employees of FMH and its non-dormant subsidiary companies. In addition, on 3 September 2004, the Company received the approval-in-principle of Bursa Securities for the listing of the new Shares to be issued pursuant to the exercise of ESOS Options. In accordance with the Listing Requirements issued by Bursa Securities ("Listing Requirements") on share scheme for employees, the ESOS shall only be implemented upon RHB Sakura, as the Adviser to the ESOS, submitting to Bursa Securities the following:

(a) Final copy of the By-Laws of the ESOS; and

(b) Confirmation letter from RHB Sakura confirming that FMH:

  (i) has fulfilled all conditions attached to the approval for the ESOS; and

  (ii) has complied in full to the requirements relating to a share scheme for employees as stipulated in the Listing Requirements.

The ESOS will be for a duration of 5 years and the maximum number of ESOS Options that may be granted to eligible Directors and employees of FMH and its non-dormant subsidiary companies under the ESOS shall not exceed 15% of FMH's issued and paid-up share capital at any point in time during the duration of the ESOS or such additional number that may be permitted by the relevant authorities during the duration of the ESOS.

The exercise price of the ESOS Options shall be as follows:

(a) not less than the issue price for the Issue Shares (for the ESOS Options that are granted prior to the Listing); or

(b) based on the 5-day weighted average market price of the Shares at the time the Options are granted with a discount of not more than 10% (for ESOS Options that are granted after FMH is listed on the Second Board of Bursa Securities).

The Directors of FMH intend to grant ESOS Options for up to a maximum of 12,780,000 Shares prior to the listing of the Company on Bursa Securities.

The Directors of FMH intend to utilise the proceeds from the exercise of the ESOS Options for working capital purposes.

The Shares to be issued and allotted pursuant to the exercise of the ESOS Options will upon allotment and issuance rank *pari passu* in all respect with the then existing issued Shares except that the Shares so issued will not be entitled to any dividend, rights, allotment or other distribution declared, made or paid to shareholders unless the Shares so allotted have been credited into the relevant securities accounts of the shareholders maintained by the Depository before the entitlement date and will be subject to all provisions of the Articles of Association of the Company relating to transfer, transmission and otherwise.

The By-Laws of the ESOS are set out in Section 16 of this Prospectus.

6.5 HISTORY AND BUSINESS OVERVIEW

FMH was incorporated in Malaysia under the Act on 20 March 1996 as a private limited company under the name of Freight Management (Holdings) Sdn Bhd. On 8 April 2004, the Company changed its name to Freight Management Holdings Sdn Bhd and was subsequently converted into a public limited company and assumed its present name on 13 May 2004.

In 1988, the Promoters commenced the business operations of providing freight services in Port Klang, the maritime gateway of Malaysia with staff strength of 8. The principal focus then was the provision of freight services such as LCL consolidation to Singapore and FCL services. FMM then had 2 overseas independent agents located in Singapore and Hong Kong.

In 1989, the Promoters embarked on expanding the business operations of FMM domestically to cover the northern region of West Malaysia through the incorporation of FM(Penang).

To further strengthen the existing services, the Promoters in 1990 introduced air freight services through the incorporation of FM Airfreight Sdn Bhd (now known as FMHWL) at the then Subang International Airport. The Promoters continued to expand on the range of freight services offered to their customers to cover LCL consolidation and FCL services between East and West Malaysia through the incorporation of Citra Timuran Sdn Bhd (now known as CMS) in 1991.

1993 was yet another significant milestone for the FM Group as the Promoters expanded the business operations to Kinta Valley, Perak by incorporating FM(Ipoh) to cover the sales and marketing of freight services in that region. In addition, the Promoters initiated the Group's first CFS operations in Port Klang.

In addition to the incorporation of FM Airfreight Sdn Bhd in 1990 (now known as FMHWL), the FM Group continued to expand its air freight services by incorporating FM Airfreight (Penang) Sdn Bhd (now known as FMWL(Penang)) in 1994 to cater for the air freight business for northern region of West Malaysia.

In 1996, to complement the range of freight services available, the Promoters commenced the operations of Logistar Sdn Bhd (now known as ALSB) to undertake all the customs brokerage activities and services of the Group. The Promoters continued to expand their sales and operational activities to the southern region of West Malaysia through the incorporation of FM(Melaka) in 1996. In the same year, FMM obtained its first ISO 9002 certification which was a testament to the Group's philosophy of growing the organisation quantitatively and qualitatively.

To complete the range of freight services offered to its customers, the Promoters pioneered a dedicated rail freight service from Port Klang to/from Lat Krabang, Bangkok in 1999. As a result, the FM Group was able to offer a complete multimodal freight services to its customers. In the same year, the FM Group also commenced the operations of its first bonded warehouse of 40,000 sq ft.

The FM Group has grown to total staff strength of 307 personnel as of 15 December 2004 in 9 offices nationwide. The Group offers a complete suite of freight services covering sea, rail and air and customs brokerage and distribution services. The Group has weekly LCL consolidations to approximately 30 ports worldwide and has 54 agents representing it globally.

Based on Frost and Sullivan's report dated December 2004, FMM is one of the leading international LCL and FCL freight service providers in Malaysia.

6.5.1 Principal services

The FM Group essentially operates as a non carrier-operating international freight service provider, whereby the Group becomes the multimodal intermediary agent between exporters / importers and carriers. The Group's basic multimodal freight services include the following, which are complemented by customised and information based options to meet customers' specific needs:

- International port to port shipments;
- International door-to-door shipments of freight, including service to remote destination, lesser developed countries and locations which are difficult to reach such as ports located in Maputo and Nacala in Mozambique; Tema in Ghana; Santos in Brazil; Kingston in Jamaica; and Lautoka in Fiji; and
- Supporting services including customs brokerage, full tracking of goods in transit, warehousing and distribution.

As a non carrier-operating services provider, the Group arranges for services with shipping lines, railway operator, airlines, haulage companies and others on a non-committal basis. This approach leverages common infrastructure and technology systems so that solutions can be customised to suit importers/exporters logistics needs. This non-asset ownership approach maximises the Company's flexibility in creating and delivering a wide range of end-to-end logistics solutions on a global basis while simultaneously allowing the Company to exercise significant control over the quality of the freight services provided. Such non-asset ownership approach also minimises any potential capital expenditure spent on having to build or acquire and maintain a sizable number and types of carriers.

In its freight forwarding operations, the FM Group procures shipments from its customers, determines the routing, creates and delivers logistics solutions to meet customers specific requirements and consolidates shipments (if necessary) bound for a particular port. At the destination ports, the Company or its independent agents arrange for the consolidated lot to be broken down into its component shipments and for the transportation of the individual shipments to their final destinations or the respective recipients of cargos. This provision of multimodal international freight services makes the FM Group an essential link in international trade between Malaysian exporters and importers and their international counterparts.

The services offered by the Group are summarised below:

Services	Involvement	Cargo Type
Sea Freight Services	Worldwide Import Worldwide Export Trans-shipment	LCL/FCL LCL/FCL LCL
Rail Freight Services	Import (Thailand) Export (Thailand)	LCL/FCL LCL/FCL
Air Freight Services	Worldwide Import Worldwide Export	Palletise Cargo[1]/ULD[2] Palletise Cargo/ULD
Supporting Services	Warehouse and Distribution Customs Brokerage	Bonded/General Import/Export
	Project Management	

Notes:

1 Palletise cargo means cargo in packages or pieces which are generally loaded on a platform with or without sides to facilitate handling by a lift truck to be subsequently uploaded on to the air carrier

2 ULD is the generic term for air cargo containers

6.5.1.1 Sea freight services

Sea freight services by the FM Group includes:

(i) FCL services

FCL refers to full container loads that are generally moved in 20-foot, 40-foot and 45-foot containers *via* sea or rail. The FM Group negotiates with shipping lines to obtain freight rates for a fixed number of containers to various ports during a specific time period at an agreed rate. The collective pooling of freight through its wide customer base allows the FM Group to negotiate more attractive rates from the carriers.

This allows exporters / importers the convenience of arranging their shipments to and from all major ports of the world at a more competitive rate. For the FYE 30 June 2004, the FM Group handled in aggregate 34,813 TEUs from various countries such as China, Japan, Taiwan, Hong Kong, Bangkok, Vietnam, Indonesia, India, Philippines, Sri Lanka, Pakistan, Australia, New Zealand, US and the regions of Middle East, Africa and Europe.

(ii) LCL consolidation services

LCL consolidation involves the consolidation of multiple small consignments into a container. Consequently, exporters/importers pay freight and charges for the volume (cubic meter) of their cargo shipped instead of the usage of a full container. Companies that have LCL freight shipments will seek the services of an international freight service provider such as the FM Group as it will have the ability to coordinate and consolidate these shipments accordingly. Most companies regardless of size may need to ship their cargos as LCL freight, e.g. small orders, semi-finished products, small manufactured items, partial shipment of orders, samples etc. In view of the realisation of AFTA, there will be an increase in exchange of semi-finished products between centres/factories located in the ASEAN region.

The FM Group specialises in LCL consolidation and has been providing such service since the inception of FMM more than 15 years ago. As a LCL consolidator, the Group offers its customers the knowledge of optimum routing, familiarity with local business practices, knowledge of export and import documentation and procedures, the ability to arrange for supporting services, and assistance with space availability in periods of peak demand. Thus the Group is able to offer its customers the convenience of shipping smaller shipments in a more cost effective manner. The FM Group has regular weekly export consolidation to approximately 30 ports worldwide and import consolidation from over 20 ports as set out below:

No	Country	Ports
1	Australia	Melbourne, Sydney and Brisbane
2	New Zealand	Auckland
3	United Kingdom	Southampton
4	Netherlands	Rotterdam
5	Belgium	Antwerp
6	Germany	Hamburg and Bremen
7	United States of America	Los Angeles and New York
8	Middle East	Dubai, Jeddah, Abu Dhabi and Kuwait
9	India	Mumbai, Chennai
10	Pakistan	Karachi
11	Sri Lanka	Colombo
12	Thailand	Bangkok, Laem Chabang and Lat Krabang
13	Indonesia	Jakarta and Surabaya
14	Philippines	Manila
15	Singapore	Singapore

No	Country	Ports
16	Vietnam	Ho Chi Minh
17	Hong Kong	Hong Kong
18	Taiwan	Keelung and Kaoshiung
19	Korea	Pusan
20	Japan	Tokyo, Yokohama, Kobe, Osaka and Nagoya
21	China	Shanghai, Xingang and Xiamen
22	Malaysia (East Malaysia)	Kota Kinabalu, Kuching, Sibu, Sandakan, Miri, Tawau and Bintulu

In addition, with its direct LCL consolidation to approximately 30 ports, the FM Group is able to offer comprehensive trans-shipment options at competitive rates.

Trans-shipment involves the movement of goods from an origin port to a destination port *via* an intermediate port that handles the transfers. In 1993, in its bid to increase growth of cargo volume and container, Port Klang was designated as a FCZ, which made trans-shipment possible. Consequently, freight service providers were able to trans-ship their LCL consolidated cargo *via* Port Klang to other ports within and outside of Malaysia.

The major ports where the FM Group is currently carrying out trans-shipment for its sea freight are as follows:

1	Laem Chabang	16	Bangkok	31	Jakarta
2	Manila	17	Singapore	32	Ho Chi Minh
3	Surabaya	18	Sydney	33	Melbourne
4	Brisbane	19	Adelaide	34	Auckland
5	Felixstowe	20	Southampton	35	Rotterdam
6	Hamburg	21	Antwerp	36	Los Angeles
7	New York	22	Miami	37	Chicago
8	Dubai	23	Jeddah	38	Abu Dhabi
9	Bahrain	24	Minaqaboos	39	Kuwait
10	Chennai	25	Mumbai	40	Colombo
11	Pakistan	26	Hong Kong	41	Keelung
12	Kaoshiung	27	Busan	42	Tokyo
13	Nagoya	28	Osaka	43	Kobe
14	Yokohama	29	Shanghai	44	Xingang
15	Xiamen	30	Dalian		

The FM Group's sea freight services are offered through various shipping lines commonly known as NYK Line, Mitsui-OSK Line, Evergreen Marine Corporation, Hanjin Shipping, Maersk Line, Hyundai Merchant Marine, OOCL, PIL, RCL, Wan Hai Line, KMTC, Hapag Lloyd and MISC. The Group has been dealing with these shipping lines for over 5 years. This allows the Group flexibility to provide more frequent sailings, additional vessel space, reliable schedules and faster transit time.

At present, the Group has established good working relationships with its international independent agents worldwide covering more than 69 major sea ports. Most of the independent agents have been with the FM Group for more than 5 years. Such working relationship has enabled the FM Group to set up standard operating policies, well defined data systems and coordinated communication procedures to ensure efficient handling of cargos.

As such, FMM has emerged as one of the leading players in the international containerised sea freight services in Malaysia. The leading players in the international containerised sea freight services in Malaysia are set out below 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)

6.5.1.2 Rail freight services

The FM Group is one of the pioneers in containerised rail freight services providing dedicated containerised transit between Port Klang and Lat Krabang, Bangkok. Rail freight services provided by the Group include both FCL and LCL consolidation services. The rail freight services were developed in collaboration with SRT and KTMB and have been in operation since 1999. Based on Frost & Sullivan's report dated December 2004, the FM Group, through FMM, is one of the three leading international freight service providers in Malaysia offering rail freight services. The leading players in the international containerised rail freight services in Malaysia are set out below 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)

These dedicated rail freight services enable the efficient transportation of cargos between Malaysia and Thailand whereby customs formalities can be performed at the respective port of loading and port of discharge in Thailand and Malaysia.

Generally, the duration of rail freight services will take approximately 3 days between Port Klang to Lat Krabang, Bangkok. This effectively lessens the delivery time by approximately 2 to 3 days as compared with sea freight. The rail freight services also include handling of both LCL consolidation and FCL shipments. The FM Group owns and operates a fleet of approximately 835 containers in 20-foot and 40-foot units.

Started with only 1 weekly service in August 1999, the FM Group currently is running 4 weekly dedicated containerised freight trains between Port Klang and Lat Krabang, Bangkok carrying an average 1,500 TEUs per month.

6.5.1.3 Air freight services

The FM Group handles both inbound and outbound air freight shipments. The Group provides professional advice to customers in planning and coordinating their shipments. The FM Group has established good working relationships with several air carriers commonly known as Malaysia Airlines, Cargolux, Korean Air, Singapore Airlines, Thai Airways and Emirates. As such, the FM Group is able to easily obtain committed transit time, specific space allocation and priority in cargos uploading into the airplane. To further facilitate its freight services, the FM Group leases 4,090 sq ft of warehouse space from Malaysian Airline System Berhad. This allows the Group to consolidate, deconsolidate and store its customers' cargo within its own premises.

The FM Group has been involved in the air freight industry since 1990 and is equipped with experienced personnel to provide cost-effective delivery of time sensitive and high value cargos. In January 2003, FMHWL entered into an exclusive licence and cooperation agreement with Hellmann Network A.V.V.. Such synergistic cooperation with a global logistics provider allows the Group to develop and expand its air freight services to meet the growing demands of its air freight customers. It has a wide range of customers in various industries ranging from consumer items like fashion goods to high value electronic items.

6.5.1.4 Supporting services

To complement its existing provision of multimodal international freight services and to distinguish itself as a genuine provider of multimodal international freight services, the FM Group has established a suite of supporting services for the benefit of its customers.

Warehouse and distribution

The FM Group provides secured warehousing for cargos temporarily lodged in its custody. The FM Group operates both bonded and general warehouses to cater for the requirements of its customers. The FM Group has 89,928 sq ft bonded warehouse space and 48,613 sq ft general warehouse space. The FM Group also operates CFS with storage space of 29,288 sq ft for its sea freight services in the FCZ in Port Klang and Penang and warehouses with storage space of 4,090 sq ft for its air freight services in FCZ at the Kuala Lumpur International Airport, Sepang.

The FM Group owns a fleet of delivery trucks, with 7 units bonded and 10 units general, which provide pick-up and delivery service exclusively in supporting its LCL consolidation business. However, transportation of FCL cargos is outsourced.

Customs brokerage

The FM Group provides services in relation to customs brokerage in Malaysia and overseas through its independent agents. Such services involve dealing with the relevant authorities in relation to the clearance and declaration of goods on behalf of the Group's customers. These services include arranging customs brokerage by preparing required documentation, calculating and payment of duty on behalf of the importers/exporters and arranging delivery. The FM Group has 26 personnel who are experienced in handling customs formalities.

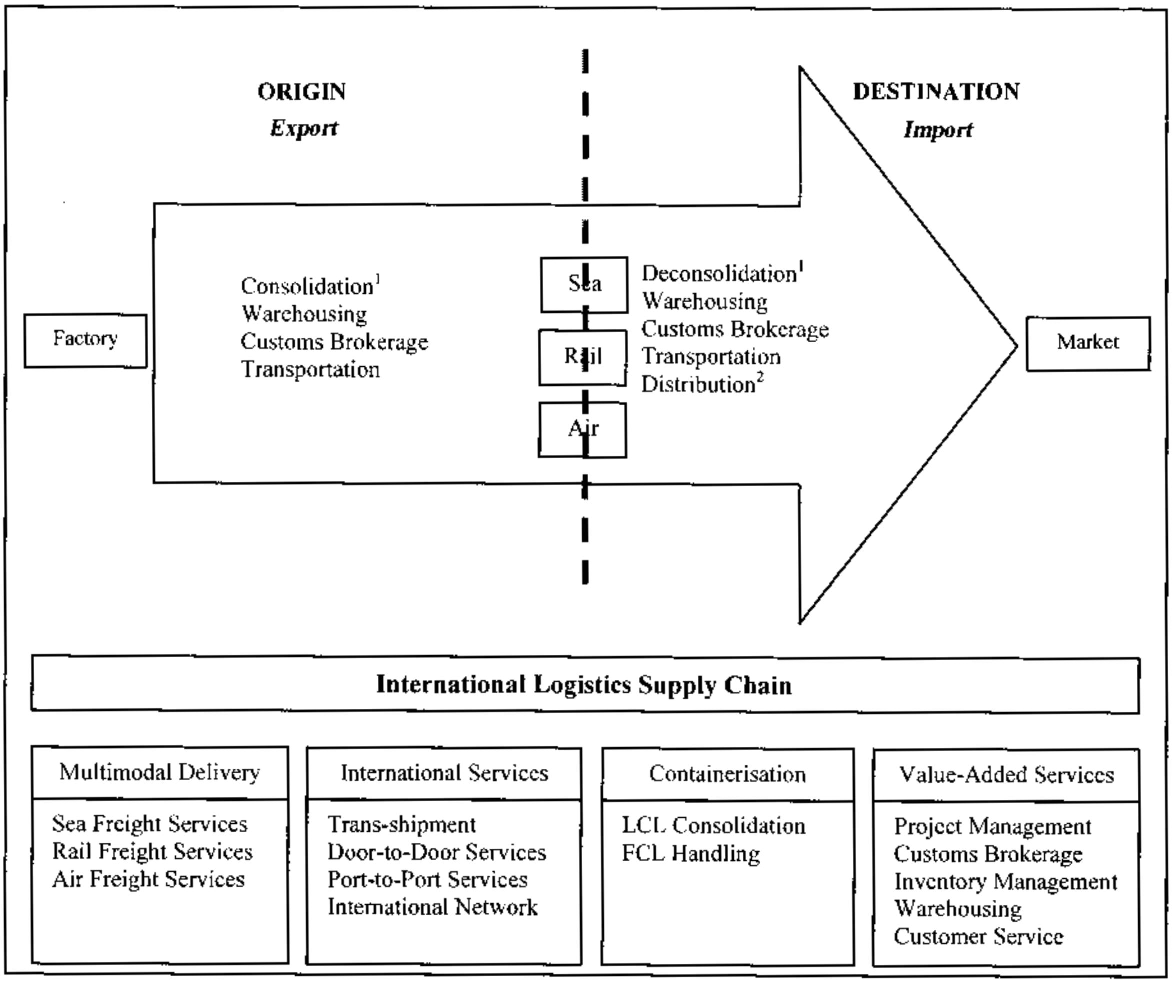
Project management

Project management involves specific and specialised arrangement of services. These usually involves the movement of plants and equipments and oversize cargos and also the management and coordination of large consignment to various destinations worldwide.

Projects such as relocation of plant and equipment may involve arrangements for the dismantling of plant and equipment to be transported to a new location. Handling of large consignments may entail repacking, relabelling, marking and sorting prior to the distribution of products.

6.5.1.5 International logistics supply chain

To summarise the multimodal international freight services offered by the FM Group, the simplified diagram below set out the point-to-point movement of cargos in an international logistic supply chain:



Notes:
1 Consolidation and deconsolidation of cargos include stuffing/unstuffing, handling etc.
2 Distribution of goods in the country of origin/destination (e.g. door-to-door deliveries etc)

(Source: Frost & Sullivan)

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6.5.2 Revenue and volume segmentation

The breakdown of the Group's revenue by services for the FYE 30 June 2004 is as follows:

Services	Revenue contribution for the FYE 30 June 2004 RM'000	%	Export RM'000	%	Import RM'000	%
Sea freight	71,259	59.7	52,183	43.7	19,076	16.0
Rail freight	18,864	15.8	12,690	10.6	6,174	5.2
Air freight	14,155	11.8	7,190	6.0	6,965	5.8
	104,278	87.3	72,063	60.3	32,215	27.0
Supporting services	15,213	12.7				
Total	119,491	100.00				

An analysis of cargo volume handled by the Group for its sea and rail freight for the last 5 FYE 30 June 2004 are as follows:

Cargo type	2000	2001	2002	2003	2004
TEU					
• FCL	23,796	29,333	30,023	35,114	34,813
• LCL	11,201	11,646	12,014	12,239	16,825
Total	34,997	40,979	42,037	47,353	51,638

An analysis of kilograms handled by the Group for its air freight for the last 5 FYE 30 June 2004 are as follows:

	2000	2001	2002	2003	2004
Kilogram ('000)					
• Import	1,728	1,734	1,875	1,619	1,414
• Export	999	963	834	843	962
Total	2,727	2,697	2,709	2,462	2,376

As set out above, the FM Group derived its revenue mainly from the sea freight services. This is followed by rail freight services and air freight services.

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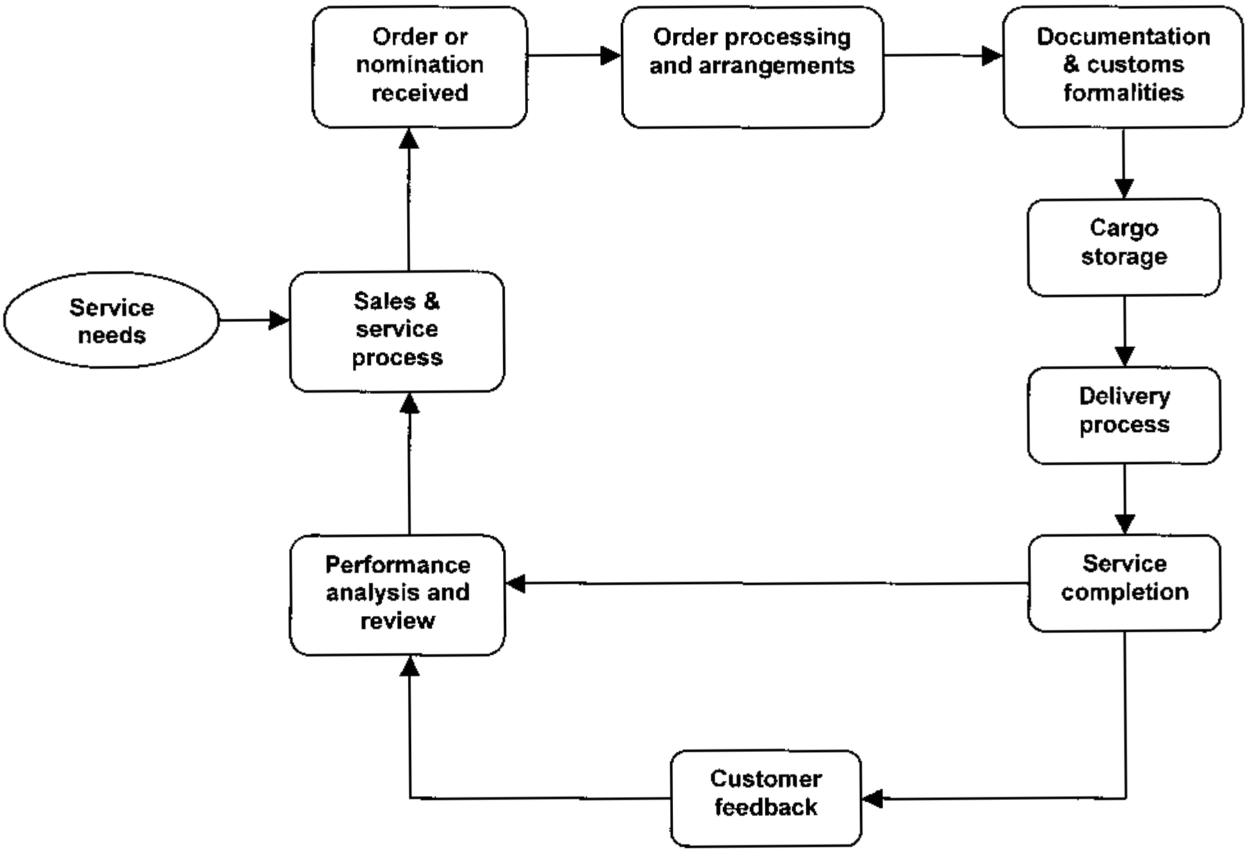
6.5.3 Business process



Process	Description of Stages
Service Needs	• Identification and specification of customers' requirements and/or overseas independent agents, in terms of mode of freight, requirements of associated support services and other specific need
Sales & Service Process	• This stage involves: a. Quotation generation b. Enquiry handling c. Feedback/information to customer
Order or Nomination Received	• Confirmation of orders from customers and/or overseas independent agents
Order Processing and Arrangements	Processing of orders include: • Space confirmation and bookings with sea, rail and air carriers depending on mode required • Supporting logistics arrangements (cargo pick-ups, storage, delivery) • Confirmation/communication with overseas independent agents, forwarding agents or vendors
Documentation and Customs Formalities	• Customs brokerage processing which includes settlement of duty/tax levy • Preparation and issuance of bills of lading, delivery orders, invoices and other transportation documents in connection with cargo delivery and movement

Process	Description of Stages
Cargo Storage	• Depending on whether the cargos are inbound or outbound and whether they are bonded or general cargos, these are stored and handled in the following areas: • CFS • Bonded warehouse • General warehouse
Delivery Process	• Based on the specification of the shippers, delivery of cargo and documents to/for customers are made
Service Completion	• Service is deemed completed when cargo is delivered to the customer according to the terms of shipments
Customer Feedback	• Includes complaints received, recommendations, information and suggestions on shipment delivered
Performance Analysis and Review	• Includes review on service through complaints received, customer survey, management review board meeting and statistics

6.5.4 Principal markets and customers

The primary customers of the FM Group are Malaysian exporters and importers. These parties are predominantly multinational corporations, small and medium size enterprises ("SME") and small and medium size manufacturers ("SMI") since Malaysia is an exporter and importer of both raw materials and manufactured industrial products.

The Group does not have a single customer that contributes to more than 3% of the turnover of the Group for the FYE 30 June 2004. The table below sets out the Group's top 20 customers for the FYE 30 June 2004 by length of relationship:

	Name of customer	Type of Industry	Length of Relationship *(No. of years)*	% of turnover
1	DY Power Systems Sdn Bhd	Electronic	9	0.9
2	Royal Selangor International Sdn Bhd	Pewter Products	9	0.4
3	Yoonsteel Sdn Bhd	Steel	9	0.3
4	Hamilton Strand Support (M) Sdn Bhd	Engineering	8	0.3
5	Tor Minerals Sdn Bhd	Chemicals	8	0.9
6	C. Line (Holdings) Sdn Bhd	Removal Service	7	0.5
7	Stellar Films (Malaysia) Sdn Bhd	Plastic Films	7	0.7
8	BSA Manufacturing Sdn Bhd	Automotive	6	0.3
9	TSH Products Sdn Bhd	Flooring Products	6	0.5
10	Alps Nagai Logistics (M) Sdn Bhd	Freight Forwarding	5	0.3
11	Johnson & Johnson Sdn Bhd	Consumer Products	5	0.5
12	Kobelco Materials Copper Tube (M) Sdn Bhd	Copper Tube	5	0.4

Name of customer	Type of Industry	Length of Relationship *(No. of years)*	% of turnover
13 Shell Malaysia Berhad	Petrol Chemical	5	1.8
14 Sidel Industry (Malaysia) Sdn Bhd	Machinery Supplier	5	1.4
15 Danisco Malaysia Bhd	Food	4	0.4
16 Thor Specialties Sdn Bhd	Industrial Chemicals	4	0.4
17 Muda Paper Mills Sdn Bhd	Paper Based	3	0.7
18 Drypers Marketing (M) Sdn Bhd	Consumer Products	1	0.9
19 LNP Engineering Plastics (M) Sdn Bhd	Plastic Resin	1	2.0
20 Times Offset (M) Sdn Bhd	Printing	1	0.9

The FM Group does not operate in a particular market/industry. Generally, the Group offers its services to any industry which require movement of containerised goods from one point to another.

6.5.5 Principal vendors

Save for KTMB, the Group does not have a single vendor that contributes to more than 5% of the cost of sales of the Group for the FYE 30 June 2004. The table below sets out the Group's top 20 vendors for the FYE 30 June 2004 by length of relationship:

Name of vendors	Type of services offered	Length of Relationship *(No. of years)*	% of the cost of sales
1 NYK Line (Malaysia) Sdn.Bhd.	ocean freight	16	5.0
2 MISC Agencies (M) Sdn.Bhd.	ocean freight	16	4.1
3 Mitsui OSK Line (M) Sdn.Bhd.	ocean freight	16	3.9
4 Northport (Malaysia) Berhad	port operator	16	1.2
5 RCL Agencies Sdn.Bhd.	ocean freight	14	2.6
6 Kontena Nasional Berhad	haulier	14	2.2
7 Orient Overseas Container Line	ocean freight	14	1.1
8 Wan Hai Lines (M) Sdn Bhd	ocean freight	14	0.8
9 Malaysian Airline Berhad	air freight	10	1.8
10 Ipoh Cargo Terminal Sdn Bhd	port operator	10	0.4
11 Konsortium Logistik Berhad	haulier	10	0.4
12 Orient Pacific Air Services Sdn Bhd	air freight	9	0.7
13 Evergreen Marine Corp (M) Sdn Bhd	ocean freight	9	0.6
14 DiPerdana Terminal Services Sdn Bhd	haulier	7	0.3
15 KTMB	rail freight	5	12.0
16 Yong Seng Chan	customs broker	5	0.4
17 Modern Shipping Sdn Bhd	ocean freight	4	0.7

Name of vendors	Type of services offered	Length of Relationship *(No. of years)*	% of the cost of sales
18 Multimodal Freight Services Sdn Bhd	haulier	3	0.4
19 Agenda Wira Sdn Bhd	haulier	2	2.0
20 Cen Worldwide Logistic Sdn Bhd	courier/cargo freight	2	0.5

6.5.6 Trademarks

FMM has, on 6 May 2004, applied to register the trademark of its "fm logo" in Malaysia. The application is pending registration. The "fm logo" is set out below:

6.5.7 Quality control and accreditations

The FM Group has established stringent quality assurance procedures in its business operations and had obtained the ISO 9001:2000 certification on quality management system by SIRIM on 10 July 1996 and 20 July 2001 for FMM and FMHWL respectively. FM(Penang) obtained the ISO 9001:2000 certification on quality management system by SGS United Kingdom Ltd on 27 May 2003.

The FM Group's quality policy reflects its aim to achieve total customer satisfaction through the following principles:

(i) Do it right the first time

In order to ensure total customer satisfaction, the FM Group strives to do the job right the first time.

(ii) Continual improvement

By continually improving its services, the FM Group strives to exceed customer expectations.

(iii) Value creation

The FM Group aims to provide innovative and creative solutions for its customers.

The methodologies that the FM Group has adopted are as follows:

(i) Quality awareness training

The FM Group conducts regular quality awareness training to foster quality awareness and service excellence amongst all levels of staff.

(ii) Customer feedback

The FM Group frequently conducts surveys on customers' feedback on the quality of its services. With this feedback, the FM Group is able to analyse problems and formulate solutions to further improve the FM Group's services.

(iii) Internal review meetings

The management of the FM Group adopt a pro-active approach in raising the quality of their work by regularly holding meetings to review and improve the work processes.

(iv) Quality performance measurement

The FM Group has established a set of quality objectives to ensure that the operations meet its goals. These goals are monitored closely by the FM Group's management to ensure consistent deliverables to its customers.

The Group has also developed systems and procedures that are documented in the Group's Quality Manual, the primary purposes of which are:

- to establish procedures and processes that comply with ISO 9001:2000 standards;
- to identify and convey to the Group's employees "best practices" and "best approaches" gained from experience over the course of time; and
- to define and establish roles, authorities and responsibilities thus ensuring that individuals working in a team fully understand and appreciate each others' roles and are able to work effectively and pro-actively as a team.

To ensure adherence to the Group's Quality Manual, regular training and checks in relation to its operations are conducted.

6.5.8 Independent agents

As at 15 December 2004, the Company operates through its network of 54 overseas independent agents. An independent overseas agent represents the Group in a particular country while the FM Group reciprocates by being the representative of that overseas agent in Malaysia. Such independent agent normally has established its market presence of providing international freight services, such as the FM Group, in its country of operation.

For example, when the FM Group transports shipments from its customers in Malaysia bound for a particular port overseas, say Sydney, Australia, an independent agent in Sydney will continue the role of the FM Group by ensuring that the shipments will reach the intended address in Sydney, which includes providing customs brokerage services and arranging for delivery. Such services are reciprocated by the FM Group when the independent agent in Sydney arranges for shipments to Malaysia from its customers in Sydney.

The countries and ports of call where the FM Group has established international independent agents are as follow:

Countries	Ports	Number of independent agents serving the port	
		> 5 years	< 5 years
Australia	Adelaide Brisbane Fremantle Melbourne Sydney	2	1
Bahrain	Bahrain		1
Bangladesh	Dhaka	1	
Belgium	Antwerp	1	
Brunei Darul Salam	Muara		1
Canada	Montreal Toronto Vancouver	1	
China	Shanghai Ningbo Yantian Xiamen Xingang Shekou Dalian Huangpu	3	3
France	Le Havre Marseilles	1	1
Germany	Bremen Hamburg	1	
Hong Kong	Hong Kong	2	1
Italy	Genoa La Spezia	2	
Indonesia	Jakarta Belawan Surabaya	1	2
India	Mumbai New Delhi Chennai		2
Japan	Hakata Kobe Moji Nagayo Osaka Tokyo	1	

Countries	Ports	Number of independent agents serving the port	
		> 5 years	< 5 years
Korea	Busan Inchon	1	
Mauritius	Port Louis	1	
New Zealand	Auckland Christchurch Napier Tauranga Wellington	1	
Netherland	Rotterdam	1	
Pakistan	Karachi		1
Philippines	Manila Cebu		2
Singapore	Singapore	2	1
South Africa	Durban Johannesburg	1	
Spain	Barcelona	1	1
Sri Lanka	Colombo		1
Sweden	Gothenburg		1
Taiwan	Kaoshiung Keelung Taichung	1	
Thailand	Bangkok	2	
United Kingdom	Felixstowe Southampton	1	
United Arab Emirates	Dubai		1
United States of America	Los Angeles New York Chicago Miami	3	1
Vietnam	Ho Chi Minh	1	1
Total		**32**	**22**

6.5.9 Modes of marketing

The Group's marketing and business development approach are based on fostering long-term and strong relationships with its customers. The FM Group's marketing strategy is based on identifying the specific needs of its prospective customers and developing suitable services to meet those needs.

The Group achieves its sales primarily through:

- Direct approach to exporters/importers;
- Referrals and recommendations from existing customers;
- Sourcing sales leads from journals, trade magazines and trade directories;
- Sales leads received from overseas independent agents; and
- Advertisement placed in trade magazines.

Under the 'direct to exporters/importers' approach, the sales team will meet up and propose to potential customers that are identified *via* a series of market research exercises undertaken by the Group. As at 15 December 2004, the FM Group has 88 sales and customer service personnel who are responsible to solicit and secure new businesses from their respective designated geographical regions in Malaysia.

The Group, through its subsidiaries, is a member of various organisations such as FIATA, IATA, Federation of Malaysian Freight Forwarders ("FMFF") and Association of Air freight Forwarders Malaysia ("AFAM"). The Group promotes its services through these organisations and the respective marketing events and functions organised by them. The Group also keeps its customers updated on its recent achievements and conducts regular business reviews with its major customers, thereby fostering a close working relationship with them.

6.5.10 Substitution of service and competition

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 their revenues 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.

(Source: Frost & Sullivan)

6.5.11 Interruption/disruption in business

The Group did not experience any disruption in business having significant effect on its operations for the past 12 months prior to the date of this Prospectus.

6.5.12 Employees

As at 15 December 2004, the FM Group has a total workforce of 307 full-time employees. None of the employees are members of any labour union and there have been no industrial or labour disputes between the Group and its employees. The Group does not employ any foreign employee. The breakdown of the Group's employees is as follows:

Category	Number of employees	Average no. of years of service
Directors	3	14.4
Management	12	9.8
Customer Service & Marketing	88	3.1
Operations	135	4.0
Finance and Administration	69	4.3
	307	

The FM Group provides on-the-job, internal and external training for its staffs to keep abreast with the latest developments in the Group and within the industry. The Group also provides on-going sales and product knowledge training for its sales team in order to improve their selling skills and upgrade their product knowledge. Selected staffs are also sponsored by the Group for external training in their relevant fields.

As FMM, FMHWL and FM(Penang) are accredited with ISO 9001:2000, various trainings are conducted for its employees on introduction, audit and standard operation procedure of ISO 9001:2000.

6.5.13 Competitive advantage

(a) Established track record

The FM Group has been in operations since 1988. With the Group's strong emphasis on quality service and reliability, the Group has a proven track record, demonstrated by the repeat businesses from many of its customers. For example, in Port Klang, 873 customers representing 16% of its Group's total customers have been with the Group for at least 5 years. For more information on the Group's major customers, please refer to Section 6.5.4 of this Prospectus.

(b) World wide coverage

The FM Group has extensive worldwide port coverage which allows its customers, both importers and exporters, to deal with a single party for their international freight services needs. This is an important factor in the international freight forwarding industry as most exporters/importers deal with buyers/suppliers in multiple countries. Hence, dealing with the FM Group will lessen their shipping coordination time and effort.

(c) Extensive network of international independent agents

The FM Group believes that the agency tie-ups with strong independent overseas agents will enhance its position and marketing opportunities. Hence, over the years, the Group has endeavoured to source and appoint leading freight service providers in each country as its agents.

As at 15 December 2004, the FM Group has an extensive network of 54 independent agents worldwide covering 69 ports in 30 countries to facilitate the movement of cargos to overseas destinations. This presence allows the Group to provide comprehensive service to multinational companies that have operations throughout the world.

(d) Critical mass

For the FYE 30 June 2004, the FM Group handled 51,638 TEUs for sea freight and rail freight services and approximately 2,376 metric tonnes for air freight services. This has increased from 22,061 TEUs for the FYE 30 June 1999. The existence of a wide network of international independent agents, coupled with the high volume of cargos, has enabled the FM Group to achieve a 'critical mass' position which gives the Group stronger bargaining power over its vendors such as air carriers, shipping lines and haulage providers.

(e) Strong and knowledgeable management team

The Group has a competent and experienced management team comprising trained customer service and sales personnel, documentation and operational staff and others. The Group has a pool of experienced long serving staff, of which approximately 34% have been with the Group for more than 5 years.

The strength and continuity of the Group's senior management is the cornerstone of the FM Group's business. The core management team is led by Chew Chong Keat, Yang Heng Lam and Gan Siew Yong, each of them has over 15 years of experience in the international freight services industry.

(f) One-stop integrated freight services and customised solutions

The FM Group provides one-stop integrated freight services such as sea, rail and air freight, customs brokerage, local delivery and distribution, warehousing, inventory management and project cargo management. The FM Group customises its services to cater to customers' varied logistics needs.

(g) Cost competitiveness

In the ever-increasing competitive global environment of trades, not only are exporters and importers looking increasingly for more sophisticated worldwide distribution solutions and services, cost effectiveness remains, amongst others, one of the key concerns.

The FM Group being an international freight service provider with complete supporting services, believes it is able to synergise and leverage on the economies of scale of its integrated operations by minimising its reliance on outsourcing its services. This provides the FM Group with an edge on cost savings, which can benefit the importers and exporters. Having a sizeable operation also places the FM Group in a stronger bargaining position with its vendors such as air carriers, shipping lines and haulage operators in obtaining more competitive rates.

In addition, the Directors of FMH are constantly adapting their own strategy and identifying factors that will influence the way exporters and importers address their freight and distribution needs.

(h) Service differentiation

Reliable, efficient and proper handling of cargo is of great concern to exporters/importers. A breakdown in the logistic chain may mean a chain reaction of failures throughout the entire supply chain of goods and services. This is even more crucial in today's business environment as most businesses are conducted on a 'Just-In-Time' ("JIT") concept. The FM Group, being an international freight service provider with complete supporting services is able to monitor every stage of the freight chain, thus keeping the whole freight process under its control. In addition, the Group also provides fixed and committed regular schedules, thus providing exporters/importers the advantage of a reliable service.

(i) Pioneering advantages

The Directors of FMH believe that the Group has pioneering advantage in the LCL consolidation business as the Group has provided such services since the inception of FMM more than 15 years ago. Subsequently in 1999, the FM Group ventured into the rail freight services mentioned in Section 6.5.1.2 of this Prospectus. Based on Frost & Sullivan's report dated December 2004, the FM Group, through FMM, is one of the pioneers in the provision of rail freight services in Malaysia.

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

(j) Market developments and sales capability

The Directors of FMH recognise that the establishment of the multimodal international freight services in new markets at ports located throughout the world is a determining factor for the growth of the FM Group. In this respect, the Directors of FMH have and are constantly identifying opportunities to establish new markets in new ports located worldwide. This is normally carried out through the market research into new markets by identifying new types of services and new geographical markets domestically and internationally.

For further details on the establishment of new markets, please refer to Sections 6.5.9 and 6.5.14 of this Prospectus.

(k) Customer service support

The FM Group recognises that accurate and prompt service feedbacks or information will allow its customers to coordinate and plan their exports/imports more efficiently. A breakdown in customer service may mean that the recipient or consignee do not have sufficient materials to continue their productions. The impact of such failure is far reaching as this may cause a chain reaction of failures throughout the entire supply chain of goods and services. Therefore, the FM Group has a highly trained customer service team of 47 personnel which is backed with information technology systems to ensure that it delivers an efficient customer service support.

(l) Process-oriented and technology driven operations

In order to fulfil customers' needs, the Group's staffs are trained to adhere to the business and operational processes which are documented in its 'Quality Manual'. The Directors of FMH also endeavour to ensure that the Group improves its services to customers after taking into account customers' feedback.

The Group is a technology-driven multimodal international freight service provider. With the use of information technology, the Group is able to provide its customers with accurate information relating to the movement of their cargos. The response time is shortened and errors are minimised due to the seamless flow of information through the computer systems. The Group is focused in developing and upgrading its information technology applications to meet the growing and sophisticated demands of its customers.

(m) A culture which fosters adaptability and innovation

The Group believes it has a group of dedicated, loyal, adaptable to change and motivated employees who are keen to see the Group grow. Regular dialogue sessions are held to enable staffs to better understand the changing operational requirements and at the same time, to understand their concerns.

The Directors of FMH recognise the benefits of planning ahead and utilising information technology to improve productivity. By enhancing the Group's existing services and introducing new services to respond to the changing technological environment, the Group will be able to compete more effectively.

(n) Strong relationships with customers

The FM Group has forged strong working relationships with its customers through reliable and customised services and endeavours to understand their changing needs. In the past 5 years, the Group has continued to receive repeat orders from its major customers. For example, in Port Klang, 873 customers representing 16% of the Group's total customers have a business relationship of more than 5 years with the FM Group. For more information on the major customers, please refer to Section 6.5.4 of this Prospectus.

(o) Quality assurance system

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. Multimodal international freight service providers with the ISO 9000 category international standardisation award indicate recognition of their quality management and customer service. *(Source: Frost & Sullivan)*

In this respect, the Group's 3 subsidiaries, namely FMM, FM(Penang) and FMHWL, have been certified with the ISO 9001:2000 Quality Management System to ensure a high standard of delivery at an international level. The Directors of FMH believe that with the quality assurance systems and processes that are in place, the Group is able to ensure quality services which will enable it to compete effectively and to provide assurance to its customers.

6.5.14 Future plans

The Group is a growing organisation that is constantly looking for opportunities to further expand its business. The future plans of Group are currently focused in the following 4 key areas:

(a) To provide a total outsource option for multi-national companies

The FM Group plans to capitalise on Port Klang's strategic port position and the implementation of AFTA to attract multinational companies to use Port Klang as a distribution and a trans-shipment hub domestically, regionally and globally.

The Group intends to build a distribution centre and to purchase more container units to cater to this need. In addition, the Group also intends to increase the frequency of its sea freight (LCL consolidation) and rail freight services as follows:

	Sea freight services		Rail freight services
	ASEAN	Global	Thailand
Presently	8 times weekly	23 times weekly	4 times weekly
2005	12 times weekly	27 times weekly	5 times weekly
2006	14 times weekly	30 times weekly	6 times weekly

(b) Focus on handling and movement of specialised products

Currently, the Group's customers are mainly multinational corporations, SME and SMI. The Group hopes to diversify its customer base by providing services to customers in specific sectors that have growth potential such as to provide handling and distribution services for pharmaceutical, health and beauty products.

The majority of these products originate from overseas and are imported into Malaysia by air and sea. The importers therefore require the services of a multimodal international freight service provider like the FM Group. The importers of these products are usually agents, trading companies or Malaysian office of the manufacturers, who will usually outsource their distribution needs.

The Group intends to participate in this business by first linking up with these companies. This will be done by possible acquisition or entering into a distribution agreement. The Group intends to utilise its facilities like its distribution centres, to store, sort and pack the products and subsequently using its freight services to distribute the products both domestically and regionally.

Currently, the Group provides its services to an international book publisher whereby the Group handles and distributes the products (i.e. books) commencing from the factory of the international book publisher to the various customers located overseas by selecting the most strategic mode of transportation at competitive costs. As such, the Group believes that with its experience, it would in turn be able to offer similar handling and distribution services for pharmaceutical, health and beauty products.

(c) Keeping abreast with new technologies and information technology infrastructure

FMH is expected to incur an estimated RM1,635,000 to upgrade its operational efficiency during the FYE 30 June 2005. The Directors of FMH envisage that the investment in operational software will improve the FM Group's services and market intelligence in the coming years and that continuous investment in development of operational efficiency will continue to be an essential focus of the Group in the future. Please refer to Section 3.9 (c) of this Prospectus for more details on the investment in new technologies.

(d) Expansion through strategic alliances, acquisitions and joint ventures

The FM Group is considering expanding its operations and capabilities through strategic alliances and joint ventures. The Group has initiated Memoranda of Understanding with the following agents.

a. Thailand – Profreight International Co. Ltd
b. Philipines – Freight Concepts International Inc
c. Indonesia – PT Mentari Trans Kencana

The Memoranda of Understanding include exploring investment opportunities in developing sea freight, rail freight and air freight services in Thailand, Philippines and Indonesia through setting up of joint venture companies in the respective countries.

The Group also intends to further expand its freight services into Johor by way of either forming strategic alliances, acquisitions or joint ventures.

6.5.15 Location

The location of the Group's head office, branch offices and warehouses are set out below:

Company	Location of Operations	Facilities	Area (sq ft)
FMH/FMM	Wisma Freight Management Lot 8, Lingkaran Sultan Mohamed 2 Bandar Sultan Suleiman 42000 Port Klang Selangor	Office	11,225
FMM	NorthPort – FCZ KCT L-shed Container Freight Station Jalan Parang, North Port 42005 Port Klang Selangor	CFS office	45,000*

Company	Location of Operations	Facilities	Area (sq ft)
	West Port – FCZ Klang Multi Terminal Terminal 1, New CFS2, West Port 42000 Port Klang Selangor	CFS	11,295
	Lot 3, Jalan 3, Kawasan SKU Bandar Sultan Sulaiman 42000 Port Klang Selangor	Warehouse	48,613
	Gudang A, Lot 14, Lebuh Sultan Mohd 1 42000 Port Klang Selangor	Warehouse	46,000
FMHWL	Lot E3-A (1st Floor) Block E Southern Common Amenities Facilities Kuala Lumpur International Airport 64000 KLIA Selangor	Office	1,550
	No 4633A, Jalan Gambus 2 Wisma Ami, Taman Desawan 41200 Klang Selangor	Office	1,445
	Lot B2B-1, Cargo Forwarders Building Malaysia Airlines Freight Forwarders Complex Kuala Lumpur International Airport 64000 KLIA Selangor	Warehouse	4,090
FM(Penang) / FMHWL (Penang)	4453 & 4454, Jalan Bagan Luar 12000 Butterworth Penang	Office	8,152
FM(Penang)	D2, Warehouse Penang Free Commercial Zone 12100 Butterworth Penang	CFS	17,993
FM(Ipoh)	32B, 1st Floor, Jalan Ng Weng Hup, Taman Pertama 30100 Ipoh Perak	Office	3,044
FM(Melaka)	No.47A, Jalan Melaka Baru 22 Taman Melaka Baru Batu Berendam 75350 Melaka	Office	1,342
ALSB / CMS	Lot 3, Jalan 3, Kawasan SKU Bandar Sultan Suleiman 42000 Port Klang Selangor	Office	13,437

Company	Location of Operations	Facilities	Area (sq ft)
FMD	Lot 8, Lingkaran Sultan Mohamed 2 Bandar Sultan Suleiman 42000 Port Klang Selangor	Warehouse	43,928

Note:

* *It means the total area of KCT's L-shed Container Freight Station of 45,000 sq ft. However, the actual area used by FMM is dependant on the volume of LCL consolidation (in TEUs) arising from FMM's sea freight services*

6.5.16 Market share

According to the independent market research report prepared by Frost & Sullivan dated December 2004 ("IMRR"), the international freight forwarding industry in Malaysia is a highly fragmented industry and comprise of many players. Capturing an accurate market share amongst the international freight service providers remains a challenging task. Hence, the identification of leading multimodal international freight service providers as set out in the IMRR does not constitute and is not limited to the actual quantity of leading players present in the international freight forwarding industry in Malaysia.

Based on the IMRR, the leading international freight service providers in Malaysia can generally be categorised 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 the IMRR 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.

Based on Frost & Sullivan's findings, the leading international freight service providers in Malaysia in the containerisation segment of the international freight forwarding industry, for both LCL consolidation and FCL services, are set out below 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)

As set out above, Frost & Sullivan has identified FMM as one of the leading local players.

6.5.17 Key milestones

Year	Key milestones
1989	• On 1 January, FMM was admitted as an associate member of FIATA, which is the internationally recognised association for freight forwarders. • FMM expanded its business operations to northern region of West Malaysia with the incorporation of FM(Penang), a wholly owned subsidiary on 11 December.
1990	• FMM ventured into the air freight business with the incorporation of FM Air freight Sdn Bhd on 18 June (now known as FMHWL). • FMM's first direct LCL consolidation services was to Hong Kong.
1991	• Direct LCL consolidation to Keelung, Los Angeles, Colombo and Karachi. • In tandem with the increase in trade between Malaysia and Japan, FMM launched its direct LCL consolidation to 3 major ports of Japan, namely Kobe, Yokohama and Tokyo.
1992	• CMS (then known as Citra Timuran Sdn Bhd) was incorporated on 20 October to carry out the business of domestic consolidation for East Malaysia.
1993	• The Malaysian government gazetted Port Klang as a FCZ, which made trans-shipment possible. FMM extended its business operations to include trans-shipment for its LCL consolidation business segment • FMM commenced its CFS operations in Port Klang Distribution Park, within NorthPort effective from 1 September, renting an area known as Warehouse No.5, which is approximately 10,000 sq ft. FMM also increased its network of international independent agents to 15 • Incorporation of FM(Ipoh) on 3 September to cover sales and marketing in the Kinta Valley • An agency agreement was signed between FMM and Hellmann International Forwarders (now known as Hellmann Worldwide Logistics) on 6 December. The agency agreement was intended for the appointment of FMM and Hellmann International Forwarders respectively to act as the sole and exclusive freight representative and agent between the geographical territory in which Hellmann International Forwarders operates and the geographical territory in which FMM operates. However, this agency agreement was superseded by a licence and cooperation agreement signed between FMHWL and Hellmann Network A.V.V. on 1 January 2003 • Inroads in direct LCL consolidation to Busan, Melbourne and Sydney and the minimisation of its reliance on Singapore as a trans-shipment hub.
1994	• On 17 January, FMWL(Penang) (then known as FM Airfreight (Penang) Sdn Bhd) was incorporated to support the air freight business for the northern region of West Malaysia • Business in direct LCL consolidation continues to expand to include Osaka and Nagoya, which completes the direct LCL consolidation services to the 5 major ports of Japan

Year	Key milestones
	• As the business expands, the tenanted CFS storage area at Port Klang was consequently increased to 30,000 sq ft
1995	• FM Group launched its direct LCL consolidation services into Ho Chi Minh, Muara and European ports such as Hamburg, Rotterdam and Southampton. FM also established direct LCL consolidation services to Toronto and Montreal *via* the gateway of Vancouver
1996	• FMM was accredited an ISO9002:1994 quality management system by SIRIM
	• To expand the provision of supporting services, FMM rented and set up its first warehouse facilities of 42,000 sq feet
	• ALSB (then known as Logistar Sdn Bhd) commenced operation to carry on the business of providing customs brokerage services
	• Acquired a land through PGSB to build a warehouse cum corporate headquarters on 16 February
	• The business of direct LCL consolidation continues to develop to Dubai, the gateway port into Middle East and Shanghai in China. The Directors of FMH also believe that FMM was the first company to offer direct LCL consolidation to Shanghai
	• The tenanted CFS storage area at Port Klang was increased to 35,000 sq ft. to cater for the increase in business volume
	• FMM commenced electronic transmission of manifest declaration to Kastam Di Raja Malaysia
1997	• FM(Melaka) was incorporated to undertake the marketing of freight services in Malacca and Johor
1998	• Construction completed for FMH's corporate headquarters cum warehouse in Port Klang of 11,225 sq ft and 43,928 sq ft respectively to replace the rented warehouse of 42,000 sq ft.
1999	• Rail freight service to Bangkok was launched by Tun Dr. Ling Leong Sik with 1 run a week
	• In May, FM Group started CFS operations of approximately 5,000 sq ft. warehouse space at WestPort
	• By September, the rail freight service was doubled to 2 runs a week.
	• In July, approval was obtained from Ministry of Finance Malaysia to operate a bonded warehouse
2000	• In June, the rail freight service was increased to 3 runs a week
	• Expansion of its warehouse facility by renting of 46,000 sq ft warehouse in Port Klang
2001	• FM(Penang) commenced its own CFS facility of 17,993 sq ft in Penang Port
	• Commenced the provision of second bonded warehouse facility

Year	Key milestones
	• FM Group expanded its CFS facilities to 11,295 sq ft in WestPort
2002	• In May, the rail freight services was increased to 4 runs a week
	• FM(Penang) doubled its office premises by acquiring the adjacent office building
2003	• FMM, FM(Penang) and FMHWL obtained ISO9001:2000 accreditation
	• In September, FM Group expanded its general warehouse facility by renting 48,613 sq ft of storage space and 13,437 sq ft of office space in Port Klang
	• Started direct LCL consolidation to Xingang, to cover the north-eastern region of China
	• FMHWL entered into an exclusive licence and cooperation agreement with Hellmann Network A.V.V.

6.6 INFORMATION ON SUBSIDIARY COMPANIES

6.6.1 Information on FMM

(a) **History and business**

FMM was incorporated in Malaysia under the Act on 4 June 1982, as a private limited company under the name of FLE(JB) Sdn Bhd. FMM changed its name to FLE (Johore Bahru) Sdn Bhd on 21 August 1982. On 12 March 1983, FMM changed its name to Freight Management (Malaysia) Sdn Bhd. Subsequently on 26 March 1996, FMM adopted its present name.

FMM is principally involved in the business of provision of freight services. The current activities carried out by FMM involve sea and rail freight services, CFS operations, warehousing, customs brokerage and project management and are centered mainly in Klang Valley, Selangor and central region of West Malaysia.

(b) **Share capital**

FMM has an authorised share capital of RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which 2,000,000 ordinary shares of RM1.00 each are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of FMM since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
04.06.1982	2	1.00	Subscribers' shares	2
07.01.1986	64,998	1.00	Cash	65,000
24.09.1988	60,000	1.00	In full satisfaction of the amount owing by FMM to Freight Management Pte Ltd	125,000

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
08.08.1992	125,000	1.00	Cash	250,000
11.11.1993	250,000	1.00	Cash	500,000
24.07.1995	250,000	1.00	Bonus issue of 1 new ordinary share for every 2 existing ordinary shares held *via* capitalisation of retained profits	750,000
07.08.1997	1,250,000	1.00	Bonus issue of 5 new ordinary shares for every 3 existing ordinary share held *via* capitalisation of retained profits	2,000,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in FMM.

FMM is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

Details of FMM's associated company as at 30 June 2004 is set out below:

Name	Date of incorporation	Issued and paid-up capital (RM)	Effective Interest (%)	Principal Activities
FMD	05.07.1985	100,000	49	Warehouse operator

As at the date of this Prospectus, FMM does not have any subsidiary company.

6.6.2 Information on FM(Ipoh)

(a) **History and business**

FM(Ipoh) was incorporated in Malaysia under the Act on 3 September 1993, as a private limited company under its present name.

FM(Ipoh) is principally involved in the business of provision of freight services. The current activities carried by FM(Ipoh) involve primarily sea freight services and are centered mainly in Kinta Valley, Perak.

(b) **Share capital**

The present authorised share capital of FM(Ipoh) is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 300,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of FM(Ipoh) since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
03.09.1993	2	1.00	Subscribers' shares	2
07.11.1994	149,998	1.00	Cash	150,000
04.09.1995	150,000	1.00	Cash	300,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in FM(Ipoh).

FM(Ipoh) is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, FM(Ipoh) does not have any subsidiary or associated companies.

6.6.3 Information on FM(Penang)

(a) **History and business**

FM(Penang) was incorporated in Malaysia under the Act on 11 December 1989, as a private limited company under its present name.

FM(Penang) is principally involved in the business of provision of freight services. The current activities carried by FM (Penang) involve sea and rail freight services, CFS operations, warehousing and customs brokerage and are centered mainly in Penang and northern region of West Malaysia.

(b) **Share capital**

The present authorised share capital of FM(Penang) is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 500,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of FM(Penang) since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
11.12.1989	2	1.00	Subscribers' shares	2
15.02.1990	49,998	1.00	Cash	50,000
04.06.1990	25,000	1.00	Cash	75,000
12.08.1999	75,000	1.00	Bonus issue of 1 new ordinary share for every 1 existing ordinary share held *via* capitalisation of retained profits	150,000

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
15.08.2000	100,000	1.00	Bonus issue of 2 new ordinary shares for every 3 existing ordinary share held *via* capitalisation of retained profits	250,000
25.02.2003	250,000	1.00	Bonus issue of 1 new ordinary share for every 1 existing ordinary share held *via* capitalisation of retained profits	500,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in FM(Penang).

FM(Penang) is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, FM(Penang) does not have any subsidiary or associated companies.

6.6.4 Information on FM(Melaka)

(a) **History and business**

FM(Melaka) was incorporated in Malaysia under the Act on 20 January 1997, as a private limited company under its present name.

FM(Melaka) is principally involved in the business of provision of freight services. The current activities carried out by FM(Melaka) involve primarily sea freight services and are centered mainly in Melaka and southern region of West Malaysia.

(b) **Share capital**

The present authorised share capital of FM(Melaka) is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 100,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of FM(Melaka) since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
20.01.1997	2	1.00	Subscribers' shares	2
20.02.1997	9,998	1.00	Cash	10,000
21.08.2000	50,000	1.00	Cash	60,000
21.08.2000	40,000	1.00	Bonus issue of 4 new ordinary shares for every 1 existing ordinary share held *via* capitalisation of retained profits	100,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in FM(Melaka).

FM(Melaka) is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, FM(Melaka) does not have any subsidiary or associated companies.

6.6.5 Information on ALSB

(a) **History and business**

ALSB was incorporated in Malaysia under the Act on 15 April 1995, as a private limited company under the name of Optipac Sdn Bhd. It changed its name to Logistar Sdn Bhd on 7 June 1996. On 14 October 1997, ALSB adopted its present name.

ALSB is principally involved in the business of provision of freight services. The current activities carried out by ALSB involve primarily customs brokerage.

(b) **Share capital**

The present authorised share capital of ALSB is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 200,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of ALSB since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
15.04.1995	2	1.00	Subscribers' shares	2
01.07.1996	199,998	1.00	Cash	200,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in ALSB.

ALSB is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, ALSB does not have any subsidiary or associated companies.

6.6.6 Information on CMS

(a) **History and business**

CMS was incorporated in Malaysia under the Act on 20 October 1992, as a private limited company under the name of Citra Timuran Sdn Bhd. Subsequently on 15 June 1999, CMS adopted its present name.

CMS is principally involved in the business of provision of freight services. The business operations of CMS involve the movements of goods between East and West Malaysia.

(b) **Share capital**

The present authorised share capital of CMS is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 250,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of CMS since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
20.10.1992	2	1.00	Subscribers' shares	2
05.03.1993	50,000	1.00	Cash	50,002
01.09.2000	199,998	1.00	Cash	250,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in CMS.

CMS is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, CMS does not have any subsidiary or associated companies.

6.6.7 Information on FMHWL

(a) **History and business**

FMHWL was incorporated in Malaysia under the Act on 18 June 1990, as a private limited company under the name of FM Airfreight Sdn Bhd. It subsequently changed its name to FM Worldwide Logistics Sdn Bhd on 19 July 1999. On 22 October 2003, the FMHWL adopted its present name.

FMHWL is principally involved in the business of provision of freight services, in particular air freight services.

(b) **Share capital**

The present authorised share capital of FMHWL is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, of which 1,000,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of FMHWL since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
18.06.1990	2	1.00	Subscribers' shares	2

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
13.02.1991	24,998	1.00	Cash	25,000
09.08.1993	25,000	1.00	Cash	50,000
09.03.1994	150,000	1.00	Cash	200,000
18.04.1994	50,000	1.00	Cash	250,000
24.01.2003	750,000	1.00	Bonus issue of 3 new ordinary shares for every 1 existing ordinary share held *via* capitalisation of retained profits	1,000,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in FMHWL.

FMHWL is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, FMHWL does not have any subsidiary or associated companies.

6.6.8 Information on FMWL(Penang)

(a) **History and business**

FMWL(Penang) was incorporated in Malaysia under the Act on 17 January 1994 as a private limited company under the name of FM Airfreight (Penang) Sdn Bhd. On 3 August 1999, FMWL(Penang) adopted its present name.

FMWL(Penang) is principally involved in the business of provision of freight services, in particular air freight services. The business operations of FMWL(Penang) are centered mainly in the northern region of West Malaysia.

(b) **Share capital**

The present authorised share capital of FMWL(Penang) is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 250,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of FMWL(Penang) since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
17.01.1994	2	1.00	Subscribers' shares	2
15.06.1994	50,000	1.00	Cash	50,002
16.12.1994	199,998	1.00	Cash	250,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in FMWL(Penang).

FMWL(Penang) is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, FMWL(Penang) does not have any subsidiary or associated companies.

6.6.9 Information on ILSB

(a) **History and business**

ILSB was incorporated in Malaysia under the Act on 19 August 1994, as a private limited company under the name of FM Consolidators Sdn Bhd. It subsequently changed its name to G-Chem Sdn Bhd on 6 June 1996. On 24 February 1999, ILSB adopted its present name.

As at the date of this Prospectus ILSB is dormant.

(b) **Share capital**

The present authorised share capital of ILSB is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 40,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of ILSB since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
19.08.1994	2	1.00	Subscribers' shares	2
21.08.1996	9,998	1.00	Cash	10,000
06.03.1997	30,000	1.00	Cash	40,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in ILSB.

ILSB is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, ILSB does not have any subsidiary or associated companies.

6.6.10 Information on PGSB

(a) **History and business**

PGSB was incorporated in Malaysia under the Act on 20 February 1990, as a private limited company under its present name.

PGSB is principally involved in property investment holding.

(b) **Share capital**

The present authorised share capital of PGSB is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 250,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of PGSB since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
20.02.1990	2	1.00	Subscribers' shares	2
24.10.1992	24,000	1.00	Cash	24,002
05.11.1997	50,998	1.00	Cash	75,000
14.04.1998	175,000	1.00	Cash	250,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in PGSB.

PGSB is a wholly-owned subsidiary of FMH. Please refer to Section 7.1.2 for further information on the substantial shareholders of FMH.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, PGSB does not have any subsidiary or associated companies.

6.7 INFORMATION ON ASSOCIATED COMPANY

(a) **History and business**

FMD was incorporated in Malaysia under the Act on 5 July 1985, as a private limited company under the name of Perniagaan Bersatu Padu Sdn Bhd. It subsequently changed its name to Mercantile Freight Sdn Bhd on 22 August 1987. On 18 December 1997, FMD adopted its present name.

FMD is principally involved in provision of warehouse services.

(b) **Share capital**

The present authorised share capital of FMD is RM150,000 comprising 150,000 ordinary shares of RM1.00 each, of which 100,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of FMD since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
05.07.1985	2	1.00	Subscribers' shares	2
21.08.1989	50,000	1.00	Cash	50,002
17.10.1992	49,998	1.00	Cash	100,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in FMD.

The substantial shareholders of FMD are as follows:

Substantial shareholder	Nationality/ Country of Incorporation	<---------Direct-------->		<------Indirect------>	
		No. of Shares	%	No. of Shares	%
FMM	Malaysia	49,000	49.00	-	-
Abdul Jalil Bin Abdullah	Malaysian	51,000	51.00	-	-
Chew Chong Keat	Malaysian	-	-	49,000[1]	49.00
Yang Heng Lam	Malaysian	-	-	49,000[1]	49.00

Note:
1 Deemed interested pursuant to Section 6A of the Act by virtue of his shareholdings in FMH, which owns 100% interest in FMM.

(c) **Subsidiary and Associated Companies**

As at the date of this Prospectus, FMD does not have any subsidiary or associated companies.

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