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## INDUSTRY OVERVIEW

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*The information and statistics set out in this section and other sections of this document were extracted from the report prepared by F&S, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged F&S to prepare the industry report, an independent industry report in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Sole Sponsor, [REDACTED], [REDACTED], [REDACTED], [REDACTED], any of their respective directors and advisors, or any other person or party involved in the [REDACTED], and no representation is given as to its accuracy.*

### SOURCE AND RELIABILITY OF INFORMATION

We have commissioned F&S, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the food and beverage distribution industry in Malaysia. The report prepared by F&S for us is referred to in the document as the F&S Report. A total fee of HK\$990,000 was paid to F&S for the preparation of the report, which we believe reflects market rates for reports of this type. F&S is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

The F&S Report was undertaken through both primary and secondary research obtained from various sources. Primary research involved discussing the status of the industry with certain leading industry participants to obtain objective and factual data and prospective predictions. Secondary research involved reviewing information integration of data and publication from publicly available sources, including official data and announcements from government agencies, and company reports, independent research reports and data based on F&S's own data base.

In compiling and preparing the F&S Report, F&S has adopted the following assumptions (i) the social, economic and political environment in Malaysia is likely to remain stable in the forecast period; and (ii) industry key drivers are likely to drive the food and beverage distribution industry in Malaysia in the forecast period.

Our Directors have confirmed that the source of information used in this section, which are extracted from the F&S Report, are reliable and not misleading. There is no adverse change in the market information since the date of the F&S Report which may qualify, contradict or have impact on the information of this section.

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### OVERVIEW OF THE FOOD AND BEVERAGE DISTRIBUTION INDUSTRY IN MALAYSIA

#### *Macroeconomic background in Malaysia*

Malaysia belongs to the upper-middle income group of countries according to World Bank classification. Due to its newly industrialized market economy, Malaysia is going through a rapid economy growth period. The per capita nominal GDP in Malaysia grew from approximately RM42,854.4 in 2017 to approximately RM47,223.3 in 2021. From 2016 to 2020, Malaysia’s population has increased from approximately 31.6 million to approximately 32.6 million, at a relatively CAGR of approximately 0.7%. Due to the robust economic development and the influx of population from rural areas, the urbanization rate in Malaysia correspondingly increased by 2.4 percentage points, from approximately 74.8% in 2016 to approximately 77.2% in 2020. Meanwhile, the disposable income has also witnessed a rapid increase in Malaysia. From 2016 to 2019, the mean monthly household disposable income has grown up from approximately RM5,928 to approximately RM6,764 (approximately 85.6% of gross income) and the median monthly household disposable income has increased from RM4,513 to RM5,116 (approximately 64.8% of gross income).

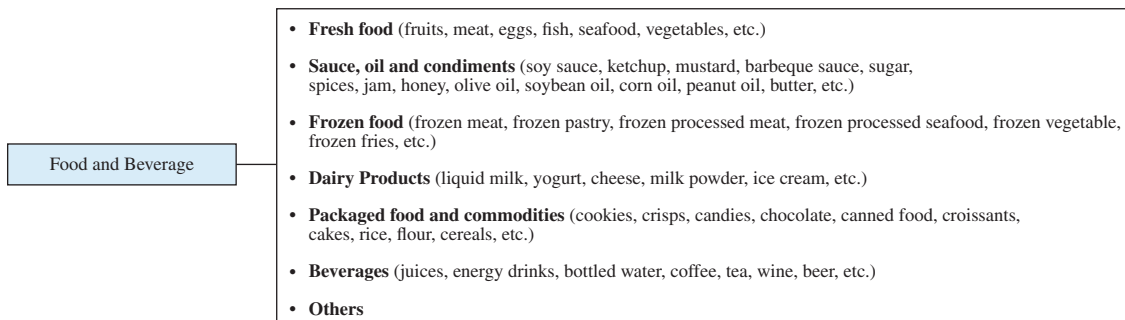
#### Overview of Malaysia F&B and F&B Distribution

##### *Definition of food and beverage and food and beverage distribution*

Food is any substance consumed to provide nutritional support for the body. It is produced either by Plants or Animals, and contains essential nutrients, such as carbohydrates, fats, proteins, vitamins, or minerals.

Beverage is a liquid intended for human consumption. In addition to their basic function of satisfying thirst, drinks play important roles in human culture.

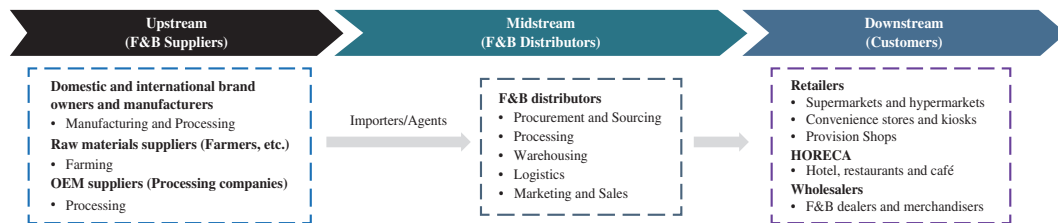
Food and beverage mainly consist of the following categories: 1) fresh food, 2) sauce, oil and condiments, 3) frozen food, 4) dairy products, 5) packaged food and commodities, 6) beverages, 7) others.



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Food and beverage (F&B) distribution refers to a comprehensive portfolio of services offered by F&B distributors to provide companies with access and expertise to grow their business, including traditional warehousing, logistics, transportation (with cold chain) and delivery services, and also a series of customized value-added business development services along the entire value chain, such as market analysis and research, marketing and sales, as well as after-sales services. F&B distributors support the movement of food and beverage from the upstream F&B suppliers to the downstream F&B customers through their local channels and networks.

### *Value chain analysis of the food and beverage distribution industry in Malaysia*



The upstream of F&B distribution industry include suppliers of third-party and other F&B products (including domestic and international brand owners and manufacturers) and also OEM suppliers and raw materials suppliers for own F&B products. Importers and local agents may also play a role in the value chain who bridge the F&B suppliers and F&B distributors in Malaysia. The downstream players of F&B distribution industry include retailers of different channels, HORECA and wholesalers. F&B distributors at the midstream provide F&B distribution services along the value chain to both upstream suppliers and downstream customers.

Besides, driven by advantages of channels, infrastructure, capital and skills, many F&B distributors have adopted their own product business, including own-brand and white label products, most of which are food and beverage products, such as frozen food, dairy products and sauce and condiments. Repackaging is applied by many F&B distribution companies. F&B distributors can either source and procure products from OEM suppliers and sell under their own brands or choose a total self-production model from purchasing raw materials to manufacturing and packaging. Owing to economies of scale, OEM model can significantly reduce the cost of production, which will enhance the profitability of F&B distribution companies.

### *Market size of food and beverage industry in Malaysia*

According to F&S Report, the market size of the food and beverage industry in Malaysia increased from approximately RM49.4 billion in 2017 to approximately RM59.4 billion in 2021, illustrating a CAGR of approximately 4.7%. Fresh food is the largest segment in the food and beverage sector, which accounted for approximately 41.8% in 2021, followed by packaged food and commodities (approximately 23.5%), beverages (approximately 10.6%), frozen food (approximately 7.8%), sauce, oil and condiments (approximately 7.1%), dairy products

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(approximately 6.3%), and other various segments (approximately 2.8%). Looking forward, driven by growing economy and purchasing ability, the market size of the food and beverage market is expected to keep a steady growth, increasing from approximately RM62.7 billion in 2022 to approximately RM76.9 billion by 2026, representing a CAGR of approximately 5.2%. Due to the lockdown of COVID-19, the general public started to pile up food stock, thus promoting the consumption of food and beverage, especially packaged food during the pandemic period. In addition, during the COVID-19, where many people opted to stay at home, thus fueling interest in cooking, increasing the demand for dairy products especially ice-cream and cheese.

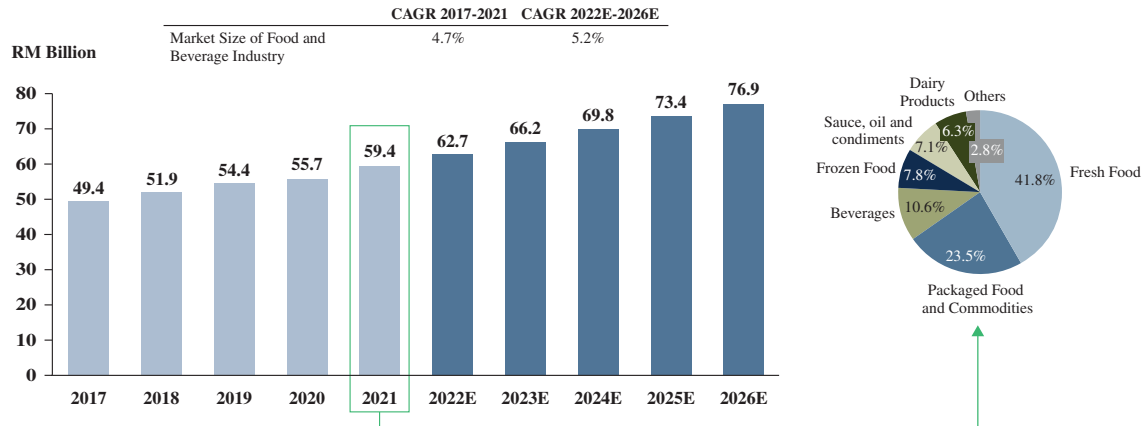
Among all downstream customers, retail channel (including hypermarkets and supermarkets, provision shops and convenience stores, etc.) owns the largest share of F&B distribution market in Malaysia, which is approximately 74.0% in 2021. Hypermarkets and supermarkets are the largest one in the retail channels, accounting for more than 50% of the total market.

As an emerging market with rapid economy development, increasing purchasing power and growing population, domestic consumption in Malaysia has increased significantly, making it an attractive market for both domestic brands and foreign brands. From 2017 to 2021, the total import value in Malaysia increased from RM836,422 million to RM987,244 million, representing a CAGR of 4.2%. The demand of both the import and domestic goods in Malaysia has maintained an upward trend over the past few years. Looking forward, with the improvement of Malaysia’s distribution, warehousing, and logistics network, as well as the upgrading of consumption, it is expected that the market demand for both imported and domestic products will continue to keep a stable growth rate in the future.

Frost & Sullivan is unable to quantify the demand of imports and domestic goods in Malaysia. Given the complexity of the supply and distribution network of F&B industry in Malaysia, the market players from the different levels of the industry chain that Frost & Sullivan approached were unable to distinguish whether their products originally came from overseas or domestically. Therefore, without the input from the expert interviews and public data, it is impracticable for Frost & Sullivan to ascertain the market size of import and domestic products in the industry.

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### Market Size of Food and Beverage Industry (Malaysia), 2017-2026E



*Note:* the market size of food and beverage industry refers to the total GMV of food and beverage sold at final retail price in Malaysia.

*Source:* F&S Report

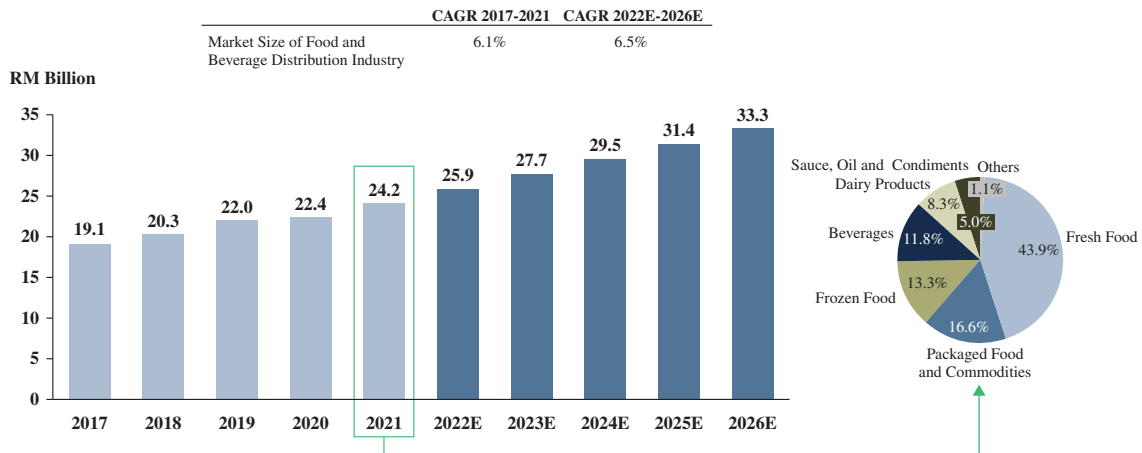
#### ***Market size of food and beverage distribution industry in Malaysia***

The diverse population and cuisine created a constant demand for a wide variety of food and beverage from round the world, which will further bring great market opportunities for the food and beverage distributors, especially for the food and beverage sector. According to F&S Report, the Malaysia food and beverage distribution market maintained a steady growth during the period from 2017 to 2021, with its market size increasing from approximately RM19.1 billion to approximately RM24.2 billion, illustrating a CAGR of approximately 6.1%. Going forward, with the control of COVID-19, it is expected that the market size of Malaysia food and beverage distribution market will recover and reach approximately RM33.3 billion in 2026, representing a CAGR of approximately 6.5% from 2022, according to F&S Report. As more people prefer to have meal at home and reduce social activity after COVID-19, the demand of F&B products, especially frozen food, has increased.

In addition, increasing industry players have strengthened the engagement in the high value-added products such as frozen food and dairy products, which require cold chain facilities including cold transportation and cold storage. Therefore, it is expected that frozen and dairy products will go through a faster development among different segments in the food and beverage distribution industry in the next few years.

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### Market Size by Revenue of Food and Beverage Distribution Industry (Malaysia), 2017-2026E



Source: F&S Report

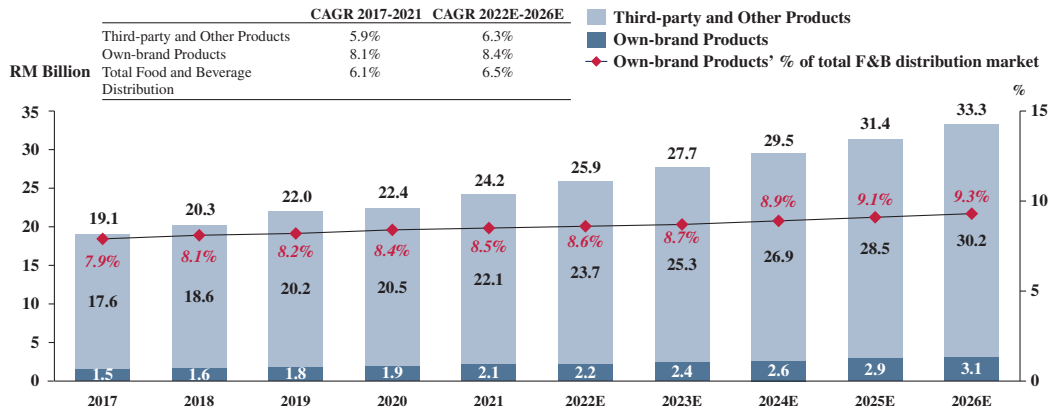
#### **Market size of food and beverage distribution industry in Malaysia – breakdown by product brand**

The market size of the food and beverage distribution industry for third-party and other products sector increased from approximately RM17.6 billion in 2017 to approximately RM22.1 billion in 2021, with a CAGR of approximately 5.9%. In the food and beverage distribution industry, most food and beverage distributors sell the third-party and other products. The market share of the third-party and other products accounted for approximately 91.5% of the total F&B distribution market in 2021.

However, with some food and beverage distributors starting to develop their own-brand products to differentiate themselves from other competitors and increase their profit margin, the own-brand products sector is representing an upward trend. The market size of food and beverage distribution industry for own-brand products sector grew from approximately RM1.5 billion in 2017 to approximately RM2.1 billion in 2021, with a CAGR of approximately 8.1%. Going forward, it is forecasted that the market size of the food and beverage distribution industry for own-brand products sector will reach approximately RM3.1 billion by 2026, showing a CAGR of approximately 8.4% from 2022. The proportion of own-brand products of the overall food and beverage distribution market is likely to reach approximately 9.3% by 2026. The relatively higher expected growth rate for Own-Brand products were attributable to (i) the outbreak of COVID-19 leading to the interruption of supply chain, such that the local F&B distributors started to introduce multiple categories of products under their own brand; and (ii) the higher margin of the own brand products attract the local distributors to develop in this aspect.

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### Market Size by Revenue of Food and Beverage Distribution Industry – Breakdown by Product Brand (Malaysia), 2017-2026E



*Note:* the market size of food and beverage distribution industry refers to the aggregate revenue of food and beverage distributors generated in Malaysia; the breakdown data may not add up to the total due to rounding.

*Source:* F&S Report

### Overview of the food and beverage distribution industry in Peninsular Malaysia

Driven by boosting economy, growing population as well as increasing urbanization, the market size by revenue of F&B distribution industry in Peninsular Malaysia increased from approximately RM15.8 billion in 2017 to approximately RM20.1 billion in 2021, representing a CAGR of approximately 6.2%. The Peninsular Malaysia contributed approximately 83.2% of the total market size by revenue of F&B distribution industry in Malaysia in 2021, increasing from approximately 82.9% in 2017.

According to the data released by the Department of Statistics Malaysia, the nominal GDP of Western Peninsular Malaysia increased at a CAGR of 4.2% from 2016 to 2020, which is higher than that of the whole Peninsular Malaysia (3.8%) and other major regions of Peninsular Malaysia (Southern: 3.1%; Northern: 3.7%; Eastern: 2.8%). In addition, according to the Household Expenditure Survey Report published by the Department of Statistics Malaysia, from 2016 to 2019, the F&B expenditure of Western Peninsular Malaysia increased at a CAGR of approximately 5.5%, which is higher than that of the whole Peninsular Malaysia (4.8%) and is also the highest among the different regions (Southern: 5.4%; Northern: 3.5%; Eastern: 3.9%). Therefore, driven by the faster economy development in Western Peninsular Malaysia, the F&B distribution market in Western Peninsular Malaysia grew from approximately RM6.8 billion in 2017 to approximately RM8.8 billion in 2021, representing a CAGR of approximately 6.5%, which is faster than Southern Peninsular Malaysia (approximately 6.2%), Northern Peninsular Malaysia (approximately 5.7%) and Eastern Peninsular Malaysia (approximately 6.0%), and the weight of Western Peninsular Malaysia’s F&B distribution industry in the whole Peninsular Malaysia also increased from approximately 43.0% in 2017 to approximately 43.6% in 2021.

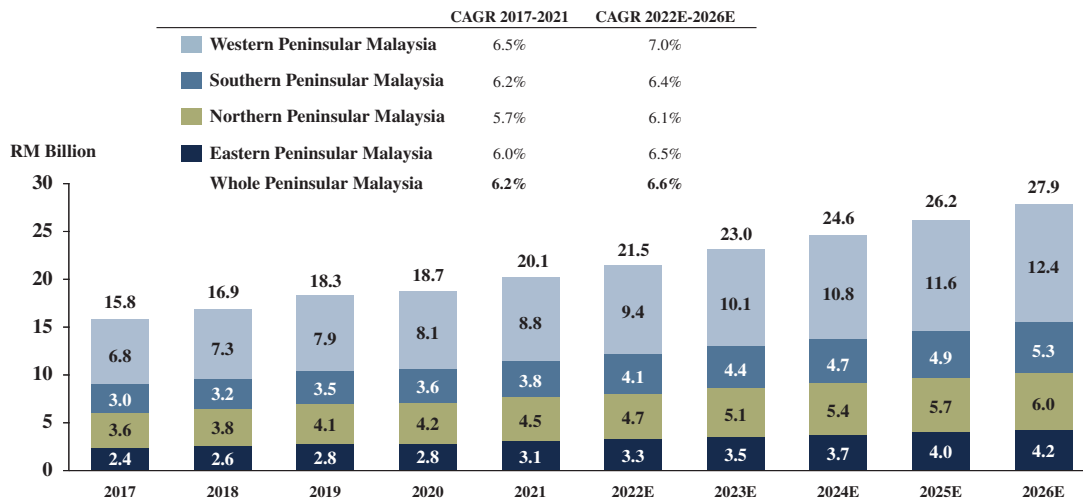


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In the foreseeable future, Western Peninsular Malaysia market will further develop with strong economy growth momentum and the increasing income and expenditure level, especially for the capital city Kuala Lumpur as the cultural, financial and economic centre of Malaysia. The market size by revenue of F&B distribution market in Western Peninsular Malaysia is expected to grow at a CAGR of approximately 7.0% from approximately RM9.4 billion in 2022 to approximately RM12.4 billion in 2026, which is still the highest among different regions, followed by Northern Peninsular Malaysia (approximately RM6.0 billion), Southern Peninsular Malaysia (approximately RM5.3 billion) and Eastern Peninsular Malaysia (approximately RM4.2 billion).

As the most developed region in Malaysia with dense population and high level of income, Western Peninsular Malaysia has gathered many F&B distributors, not to mention leading players of Malaysia F&B distribution industry who usually have business coverage of whole Malaysia. Therefore, the competition is quite tense in F&B distribution industry in Western Peninsular Malaysia. Except for the Company D who only focuses on East Malaysia, all other F&B distributors among top five players in 2021 have geographical coverage both Peninsular Malaysia and East Malaysia. Some major players other than top five companies in Malaysia F&B distribution industry, such as GBA Corporation Sdn Bhd, also have business network in Western Peninsular Malaysia.

### Market Size by Revenue of Food and Beverage Distribution Industry (Peninsular Malaysia), 2017-2026E



Note: the market size of food and beverage distribution industry refers to the aggregate revenue of food and beverage distributors generated in Peninsular Malaysia.

Source: F&S Report



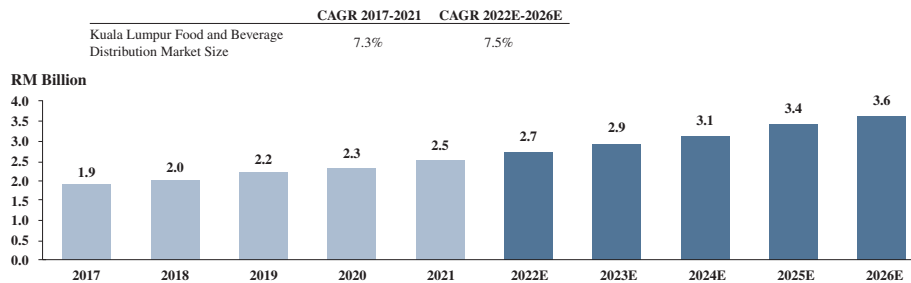
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### Overview of the food and beverage distribution industry in Kuala Lumpur

The most populated areas in Malaysia are located in Western Peninsular Malaysia (including Kuala Lumpur, the capital city of Malaysia) and along Southern Peninsular Malaysia. Kuala Lumpur, the capital city of Malaysia located in Western Peninsular Malaysia, is Malaysia’s largest and fastest-growing city with close to approximately 8 million citizens living in the metro area. The federal territory of Kuala Lumpur is enclosed by the highest populated state of Selangor. Kuala Lumpur and its surrounding urban areas form the most industrialized and the fastest growing region in Malaysia. As the cultural, financial and economic centre of Malaysia, the city has played host to many international sporting, political and cultural events, which brought substantial market demand of food and beverage products. During the period from 2017 to 2021, the market size of Kuala Lumpur food and beverage distribution market grew from approximately RM1.9 billion to approximately RM2.5 billion, illustrating a CAGR of approximately 7.3%.

With the steady economy development and continuously increasing household disposable income in Kuala Lumpur, the market size of Kuala Lumpur food and beverage distribution will further expand. It is forecasted that the market size of Kuala Lumpur food and beverage distribution market will increase from approximately RM2.7 billion in 2022 to approximately RM3.6 billion in 2026, showing a CAGR of approximately 7.5%.

### Market Size by Revenue of Food and Beverage Distribution Industry (Kuala Lumpur), 2017-2026E



*Note:* the market size of food and beverage distribution industry refers to the aggregate revenue of food and beverage distributors generated in Kuala Lumpur.

*Source:* F&S Report

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### Market drivers of the food and beverage distribution industry in Malaysia

#### *i) Change of consumption behaviour*

Driven by the fast economic development, consumption behavior in Malaysia also has witnessed some changes. The on-going urbanization created more employment opportunities and increased people’s disposable income, enabling them to pursue higher living standards that satisfy their demand for improved living environment. E-commerce also began to develop rapidly and online shopping consumption kept expanding. In terms of the Food & Beverage sector, due to the outbreak of COVID-19, it has further promoted the people’s awareness on healthy diet and lifestyle, which will stimulate the growth in organic, environmentally friendly, and high-quality food. In addition, the demand for at-home meals and home meals replacement (HMR) is expanding during COVID-19. Consumers have stockpiled processed food and beverage products with a long shelf life to perishable foods, which have propelled the demand for retail channels and chains. Furthermore, the demand for frozen food has also increased dramatically, accelerating the construction of cold chain distribution system in the food and beverage distribution industry.

#### *ii) Positive economic environment and increasing consumption price*

Benefit from a stable economic situation and a stable social environment, Malaysia has seen a rapid development in urbanisation in the past five years. According to the Department of Statistics in Malaysia, the urbanisation rate of Malaysia reached approximately 77.2% in 2020, which will stimulate the exploration and the economic development of the new urban district. Moreover, the consumer price index (CPI) and the consumer price index of food and beverages in Malaysia reached 123.1 and 137.1 in 2021, increased by 2.5% and 1.7%, respectively. CPI is a price change indicator that reflects the prices of products and services related to residents’ lives. It is one of the main indicators to measure inflation. Generally, a CPI of more than 3% is defined as inflation. The CPI is an important reference indicator of market economic activity, and also affects the expenditure level of customers. Low-speed CPI growth generally reflects the positive development trend of the economy as well as the enhancement of people’s purchasing power. According to the latest data in the “Household Expenditure Survey Report” released by Department of Statistics of Malaysia, the mean monthly household disposable income has grown up from approximately RM5,928 in 2016 to approximately RM6,764 in 2019. Therefore, driven by growing economy and purchasing ability, the market size of the food and beverage sector in the Malaysia F&B market is expected to keep a steady growth. Moreover, the population distribution in Malaysia is uneven, with over 70% of the Malaysian population concentrated in Peninsular Malaysia, which indicated a huge demand of food and beverage distribution services in Peninsular Malaysia than East Malaysia. Also, the Ninth Malaysia Plan initiated the economic regions (include East Coast Economic Region, Northern Corridor Economic Region and Iskandar Malaysia) in Peninsular Malaysia, so as to bridge development imbalance throughout the country by focusing on economic growth through public-private partnerships (PPP). The supportive policy on the economy development in Peninsular Malaysia has provided great opportunities for the business of food and beverage distribution. For example, the Iskandar Regional Development Authority (IRDA) has made the

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development plan of the Johor Logistics Hub, consisting of several international-class ports and an international airport, to position it as the southern gateway of Malaysia for transshipment as well as import and export activities. Besides, in order to strengthen the regional connectivity and promote the smooth circulation of resources in Peninsular Malaysia, the Malaysian Government has carried out a series of infrastructure construction projects in Peninsular Malaysia. For example, the 233km West Coast Expressway (WEC) connecting major cities on the west coast is expected to be fully completed in 2024. Once completed, WEC will be the country’s third longest highway and significantly enhance the regional distribution efficiency of F&B products. In addition, the East Coast Rail Link (ECRL) project, valued at USD13.1 billion, is under construction with the agreement signed by the Malaysian Government and the state-owned China Communications Construction Company Ltd (CCCC). The railway link infrastructure project would carry both passengers and freight from the West Coast of Peninsular Malaysia to its East Coast and vice versa, which will connect the East Coast Economic Region states of Pahang, Terengganu and Kelantan to one another, and to the Central Region of the Peninsular’s west coast. Other national infrastructure projects that will promote further development of F&B distribution business in Peninsular Malaysia includes Johor Bahru-Singapore Rail Transit System, the Kuala Lumpur-Singapore High-Speed Rail (HSR), etc.

Furthermore, the food and beverage distribution industry in Malaysia is also driven by strengthened international collaboration. For example, in addition to the latest agreement between China and Malaysia on the construction of express railway, there is a series of One Belt One Road projects that will bring more opportunities for the food and beverage distribution industry by gathering and connecting the capital, information and population of different countries and regions along the route. In addition, the Regional Comprehensive Economic Partnership (RCEP) was signed on 15 November 2020. RCEP is a free trade agreement between the Asia-Pacific nations of Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. The 15 member countries account for approximately 30% of the world’s population and approximately 30% of global GDP as of 2021, making it the biggest trade bloc in history, and the resulting zero-tariff international trade will bring huge incremental space to the food and beverage distribution market.

### *iii) Increasing demand for own products*

The increasing demand for developing own products is another major driver of the food and beverage distribution industry, which will bring new growth opportunities for food and beverage distributors. Due to the reduction of a layer of intermediate supplier, own products often have lower SRP and higher profit margins, which can not only save costs for enterprises, but also be more easily accepted by consumers. In addition, the negative influence on traditional distribution channels as a result of COVID-19 epidemic has further promoted food and beverage distribution companies to develop its own products by purchasing equipment, putting up self-built factories and warehouses. Specifically, the global health and economic crisis triggered by the pandemic has upended the landscape for maritime and air transport and significantly affected growth prospects since international trade and distribution is disrupted by

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increased border controls as well as stricter inspection and quarantine. The volume of international maritime trade is expected to fall by approximately 4.1% in 2020 and the overall global cargo tonne-kilometres (CTKs) decreased by approximately 10.6% in 2020, according to data released by UNCTAD and IATA. In addition, during the MCO period, some Customs stations in Malaysia were operating with less officers or remotely via online and some submission of returns including Sales and Services Tax (SST) were extended, which may impede the efficiency of import and export procedure. As a result, some leading F&B distributors in Malaysia have speeded up the development of Own Products to mitigate inventory shortage risk. Besides, after the outbreak of COVID-19, the MCO lockdown caused obstacles to normal logistics of F&B products. As strict preventive measures implemented across Malaysia, it was difficult for some products to be transported smoothly from the origin to the warehouses of the F&B distribution companies, which prolonged the transportation time of the F&B products. Meanwhile, given the perishable nature of some F&B products such as fresh food and dairy products, the operational risks and costs of the companies engaged in the F&B distribution industry increased to a great extent. Therefore, facing longer product waiting time than usual as well as higher uncertainties, many F&B distributors in Malaysia tend to seek for more local products supplied in the neighbouring areas during the COVID-19 pandemic. Therefore, developing Own Products well conform to this trend and will help food and beverage distribution companies make flexible adjustments close to consumers, improve consumer loyalty, build brand reputation and achieve long-term growth goals.

### *iv) Rapid Development of E-commerce*

Malaysia is one of the pioneers of e-commerce in Southeast Asia with high internet penetration rate of approximately 88.7% of its total population in 2020, according to Malaysia Communications and Multimedia Commission. The e-commerce industry in Malaysia has experienced a robust development and the market size of e-commerce industry increased from RM5.9 billion from 2017 to RM22.5 billion in 2021 and is expected to further grow to RM42.9 billion in 2026, at a CAGR of approximately 12.9% from 2022 to 2026. In terms of F&B sector, according to the latest data in the reports of “Usage of ICT and E-Commerce by Establishment” released by Department of Statistics of Malaysia, the proportion of Internet usage in the F&B sector with the purpose of providing customer services in the total establishments using Internet increased from 19.6% in 2017 to 29.5% in 2019. Meanwhile, the income of business-to-business e-commerce in the F&B sector increased from RM490 million in 2017 to RM1,099 million in 2019, according to the same reports published by Department of Statistics of Malaysia. As a result, leading F&B distributors have focused on digital transformation and accelerated the layout of e-commerce online platforms, to upgrade and optimise the management of the whole operation workflows including ordering, warehousing, inventory control, transportation and delivery. Some companies choose to enhance the digital ordering system by launching a mobile application to provide business customers a more convenient purchasing experience and then improve customer loyalty. For example, Company A has developed a B2B App which enables business customers to purchase catering equipment as well as order relevant maintenance services remotely on the visual digital platform. In addition, a F&B distributor in Penang made a digital transformation via a B2B platform, through which their business customers can make order 24/7 and track the status of each order easily. The

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productivity of the whole company team has also been significantly increased with the assistance of the digital platform. It is expected that major players will further develop their e-commerce system to optimise their management and increase their operation efficiency, thus gaining advantages and stay competitive in Malaysia F&B distribution market.

### **Developing trends of the food and beverage distribution industry in Malaysia**

#### *i) Offerings of diverse products and own products*

Driven by the economic development and the increasing GDP per capita of Malaysia, consumers have started to show a preference for quality products under renowned brands. There is a rising demand for organic and healthy food such as honey, cheese, frozen meat and seafood. To attract more customers and form competitive advantages, many food and beverage distributors are continuously enriching their product portfolio by introducing new brands and new products, so as to offer more diverse products and own products to the customers. Moreover, some food and beverage distributors also started to develop and increase the proportion of own products in order to differentiate themselves from other competitors, increase customer loyalty and build brand reputation. The products, such as frozen food products, that are self-repackaged normally have higher profit margin, which would further promote the long-run development of the food and beverage distributors. In addition to outsourcing to suppliers and then labeling, food and beverage distribution companies also produce some of their own products by themselves, which also promote demand for related production and processing machineries and other equipment.

#### *ii) Efficient logistics and warehousing systems*

The warehouse is where the food and beverage product are stored, transferred and managed. An efficient logistics and warehousing system plays a vital role for the food and beverage distributors to reduce lead time of delivery, maintain food safety and quality assurance of products, increase customer satisfaction and sustain business growth. Also, as consumers are now more aware of health and wellness, there is a change in the consumption pattern of perishable foods such as dairy products, fresh food, frozen food, seafood and high-protein animal-based products which set stringent requirements on the low-temperature environment during storage and transportation. This translates into increasing demand for cold chain facilities, including cold storage warehouses and trucks. Equipped with enhanced logistics and warehousing systems especially the cold chain facilities, the leading food and beverage distributors are able to conduct the distribution services more efficiently.

In addition, with the fast-changing technology, many food and beverage distributors in Malaysia continue to strategically optimise and expand their own logistics and warehouses so as to be more competitive in the market. The self-owned logistics and warehouses have a great promotion on both operational and cost efficiency of food and beverage distribution companies. Besides, with the aim to reduce the loss of food during distribution, and to improve the overall product quality, many food and beverage distribution companies develop high value-added cold chain business by accelerating the construction and expansion of cold

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transportation and cold storage. Generally, food and beverage distributors tend to build their own warehouses equipped with cold storage facilities instead of leasing warehouses in order to avoid substantial leasing cost and uncertainty in duration, achieving better control and flexibility on their business.

Moreover, the logistics industry is also emphasised by the Eleventh Malaysia Plan (2016-2020), which raises the focus on the improvement of logistics infrastructure in Malaysia. Initiatives are undertaken to provide a seamless transportation system and the movement of goods will also become increasingly important as trade plays a significant role in Malaysia's economic growth. Leveraging on the rapid development of logistics and warehousing infrastructure, F&B distributors are able to further expand their business coverage.

### *iii) Increasing industry consolidation*

The food and beverage distribution industry in Malaysia is expected to have an acceleration in mergers and acquisitions (M&A) in the future. The Malaysia food and beverage distribution market is quite fragmented. Driven by the need for expansion and collaboration, the industry will go through a period of consolidation in the coming years. Many Malaysian leading food and beverage distributors have carried out some M&A activities with both upstream and downstream companies in order to boost their market share by developing vertical integration and achieving economy of scale.

For example, with the aim to increase its market presence in frozen products and the food service channel, a leading industry player in Malaysia has successfully completed the acquisition of a famous company that has relevant business in Singapore and Malaysia in 2019.

In addition to expanding product scope, many food and beverage distribution companies in Malaysia also acquired relevant infrastructure such as warehouses and distribution centers. For instance, in 2017, another leading F&B distributor in Malaysia 100.0% acquired a company which is the sole registered and beneficial owner of a warehouses located in Kuching, Sarawak.

Furthermore, many food and beverage distributors actively expand their business scope in other regions. For example, a F&B distributor that has a great presence in Malaysia acquired a company in 2017, which is principally engaged in the F&B distribution business in Brunei.

### **Challenges of the food and beverage distribution industry in Malaysia**

#### *i) Limited product category and geographic coverage*

The food and beverage distribution industry remains fragmented. There are very few large brands that have built up their own comprehensive distribution networks, while smaller distributors generally focus on a specific geographic region or product category. Most providers offer only a limited range of standardized services and generally concentrate on single steps along the value chain limited to serving only domestic brands and local customers.



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Since the large share of freshly produced and consumed food such as dairy products and vegetable, the potential of market expansion for these companies is naturally limited due to weakness in product durability and handling. Therefore, food and beverage distribution companies with small business scale will be less competitive as leading players keep expanding their product and service range as well as the geographic coverage.

### *ii) Food safety and hygiene issue*

Food safety and hygiene issue is one of the major challenges faced by food and beverage distribution companies, especially for the largest product section of the food and beverage distribution market: food and beverages. Currently, there are still some food and beverage manufacturers in the market producing products that do not meet quality standards. Once a food safety incident occurs, it will have a serious impact on the company’s reputation. Therefore, product safety needs to be controlled from the source, and the selection and review of qualified suppliers will become the key for food and beverage distribution companies. Furthermore, the company needs to invest large amount of capital in the construction of cold chain logistics and other facilities such as cold rooms and self-own warehouses to ensure product safety.

### *iii) Supply Chain efficiency issue*

The lack of an efficient supply chain system can be another challenges to some food and beverage distribution companies. During lockdown of COVID-19, it created waves of panic buy, creating shortage of essential goods such as diapers and frozen food. COVID-19 further disrupted many transportation modes due to hindered international trade, affecting the stable supply of products and the company’s revenue. Therefore, maintaining an efficient, reliable and stable supply chain can gain advantages over competitors and build a stronger brand image to develop more loyal relationships with their customers. Furthermore, due to the perishable nature of fresh food, products can easily generate large losses in short period of time, creating a self-owned cold chain logistics network will allow better management and keep the service standards better than outsourcing third party logistic services.

### *iv) Influence of the COVID-19 pandemic*

The outbreak of COVID-19 has posed some challenges to the traditional distribution channels that F&B distributors previously built with their upstream suppliers and downstream customers. Due to the continual threat of COVID-19 and resurgence in the number of confirmed cases, MCO, CMCO and/or RMCO have been imposed across Malaysia from time to time since March 2020, restricting normal public activities and business operations. In particular, the logistics of many third-party brand products imported from other countries and regions slowed down due to limited transportation and stricter hygiene inspection procedures. The global health and economic crisis triggered by the pandemic has upended the landscape for maritime and air transport and significantly affected growth prospects. According to the “Review of Maritime Transport 2020” published by UNCTAD in January 2021, the volume of international maritime trade is expected to fall by 4.1% in 2020.



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## INDUSTRY OVERVIEW

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In terms of downstream distribution channels, demand for HORECA has went through a significant decline during the lockdown as food consumption outside the home is expected to decrease combined with less business travel and tourists. Since consumers are less willing to go out for social dining or shopping, some F&B distribution companies have strengthened their online order systems and delivery services. Furthermore, F&B distributors in Malaysia are actively expanding their warehousing facilities such as cold storage, facing increasing demand for frozen food during the pandemic.

The outbreak of COVID-19 generated certain impacts on the growth rate of the F&B distribution industry in Malaysia, especially in 2020, when the growth rate was lowered to 1.8% from 8.5% of the previous year, due to the interruption on the supply chain. To reduce the impact on the business from the pandemic, increasing number of F&B distribution companies in Malaysia started to introduce multiple categories of products under their own brands, especially with locally accessible raw materials. Capitalising on the well-established distribution networks, the F&B distributors can reach relatively higher profit margin with their own-brand products.

### **Entry barriers of the food and beverage distribution industry in Malaysia**

#### *i) Significant capital investment to set up comprehensive logistics network*

Significant capital investment is necessary for food and beverage distributors, this is mainly because food and beverage distributors need a large amount of capital for the early procurement of upstream products and the set up of logistics and delivery system such as warehouses and cold storage. Generally, it requires a significant capital investment to acquire land and construct a fully integrated, international-class cold storage facility, which is not easy for small and new players. However, it is key for food and beverage distributors to establish and maintain an extensive distribution network, in order to facilitate the sales of products and the marketing and business development of brand owners. Participants with adequate and required distribution network including storage and logistics facilities are capable of having a broader selection of products such as frozen goods. At the same time, food and beverage distributors often offer a long credit period for the downstream customers. Therefore, new entrants without sufficient capitals are difficult to enter and make competitions in this industry.

#### *ii) Relationship with customers and suppliers*

The relationship between food and beverage distributors and customers are mostly long-term and recurring, which allows experienced food and beverage distributors to establish a solid customer-base and set up a high barrier to new entrants. Such long-term rapport with suppliers often allows the food and beverage distributors to receive a comprehensive and cost-effectiveness portfolio of products, which helps them to quickly respond to the fast-changing market environment. Newer industry players would have to compete against industry players who have mature setup and networks, and would not be able to build close relationship and networks in a short time.

## INDUSTRY OVERVIEW

### iii) Specific licenses

In order to engage in the food and beverage distribution industry, food and beverage distributors generally need to obtain a large number of licences, such as specific licenses for importing business, wholesaling business, distribution business, food processing business and Halal certificates, etc. Moreover, food and beverage distributors that hold the required licenses, certificates and permits in relation to the food and beverage product quality and safety control systems for the warehousing, manufacturing, processing and repackaging facilities, normally can maintain food safety and provide high quality products to their customers. New entrants without required licenses need to take great time to apply for these licenses and are difficult to build reputation in the food and beverage industry quickly.

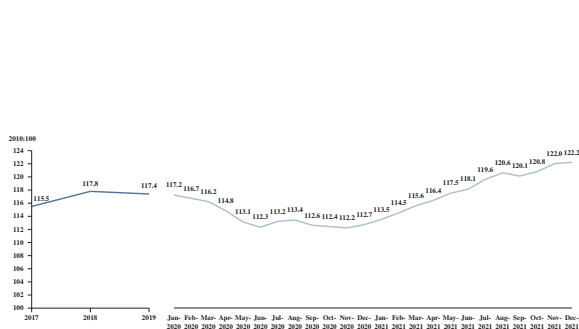
### Cost analysis

#### i) Raw material cost and labour cost

Unit value indices are often used in economic analysis as surrogates for price indices. Many food and beverage distributors procure finished goods, production raw materials and packaging materials from overseas suppliers, and the procurement cost is the largest cost segment for the operation of food and beverage distributors.

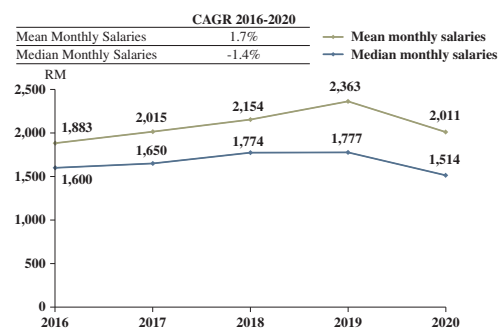
According to F&S Report, from 2017 to 2019, the import unit index of Malaysia increased from 115.5 to 117.4 (2010 = 100), representing an upward price trend of the import goods in the past few years, which could lead to an increase in total cost for food and beverage distributors in Malaysia. In 2020, the import unit index of Malaysia started to decrease since January, which is mainly due to the economic downturn impacted by the COVID-19. With the gradual recovery of economy, the import unit value in Malaysia has kept an upward trend since the end of 2020 and reached 122.2 in December 2022.

**Import Unit Value Index (Malaysia),  
2017-2021**



Source: F&S Report

**Mean and Median Monthly Salaries of  
Employees Engaged in Wholesale and  
Retail Trade (Malaysia), 2016-2020**



Source: F&S Report

Note: Data for 2021 has not been released by Department of Statistics of Malaysia.

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## INDUSTRY OVERVIEW

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Labour cost is also considered as a key cost component compared for the food and beverage distribution market in Malaysia. According to F&S Report, the mean monthly salaries of workers engaged in wholesale and retail trade in Malaysia increased from approximately RM1,883 in 2016 to approximately RM2,363 in 2019, representing a CAGR of approximately 7.9%. The gradual growth of wage level reflects the positive growth of the food and beverage distribution industry in Malaysia. In 2020, both the mean and median monthly salaries of workers engaged in wholesale and retail trade in Malaysia experienced a decrease due to the negative impact on economy after the outbreak of COVID-19. It is expected such drop of salaries will be short term with the gradual recovery of economy.

Moreover, many food and beverage distributors in Malaysia relies on foreign labour for its operations, which is generally cheaper than local labour force. Any increase in minimum wage or restrictions on the employment of foreign workers could lead to a shortage in foreign labour supply in Malaysia, thereby raising operating costs and/or disrupt the operations of food and beverage distributors. Hence, an increasing number of players are moving towards automation to reduce their reliance on foreign labour.

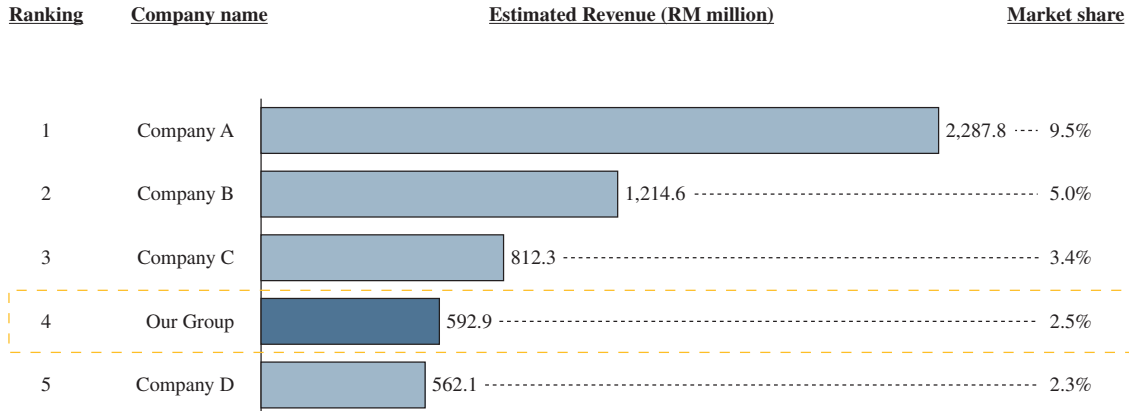
### COMPETITIVE LANDSCAPE ANALYSIS

According to the F&S Report, the market size by revenue of Malaysia F&B distribution market reached RM24.2 billion in 2021. The F&B distribution market competitive landscape in Malaysia is fragmented in nature and highly competitive with a mix of global and local players. The market is still served by small-and medium-sized local players with small fleets and storage spaces. The Malaysia F&B distribution market is quite fragmented with over 200 players and the top five players accounted for a total share of 22.6% in terms of revenue. Company A ranked first by revenue in 2021, with a market share of 9.5%, followed by Company B (5.0%), Company C (3.4%). Our Group ranked fourth with revenue in 2021 of approximately RM592.9 million, accounting for approximately 2.5% of total market size.

Additionally, global players are investing in the market and acquiring local companies to increase their footprint in the region. To compete with global players, local enterprises are also investing in cold chain infrastructure to meet the standards. Furthermore, logistics companies in Japan are strengthening their activities in ASEAN by setting up bases of land transportation in ASEAN countries for each country within the manufacturing and distribution industries, thereby pushing the construction of a supply chain. Companies with a wide variety of quality and safe F&B products, large distribution network and well-established logistics such as cold chain infrastructure will gain more competitive advantages.

## INDUSTRY OVERVIEW

### Top 5 Companies in Malaysia F&B Distribution Industry by Revenue, 2021



Source: F&S Report

### Competitor Profiles

<b>Company Name</b>	<b>Listed or Unlisted</b>	<b>Established Year</b>	<b>Business Introduction</b>	<b>Geographical Coverage of F&amp;B Distribution</b>	<b>Categories of Own-brand Products</b>
Company A	Listed	1923	Company A is a leading market expansion service provider in Malaysia, specialising in marketing, distribution and logistics services for consumer goods, healthcare and performance materials. It has 31 business locations in Malaysia, with a network of more than 220 clients and 19,000 customers.	<ul style="list-style-type: none"> <li>• Western Peninsular Malaysia</li> <li>• Southern Peninsular Malaysia</li> <li>• Northern Peninsular Malaysia</li> <li>• Eastern Peninsular</li> <li>• East Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>• Butter</li> <li>• Chilled and frozen dairy</li> </ul>

## INDUSTRY OVERVIEW

Company Name	Listed or Unlisted	Established Year	Business Introduction	Geographical Coverage of F&B Distribution	Categories of Own-brand Products
Company B	Listed	1918	Company B is one of the oldest FMCGs distributors in Malaysia, providing a number of services such as sales, marketing, warehousing and distribution. It has a distribution network comprising 27 branches, 47 warehouses and over 1,700 skilled staff that span across East Malaysia and Peninsular Malaysia for consumer goods, fine wines, pet care goods, personal care products.	<ul style="list-style-type: none"> <li>• Western Peninsular Malaysia</li> <li>• East Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>• Chocolate cookies</li> </ul>
Company C	Unlisted	1968	Company C specialises in the marketing and distribution of FMCGs including cooking oil, beverage, personal care products, household products and laundry products. It has a sales network of 16 branches in Peninsular Malaysia and East Malaysia with full warehousing and distribution facilities.	<ul style="list-style-type: none"> <li>• Western Peninsular Malaysia</li> <li>• Southern Peninsular Malaysia</li> <li>• Northern Peninsular Malaysia</li> <li>• Eastern Peninsular Malaysia</li> <li>• East Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>• Cooking oil</li> <li>• Tea</li> </ul>
Company D	Listed	1938	Company D is a provider of market access and consumer package goods distribution in East Malaysia with over 7,000 sales and distribution points. It mainly focuses on food and beverage, personal care and household products, baby care products, OTC drugs and health supplements.	<ul style="list-style-type: none"> <li>• East Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>• Bakery products</li> </ul>

Source: F&S Report