
SKY
FREIGHT
EXPRESS

# BUSINESS & STRATEGIC PLAN

Proposal to establish a new Air Cargo Airline in Australia to accommodate the growing demand of air freight/cargo from Australia to the world market

**Sky Freight Express Pty. Ltd. (Sky Freight Express)**

Incorporated in Sydney, Australia 2021

ACN: 647 711 091 – ABN: 20 647 711 091

**FINANCIAL CONSLTANTS FOR PROJECT FINANCING/CAPITAL RAISING**

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**Table of Contents**


A330-200F

# An advanced solution

As a new-generation freighter derived from Airbus' proven A330 jetliner family, the A330-200F offers highly efficient operation with less noise and emissions than the ageing fleets of mid-sized cargo aircraft used in worldwide service today.

The A330-200F offers better payload, range and economics than previous-generation freighters in its class; the A330-200F also provides the full benefits of operational commonality with Airbus' fly-by-wire family of single-aisle and wide-body jetliners. It represents an ideal replacement for obsolete first-generation wide-body freighters, and also provides airlines with a highly efficient all-cargo solution to replace services of passenger and cargo "combi" aircraft.

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A highly efficient all-cargo solution to replace services of passenger and cargo "combi" aircraft


# Next generation single-aisle freighter

The A321P2F provides a payload capability of up to 28t. It offers up to 14 full  container positions on the main deck, plus the unique A320 family container (up to 10 container positions) and pallet loading capability on the lower deck. The A321P2F offers the largest usable cargo volume of its category and generation. With more than 2,000 A321 passenger aircraft in service, the feedstock will be plentiful for years to come. Airbus foresees a significant market demand for about 950 aircraft over the next 20 years for P2F aircraft conversions in the small freighter segment.

## Executive Summary

One of the few aviation **bright spots** in the COVID-19 crisis is air cargo. While passenger traffic plummeted and 40% or more of the passenger fleet was parked for much of last year, most cargo freighters remained in service with even higher levels of utilization, helped by a dramatic decline in belly cargo capacity.

The air cargo demand is driven by the much-needed COVID-19 supplies such as Personal Protective Equipment (PPE), medical supplies and going forward, distribution of vaccines on a global scale. The International Air Transport Association (IATA) have mentioned on their report that **8,000 Boeing 747** will be needed to transport vaccines around the world. This is by far "the largest air transportation challenge" in the air transport industry. Not all aircraft are suitable for delivering vaccines as they need a typical temperature range of between 2 and 8C for transporting drugs. Therefore, the best way to do this is with full freighter aircraft instead of the now popular passenger to freighter (P2F) aircraft.

At the same time the world has seen dramatic growth in e-commerce as consumers around the world are tuned into online shopping. The pandemic has helped to accelerate this. We are now seeing smaller and more frequent shipments from factories to E-commerce giants like Amazon, of which in turn is being passed onto the consumer. The growing trend for these freight items is to now be shipped by Air Cargo instead of maritime.

Even small market shifts from maritime to air cargo can have an outsized impact. According to the Analyst like Clancy, just a 1% shift to air cargo means 16% growth. Air cargo can pick up 2-3% shift of E-commerce from maritime. The International Air Transport Association (IATA) forecast Air Cargo to grow 4% year on year.

With the above in mind, we established Sky Freight Express Pty. Ltd. (hereinafter referred to as SFE). The company was incorporated in Sydney, Australia in February 2021. Sydney Airport will be the Head Quarters and operations base simply because Sydney accounts for more than 46% of Australia's air freight market share. SFE is established with the belief that Australia needs another Air Freight Operator.

We have seen the growing demand of goods, livestock, and high value cargo in and out of Australia for years and now with additional need to transport medical supplies and vaccines; we strongly believe that a new "Air Freight Operator "business will be a lucrative one. There is also an imbalance in the market where 8 x air freight operators operate into Australia and from this end only 2 x operators provide an air freight service with pure freighter aircraft, and one of them actually operates under a New Zealand AOC not an Australian one.

Our research and observations indicate that now is the best time to establish a new air freight operation serving international and domestic air freight with pure freighter aircraft. Various

options were evaluated and considering the short supply and high demand for these aircraft and increase in market growth potential; we constructed our SFE five-year business plan.
Sky Freight Express shall be based in Sydney and will start with four units of Airbus A330-200F. SFE will base 2 x aircraft in Melbourne and 2 x aircraft in Sydney. It will serve international destinations such as Hong Kong, Shanghai, Bangkok, Saigon, Honolulu, and Los Angeles. In addition to the international destinations, we will also serve Perth with daily runs from both Melbourne and Sydney, respectively. On top of that, we have allowed suitable utilization for charter flights.

SFE has opted to use Airbus A330-200 Freighter aircraft due to its capacity and range, which is suitable to operate to major cargo hubs in Asia Pacific and USA. The Airbus A330-200F is a state-of-the-art aircraft with a capability to transport up to 60 tons of cargo with 25 container and pallets.

On year 3 will mark our next expansion with an additional 2 x units of Airbus A320/A321F (A321F) being added to our fleet. The A320/A321F's will be based in Perth, Western Australia to cater for the growing demand of transporting logistics to the mining, energy, and resource sector. The plan is to operate the aircraft from Perth to Darwin, Karratha, Port Headland, Christmas Island and Adelaide. These aircraft will connect to the existing network of widebody A330-200F's from Perth Airport.

SFE has opted for the Airbus A320/A321F because of its dispatch reliability and capacity to support our network domestically and international short haul flights. The A320/A321F can transport up to 20 tons of cargo with 17 containers and pallets. Below is the summary of the SFE five-year operating plan:

| **Fleets:** | **Y1** | **Y2** | **Y3** | **Y4** | **Y5** |
|---|---|---|---|---|---|
| A330-200F | 4 | 4 | 4 | 4 | 4 |
| A320/A321F | 0 | 0 | 2 | 2 | 2 |
| **Destinations per week:** | | | | | |
| **From Melbourne** | | | | | |
| Hong Kong | 3 | 3 | 3 | 3 | 3 |
| Auckland | 3 | 3 | 3 | 3 | 3 |
| Saigon -Dubai | 2 | 2 | 2 | 2 | 2 |
| Perth | 7 | 7 | 7 | 7 | 7 |
| **From Sydney** | | | | | |
| Shanghai | 2 | 2 | 2 | 2 | 2 |
| Bangkok | 2 | 2 | 2 | 2 | 2 |
| Honolulu-Los Angeles | 2 | 2 | 2 | 2 | 2 |
| Perth | 7 | 7 | 7 | 7 | 7 |

**From Perth**

| | | | | | |
|---|---|---|---|---|---|
| Darwin | 0 | 0 | 3 | 3 | 3 |
| Karratha | 0 | 0 | 2 | 2 | 2 |
| Port Headland | 0 | 0 | 3 | 3 | 3 |
| Adelaide | 0 | 0 | 4 | 4 | 4 |
| Christmas Island | 0 | 0 | 3 | 3 | 3 |

The financial summary for five years operating plan is as follows in million USD (000):

| Pretax summary | Y1 | Y2 | Y3 | Y4 | Y5 |
|---|---|---|---|---|---|
| | | | | | |
| Revenues | 284,588,690.00 | 293,126,350.70 | 301,920,141.22 | 310,977,745.46 | 320,307,077.82 |
| Profit (Pre-Tax) | 61,517,222.67 | 63,362,739.35 | 88,358,743.94 | 91,009,506.26 | 93,739,791.45 |
| Margin (Pre-Tax) | 21.62% | 21.62% | 29.27% | 29.27% | 29.27% |

The following assumptions are applied in this business plan:

1. The pricing seasonality is set at three different tiers: high, shoulder and low season. The average load factor is around 85%, we assume 3% year on year growth on pricing and revenue streams. Other revenue streams including Airway Bill (AWB) fee and revenue sharing agreement with Warehouse operators on cost payable by shipper and/or freight forwarder. We have calculated we can obtain USC 0.01 every Kg we sent to Warehouse.

2. The additional revenues are from 200 hours utilization for ad-hoc and charter flights. We have seen demand for charter flights to Indonesia, India, Pacific Islands and other markets within Asia Pacific and USA.

3. The cargo airline will adopt multi distribution channel method with B2B (Business to business), B2C (Business to customer) and B2T (Business to trade). The airline host system will be a web based open system with capability to make bookings and payments. It will have other options such as departure control, cargo tracing, client profile, aircraft scheduling and management reporting.

4. SFE will focus on our processes on digitalization both for marketing and in-house processes. For marketing we will ensure our exposure on e-commerce as well as our branding and customer engagement through various social media. The back office as well as procurement processes will also use digitalization at all phases.

5. We have calculated we will transport various cargo types from high value cargo, medical supplies, vaccines, personal protective equipment, machinery, chemical appliances, foodstuff, livestock and animal product, e-commerce, express courier, and general cargo.

6. The sales office shall be a combination of our own sales team and sales outsourced to third party. We will have our own dedicated marketing and sales team in Melbourne, Sydney, and Perth. A General Sales Agent (GSA) shall be appointed at international destinations and for domestic destinations other than above we will appoint a Cargo Sales Agent (CSA). We believe this model is the most cost efficient, whilst pursuing the highest possible revenue in our sales locations. Appointing local agents is the best method as they have been in the market for some time so understand the distribution and supply chain.

7. Heavy and base maintenance will be based in Melbourne Tullamarine Airport, and it will be outsourced to a third party. Line maintenance will be performed by own engineers (engine and airframe licensed). Line maintenance personnel will also perform transit check, overnight check, and A-check. Outstation maintenance release will be performed by third party line maintenance. As safety is paramount, our business plan ensured that we have a budget that meets the engineering requirements. The start-up capital includes consumable and rotatable engineering needs such as brakes, main and nose wheel, oil, lubricants, and sufficient tooling for our personnel.

8. Jet fuel is assumed at USC 0.60 per litre, fuel surcharge will be applied for every cent increase of jet fuel. The costs build up also includes provision for aircraft return condition, airworthiness directives (AD) and reserves for delay flight cost solely for meals, transport, and hotel accommodation.

9. We plan **to lease 3 x units A330-200F** and **purchase 1 x unit A330-200F** aircraft as full freighter configured aircraft. We have calculated our total monthly aircraft lease cost is USD 2.5 million per month, and one time purchase price for 1 x aircraft USD 60 million.

The **start-up cost** relating to the technical, aircraft related, type rated training, marketing, promotions, corporate, IT and all other aspect is estimated at USD 96 million. In addition, the airline would require six months working capital of USD 56 million. The pre-opening cost is exclusive; this is to be determined separately, mainly related to payroll and office running cost. In summary the **total funding** requirement for this airline project is USD 152 million.

It is to be noted that this projection is made based on conservative growth, no major recession, stable economy and politics, domestic rebellion, or other force majeure both local and in the markets that the air freight serves. It is estimated that Covid-19 related supplies shall be in place for the next three to four years, therefore there will be high demand for reliable air freight.

Taking into consideration the positive nature of financial indicators and the business model of this new airline, with the future opportunity of servicing other destinations, and other ancillary businesses, logistic services, land transport, custom clearance, and express couriers. We believe, this business model presents a lucrative business opportunity for investment and funding.

## 1. Company Overview

### 1.1 Establishment, company location

**Sky Freight Express Pty Ltd (SFE)** is currently a privately-owned limited liability company duly established under Australian law and regulation, where the **Head Office** will be in **Sydney, Australia.** SFE is seeking structured equity or debt investment funding of USD 152 million.

SFE will provide a scheduled air freight service from our two hubs, **Melbourne,** and **Sydney**. Operating state of the art aircraft **Airbus A330-200F** with capacity of up to 60 tons of cargo. Later, in year 3 of operation **Perth** will be used as our third hub. In addition to scheduled air freight service within Australia, we will offer service to international destinations in New Zealand, Vietnam, Thailand, Hong Kong, China, and USA. Details of our schedule, route plan etc. will be outlined in the next chapter of this business plan.

SFE is in the process of **raising capital towards** providing the necessary infrastructure, operating contracts, Aircraft acquisition and government approvals to allow for the commencement of schedule service in December 2021. We believe SFE business strategy is right and financially sound. We will provide an efficient air freight service, offer excellent rates to our customers that are competitive, allowing SFE to have long-term success in this business.

When operations commence SFE will have up to 80 staff. These are management, pilots, engineer, flight dispatcher, marketing, sales, and administrative staff. We will have the right people in the right places to ensure optimum service delivery to our customers. In year 3 of operation, we will add 2 x units of Airbus A320/A321F's into our fleet, our number of personnel will then increase to 150 staff in Australia.

### 1.2 Mission, Vision, and Values

The Company has defined its mission (*statement of being*), vision (*statement of becoming*), and values as follow.

The establishment of SFE starts with **"commitment and trust".** It also includes **transparency**, being open to new ways of doing things and most importantly, constant improvements. We will value teamwork, so at the forefront will be teamwork rather than individual interest.

We plan to establish a strong position in the Air Freight business in Australia in five years, and after that we will seek to expand our routes into the Asia Pacific region. We will keep the weight between our financials, our team, and our customers. We want our owners and investors to grow long tern with us in our business. Our motto for now is "loving and caring of our cargo and our people". As the old saying if you love something you have to protect it!!!

| Mission Statement |
| --- |
| "To create value to all stakeholders of the Company by rendering safe, secure, and efficient air freight services at affordable prices.<br><br>To support the development of national trading and logistic supply that ultimately supports the national economy to recover from Covid-19 pandemic. To foster export growth for Australian produce, goods, and equipment.<br><br>To create and support jobs for many Australians in particular skilled aviation workers who have been severely affected with the Covid-19 pandemic.<br><br>To become a good aviation employer. We will develop skills and shape the talents of our people and provide career opportunities for everyone.<br><br>To participate in the regional development and communities by managing optimum operation in a profitable manner." |
| **Vision Statement** |
| SFE strives to become the preferred air freight operator in Australia and<br>Applying the best practices of the industry. |
| **Values** |
| While operating air-freight operations, we will create values to all stakeholders, we will:<br><br>Emphasize safety as its highest priority.<br>Operate a marketable and well-maintained aircraft, the best available.<br>Never skimp on maintenance in any fashion whatsoever.<br>Strive to operate our flights on time.<br>To provide loving and caring attitudes towards our work and cargo, especially the high value end of the market.<br>To deliver our promise of service excellence to our customers. |

1.3 Objectives

**SFE has the following objectives:**

1 **To raise seed and working capital in a timely fashion** to financially enable the objectives, which is to secure all necessary government permits, these are the International Airline License (IAL), Air Operator Certificate (AOC) and Transport Security Program (TSP) approval.

2 To prepare and **set up the head office** functionality with key management to be recruited as soon as possible to commence license and AOC and other government permits.

3 To **secure an aircraft** deal that meets our budget requirements. The aircraft needs to be equipped with full freighter conversion, right instruments, and equipment. Most of all it must be fully airworthy.

4 To finalize all permits and approval from Australian Government namely business license, air operator certificate, security approval on or before **November 2021**.

5 To commence revenue services on or before **December 2021** with domestic and NZ schedule service and operating internationally with a charter permit whilst we are making arrangements for a scheduled service license/approval in destination countries. As per our plan, we are making arrangements for scheduled license/approval for China, Hong Kong, Vietnam, USA, and UAE respectively

The keys to success are:

1 Secure financing for both bridging and primary stages.
2 Securing the required government approvals and safety authorities.
3 Experienced management (already in place). Experienced personnel and crew including flight crews (already identified for recruitment).
4 Marketing, either dealing with channel problems, barrier to entry or solving problems with major advertising and promotional budgets. Targeted market share must be achieved even amidst expected competition.
5 Product quality and always with the utmost safety. Offering a customer friendly timetable to the market, taking into consideration different markets may have different views on schedules.
6 Services delivered on time, cost controlled, with a managed marketing budget.
7 All the above must also consider the industry support i.e., manufactures, factories, producers, freight forwarders and shippers.

## 2. Business Strategy

### 2.1 Service Description

SFE plans to provide a safe and secure air cargo service at affordable rates. The well-known service culture in the air cargo business is that cargo and shipments are delivered on time with no damage whatsoever. As previously discussed, our Product is Airbus A330-200F aircraft and later in the year 3, Airbus A320/A321F. Both are state of the art aircraft with superb operational excellence and dispatch reliability.

Airbus A330-200F can carry up to 70 tons of cargo depending on the distance. In this plan we assume capacity of 50 tons each flight, as our plan is mostly long-haul flights. The cargo configurations consist of 23 pallet positions or 26 LD3 container positions.
The Place of distributions is mainly through large freight forwarders and small to mid-size shippers. In addition, we will establish business with major courier and logistic companies seeking opportunity to work as wet lease operators for companies like DHL.

We will offer our cargo space through our website www.skyfreightexpress.com.au in collaboration with our freight forwarder and courier partners so general consumers can access and purchase our product. The website will also offer cargo tracking and reporting. If contact is needed, we can direct consumers to our chatbots so any issues can be sorted out immediately. In addition to working with the forwarder and shipper, we will also be working closely with trade associations to channel their import and export goods requirements. For example, Australia Beef Association or Association of Livestock Transporters Australia.

We will focus on our online destinations in Asia Pacific, Middle East, and USA to start with, considering the majority of import and export goods from and to Australia from these countries. On year 3 we will commence our domestic operations with A320/A321F based in Perth to strengthen our overall network. By this time, we will be a firmly established Air Freight Operator in Australia operating 6 aircraft within our fleet.

The **price we offer shall be revenue managed based on commodity and seasonality**. It is a common practice that companies with perishable product offer seasonality in pricing. In line with such practice, we have built three pricing seasonality (high, shoulder and low season). Pricing structure will also allow certain commodities to have higher rates than others. The higher end of our rate structure is for commodities such as:

1. **High value cargo such as Gold Bullion, Vehicles**
2. **Dangerous Goods (any of the nine class DG)**
3. **Heavy equipment and machineries**
4. **Batteries and energy storage equipment**
5. **Livestock**
6. **Live animal and Marine product**
7. **High value electronic equipment**
8. **Covid-19 Vaccines**
9. **Covid related medicines and pharmaceutical**

Other than the above, shall be classified as General Cargo. We aim to export foodstuff, dairy products and produces from Australia to the world. For import, we aim to import machineries, textile, and mining equipment.

Promotion of SFE will be done through our website and digital marketing. At the same time, we will spend budget for below the line promotion through advertising in Cargo Magazines, newspaper and other print media relates to cargo, logistic and courier. Above the line promotion will include activation such as agent gathering and participating on several trade shows for air freight, trade, and logistics. In the now digital area, we will promote ourselves thru social media and digital channel such as YouTube.

## 2.2 Competitive Comparison

SFE has no direct competition because we are planning to operate Airbus A330-200F and A320/A321F of which no one in Australia is operating this aircraft type presently. The indirect competitor is mainly Qantas Freight, which is the largest air freight operator in Australia with 14 planes in their fleet. These are the freighters that Qantas wet lease from another operator, for example the B747-8 is wet leased from Atlas Air. The Boeing B767-300F is wet leased from Express Freighters Australia and the BAE146 is operated by Cobham Aviation.

Other competitors including Toll Aviation, who operates B737-400F and ATR, Pionair operates BAE146 and Trans-Tasman Cargo who operate on behalf of DHL. From the international space, the competitors are as follows:

1. Federal Express
2. UPS
3. DHL
4. Polar Cargo
5. MASKargo
6. Singapore Airlines Cargo
7. Emirates Cargo
8. Cathay Cargo

The scheduled airlines with their belly space are usually the largest competitor of any cargo airline. However, with the current pandemic and Covid-19 situation, the schedule airlines are operating minimum capacity. Therefore, there is a big chance for dedicated freighter airlines to increase their market share for the next three years, until the market starts to return to pre-Covid levels.

Our competitive strengths include lower operating costs, next generation aircraft (A330-200F and A320/A321F) which are the top of its class, International and domestic networks and lastly being a start-up, we have the luxury to apply simple and effect structure in SFE organization.

## 2.3 Unique Selling Point

Working at SFE means being a part of a service-oriented, national, and international operation. It is a unique environment that thrives on process excellence and a 'can do' mentality. We are passionate about everything we do, and we care equally about our people, our customers, and the world. We believe the people are our utmost Unique Selling Point (USP). In addition, below are aspects of USP's that will be different with the other players in the market:

Safety and Reliability

Safety, security, and service reliability is paramount to SFE. This is a non-negotiable aspect for SFE management, and we will not cut corners. SFE has committed to work with internationally acclaimed providers for aircraft, maintenance, and flight crew training. Also, we will work with internationally recognized Ground handling companies and warehouses both in Australia and overseas stations. In addition to the safety aspects, our aircraft A330-200F and A320/A321F will also be operating efficiently with less carbon emission and noise, compared to other operators who operate mostly older aircraft.

Reliable Aircraft

Obviously, newer technology planes feature better operational economics and only with newer planes high utilization can be achieved. We will procure aircraft that are new aircraft to ensure good product is delivered to our customers. We will ensure that our aircraft selection will be relatively young and new. Both Airbus A330-200F and Airbus A320/A321F has dispatch reliability of more than 99.66%. The aircraft will be equipped with galleys, seats for crew and crew beds so to be able to operate this on long haul routes.

The best people

Rigorous screening of employees, training and performance management are vital for success, especially in the airline and aviation business. The strategy is the same as on the customer side, to create loyalty on the employee side with commensurate salaries, bonuses, even ownership options combined with a focus on modern HRD approaches. The main philosophy on recruitment is that we hire for attitude. We want to hire a team player, multi-task people who can work smart and deliver best service to our ultimate customers. We will also choose right people for the right job.

Total Service Focus

Offering the best experience to customers, will lead to the buying of the product again and again. Those who are loyal and satisfied customers will be the best promotional tool, by word of mouth. Additionally, such promotion saves money on advertising costs.

Customer Focus with Digitalization

Use of digitalization at every process both for customers and internal process. We believed that the IT products are there in the market for us to tailor to our needs. A strong IT orientation from the beginning will lead to less overhead staffing in the company and lead to the ability to spend more on the customer side.

## 2.4 Technology

All equipment and systems that will be utilized by SFE have been carefully and diligently evaluated. The technological advantages to management's choices are outlined below.

**Airplane Advantages,** Airbus A330-200F and A320/A321F are the best in its class. It has range and payload suitable to our needs. The Airbus A330-200F can fly non-stop for 11 hours with our planned cargo capacity. While the Airbus A320/A321F can fly non-stop for 6 hours sufficient to operate domestic, regional, and short haul international from Australia. We will select relatively young aircraft preferably not more than 10 years old. We are pleased with the aircraft selection, and they are a huge advantage for our business. Other advantages of operating both Airbus A330-200F and A320/A321F are:

1. Commonalities, in which Airbus are renowned for. The commonalities are mainly for spare parts, operating crew, and engine parts.

2. More payloads compare to similar size aircraft (compare to B767-300 and B737 Series).

3. As a new-generation freighter derived from Airbus' proven A330 jetliner family, the A330-200F offers highly efficient operation with less noise and emissions than the ageing fleets of mid-sized cargo aircraft used in worldwide service today.

4. Versatile main deck cargo loading system, which can accommodate all industry-standard containers and pallets – enabling operators to serve the freight lift needs of varying markets. The A330-200F can transport up to 23 side-by-side pallets on its main deck, with flexibility for additional arrangements such as single-row loading of 16 pallets, and a mix of nine AMA containers with four pallets. The spacious lower-deck cargo hold accepts up to 26 LD3 containers, plus 19.7 cubic meters of bulk cargo.

5. The A320/A321F provides a payload capability of up to 28t. It offers up to 14 full container positions on the main deck, plus the unique A320 family container (up to 10 container positions) and pallet loading capability on the lower deck.

**IT and Digitalization Advantages,** as a start-up company we have the benefit doing things from scratch including our IT and digitalization strategy. We will have an efficient cargo booking system which will be web based and include modules such as inventories, booking, payment, profiles, scheduling, revenue management system and management reporting. For operational IT, we will have a reliable Departure Control System (DCS) to include flight planning, loading, and unloading and flight reporting. We will build our internet booking engine working together with logistic partners so that we can offer direct customer booking.

Customer engagement is really important as we wish to access our performance from customers therefore, we will develop a social media strategy to ensure we capture feedback from our customers, consumers, and general public. We will use platforms such as Facebook, Instagram, and Twitter with the possibility of including a link to our booking system. We will use a showcase platform such as YouTube to promote ourselves and to expose our performance.

We have allowed sufficient budget for IT and Digitalization as we believe that the process will make us effective and efficient.  Our system will allow end-to-end solution that integrates several key facets of Cargo Processing. It will also be able to connect with our partners and suppliers such as Ground Handling Companies, Cargo Agents and Manufacturers. These include airport to airport support, door-to-door support, space management, e-stock and manual stock management, report management and much more.

## 3. Marketing Strategy

### 3.1 Industry Analysis

The logistics and transportation sector are growing fast with overseas transportation services being in high demand. Air freight is used to send goods to other countries quickly and conveniently. Logistics management companies (3PL) are growing fast and for international transportation, they offer air cargo, belly cargo, and freighter cargo services. Apart from shipping regular goods, they also ship special goods that require temperature-controlled environments. The popularity of freight forwarding services has helped boost air freight services. Carrier airlines operate cargo flights through air freight trade lanes from one airport to another.

**The air freight market was estimated to be worth $99.78 billion in 2020. The air freight market size is expected to increase to $175.16 billion by 2025. The trends show that the market is expected to grow at a CAGR of 9.83%.**

The air freight market demand is being driven by the North American market with the US being the main contributor. The air freight market forecast underlines that the e-commerce sector would help improve the performance of the air freight market. With e-commerce fulfilling orders worldwide, products are moving across the globe through air services.

**The air freight services industry is segmented as follows:**

- In terms of service, it is segmented as express service and regular cargo service. Express services are growing fast with more and more customers using e-commerce, preferring quick delivery of products and willing to even pay a premium for it.
- In terms of region, the market is segmented into North America, South America, Europe, Asia-Pacific, Middle East, and Africa.
- In terms of the end-user for the market, it is segmented into consumer electronics, retail, food and beverages, pharmaceuticals, healthcare, chemicals, third party logistics, and manufacturing.

The COVID-19 pandemic has affected this sector. Lockdowns and flight restrictions brought down the market in 2020. The commencement of vaccination drives is expected to help improve things in 2021. The top players in the air freight market are Cathay Pacific, Bollore Logistics, UPS Airlines, China Airlines Cargo, Able Aerospace, DHL Aviation, Emirates SkyCargo, Korean Air Co, DB Schenker, Singapore Airlines Cargo, FedEx Corporation, etc.

In Q1 2019, average global air freight prices increased by 5.44 percent compared to the same period last year. Freight rates steadied from Q2 2019; the same trend was expected to continue.

Strong demand in the air freight market had a strong impact on air freight rates in H2 2019 and considering tight capacity, the impact extended into Q3 and Q4 2019. While specific lanes witnessed double-digit growth in air freight rates moving into the peak season, trans-pacific eastbound and westbound routes, which have a volatile nature, had an increase of around 5 percent. Carriers and freight forwarders are willing to negotiate on established lanes of US–EU since the market fluctuation is minimal and the volumes are high. However, on lanes connecting to Asia, negotiation is challenging since the market is harder to predict.

**Air Freight Market Analysis**

In 2019, the difference between demand and supply index started to reduce with the annual growth of 3-4 percent in shipments volume. The capacity available in the market gradually increased, however starting mid of 2019, and market demand was estimated to have a growth of more than 6 percent compared to the previous year.

**Supply Analysis**

The growth of capacity index started increasing since January 2019. Available capacity in the air freight market grew by 6.2 percent in May compared to the same period the previous year.

Sanctions and trade disputes between the US and China had minimal impact on capacity as AFTK has been consistently growing by 1-3 percent on a monthly basis leading up to the peak season. However, during the second half of the year, the shortage of available space in the market and demand growth outpacing the capacity growth increased through to the end of 2019 owing to the seasonal demand. Capacity constraints were challenging and impacted order books as well as climatic disruptions in the EU and North America.

**Demand Analysis**

There was a dip in the air freight demand in the first quarter of 2019 which soon recovered into Q2 2019; volumes steadily increased majorly due to transpacific east-bound volume to the destination in North America. FTKs increased to 4.2 percent in May, demand growth was on a slow pace majorly due to factors such as lower purchasing manager's index and global trade scenario. A modest FTK growth was reflected through 2019, along with growth in the region of 2-4 percent overall. In H1-2019, demand in air freight was driven by US-China trade volume ahead of trade sanctions, as well as China-Europe trade which surged as shippers in China rushed to deliver shipments to Europe to fulfill their volume commitment before European companies closed for summer break.

**Regional Market Analysis**

All regions except for Africa have reported steady growth in terms of freight volumes, North America, LATAM carriers, and APAC carriers experienced growth in volume by more than 5 percent annually. More than 5 percent of growth for North American and APAC carriers for the next half of the year would have a strong impact on freight in the peak season of the year.

**Regional Demand Trend for Air Freight**

Carriers of EMEA and North America reported stronger growth in freight volumes, which is at the rate of 3.8 percent while the EU recorded a growth of 3.3 percent. African carriers saw a decrease in freight volumes by 8.5 percent in June compared to the same period last year.
The major volume of transpacific and Asia-EU shipments share has been driven by carriers of APAC, MEA, EU and followed by North America, which finished strongly in that peak season.

**Global Air Freight Rates**

Freight rates on major trade lanes reached their highest in July 2019, in spite of slow market growth. Freight rates from Hong Kong to Europe trade **increased by 23.2 percent YoY**. Frankfurt to North America Lane also recorded an increase by **24 percent YoY**. Freight rates continued to grow at a steady phase. However, individual carrier's decisions to deploy excess capacities to high demand lanes look effective to control increasing freight rates.

The International Air Transport Association (IATA) has forecast Air Cargo Market **growth 4% year** on year. In Australia, air cargo becoming more and more important. FY2018-19 was a record year for Australian trade measured in dollars and tons for both imports and exports by air. Circa 1.15 million tons of international freight, worth close to $109 billion, passed through Australia; 530,000 tons of this passed through Sydney Airport, which are the most significant entry and exit point for international freight. Sydney Airport handled almost half, more than 45%, of all freight imports and exports in FY2018-19 in both volumes and values.

Melbourne Airport accounted for more than one quarter of the total freight volume with 28%, and 17% of the total value. Brisbane Airport, Perth Airport and other airports accounted for 12%, nine per cent and four percent, respectively. However, while Brisbane Airport collectively with other airports represent 10 per cent of the total value of airfreight, Perth Airport represents circa 25 per cent of airfreight export value, with gold being the largest export commodity.

Australia's international competitiveness is underpinned by a reliable and efficient transport sector. Airfreight is an increasingly important component of that transport task, carrying the highest value and most time critical shipments across the nation and the world. These include necessities such as pharmaceuticals, high-end manufacturing products, and time sensitive perishable goods such as seafood. Airfreight services reduce time to link suppliers and customers quickly, efficiently, and reliably. Yet, the importance of airfreight to the Australian economy is often overlooked and misunderstood with the focus almost exclusively centered on passenger travel or seaborne freight.

Inbound and outbound freight in Australia is typically symmetric, with inbound freight representing almost half (51%) of the total freight by mass in FY2018-19 and outbound accounting for the remaining 49%. However, when the value of freight is considered, there is an asymmetry, with inbound freight representing 61% of the total freight with the remainder being outbound freight. As such, Australia imports higher value products per tons, than it exports.

In summary, based on above figure and opportunity going forward, we believe SFE's establishment is relevant with constant room to scale and grow. We believe the situation with

Covid-19 would remain for the next three years and need for goods to be transported by air is more relevant than ever, especially from/to Australia.

## 3.2 Marketing Plan

Further to above, the plan is to establish Sky Freight Express (SFE) to cater the ongoing need for air cargo transportation from and to Australia. We believe the market is growing rapidly and now is the right time to establish another dominant Air Cargo operator in Australia.

Below is the marketing plan based on 8'ps formula:

| **Product:** | **Place:** | **Price:** | **Promotion:** |
|---|---|---|---|
| Modern fleet of Air Cargo service with state-of-the-art Airbus A330-200F and A320/A321F.<br>New Cargo Pallets and Containers for high value cargo, livestock, machineries, and general cargo<br><br>Capability to transport Covid19 related supplies like Vaccines, PPE's, Pharmaceuticals and other medical related with temperature container.<br><br>Offers retail courier product through own website and digital channel working with courier partners for both ports to port and door to door courier service.<br><br>Capability to transport Dangerous Goods materials for factories andmanufactureCapability to transport Australian livestock and live animals. | Within Australia<br><br>New Zealand<br><br>Asia Pacific:<br>• China<br>• Hong Kong<br>• Vietnam<br>• Thailand<br>• UAE<br><br>USA<br>• Honolulu<br>• Los Angeles<br><br>Routes under radar are including Pacific Islands, India, Indonesia, and Singapore<br><br>Distribution through:<br><br>Freight forwarders<br>Shippers<br>Factories<br>Own website<br><br>Head office will be in Sydney, the largest Cargo Hub in Australia. | Price and rates depend on commodities starting from $ 2.00/Kg.<br><br>Premium commodities include high value cargo such as gold bullion, Vaccines and high value machineries or pharmaceuticals.<br><br>Price are tailored to categories based on seasonality, commodity, and goods sensibility such as Dangerous Goods or flowers<br><br>SFE will charge standard industry practice for security charge and AWB charge as part of its revenue structure.<br><br>SFE will offer price of our air cargo partner that we interline and codeshare with both international and in Australia/NZ. | Promotion is targeted locally and overseas, both above the line and below the line activities.<br><br>**<u>Promotion</u>** of our business will be done mainly through our website and digital marketing. At the same time, we will spend budget for **<u>below the line</u>** promotion through advertising on Air Cargo magazine, newspaper, and other print media.<br><br>Above the line promotion will include activation such as agent gathering and participating on several travel trade shows.<br><br>SFE will maximize use of digital channel such as Instagram, Twitter and Youtube channel to expose our product and promotion. |

| | | | |
|---|---|---|---|
| **People:**<br><br>People are by far the most important asset at SFE. Recruitment will ensure we hire for attitude with can-do mentality.<br><br>Our Pilots, Crew and Engineer will be the best available with Airbus type rating and have international experience.<br><br>Our people will have a commitment to safe, secure operation and delivery of exceptional service to customers. | **Programming:**<br><br>Programming will see SFE to tailor the best possible timetable for our customers and their cargo.<br><br>The schedule will suit the needs of our agents, shippers, manufacturers, and general consumers.<br><br>It is imperative to deliver perishable cargo on time and in an environment that will keep sensitive goods in shape. | **Partnership:**<br><br>Without partnership the business will never exist. Partnership with trade associations such as Australian Beef and Livestock is essential<br><br>We will enhance our partnership proposition from time to time.<br><br>Partnership with major logistic companies, is something that we aim for from the start, and we have contacts to companies such as DHL and Amazon and many more. | **Packaging:**<br><br>The packaging part will include the livery of our aircraft, the uniform of our staff, the branding of our offices, vehicles, and promotional items.<br><br>The brochures and timetable will also be branded so that they look professional and attractive.<br><br>This is a time of digitalization therefore we will ensure attractive presentation in the digital space for SFE. |

## 3.3 Market Segmentation

SFE target market is divided into several categories. Based on geographical locations, our target markets are as follows:

- Australia
- New Zealand
- China
- Thailand
- Vietnam
- UAE
- USA
- With following markets under close radar: India, Indonesia, Singapore, Pacific Islands, Taiwan, South Korea, Japan

Within Australia, SFE will focus on major ports such as Sydney, Melbourne, Brisbane, and Perth. We will also work with our freight agents across the nation for them to market and sell on our behalf. This is also applicable in the international freight market in which SFE will have their own office and General Sales Agent (GSA) to represent us.

On customer base, our target market will be Freight Forwarders, Shippers Mid-Size, Logistic companies, trade associations and general consumers.
On the basis of commodity, our target markets are as follows:

- Machineries, mechanical and electrical equipment
- Mining equipment
- Chemical product
- High value cargo such as gold bullion
- Perishable cargo such as live marine, flowers, vegetables
- Covid-19 Vaccines, Pharmaceutical product, and medicines
- Personal Protective Equipment (PPE)
- Foodstuff, beverages, spirits, and tobacco
- Australian livestock, live animal
- Textile and textile products
- Precious metals and stones
- Vehicles, aircraft, and aircraft engines
- Base metals and articles of base metals
- Dangerous goods any of the nine class
- Dairy product
- Australian Beef
- E-commerce goods, online shopping
- General Cargo

3.2 Targeting and Positioning.

It is important to note that no business plan is perfect, and changes will occur once the air cargo carrier is operating which will lead to creating deviations from the original business plan. However, it is possible to create a near perfect business plan if common mistakes are known in advance. The business plan is aiming for SFE to be the second largest Air Cargo operator in Australia after Qantas.

Unlike Qantas who operates long haul to USA mostly, SFE will focus on servicing Asia Pacific and Domestic Australia. The positioning in this matter is related to schedule, frequencies, cargo volume and pricing. The aim is to position ourselves after Qantas.

Our primary targeting strategy will see SFE working with major freight forwarders and logistic companies in Australia, Asia Pacific, and USA. We have received Letters of Intent (LOI) from partners in this region, parties who wish to support us from the beginning. We will work with them to start with and from then on will seek connection to major shippers and manufacturer with large shipments both for import and export.

Once we have gone through that phase, we will then seek partnerships with major logistic companies like DHL, Amazon and for Australia, companies like Toll. Only after that will we target business to retail consumers, thru direct channels and work with our forwarder partners.

### 3.3 SWOT Analysis

| Strength | Weakness |
|---|---|
| Strong market of Air Cargo in Asia Pacific<br>As-Pac accounted 32% of world air cargo.<br>New entrant, less complex organization<br>Better cost structure<br>Competitive employee costs<br>Letter of intent from partners<br>Guaranteed business in some market.<br>Service philosophy from the start | New brand in the market<br>Take time to penetrate.<br>Aircraft is not an issue but conversion slots.<br>No global network<br>Air cargo infrastructure bottle neck |
| **Opportunity** | **Threat** |
| Based in Sydney, busiest freight hub in Australia.<br>Additional aircraft into fleet<br>Additional route and network<br>Charter and Ad-hoc opportunities<br>Become wet lease operator of giant logistic.<br>Interline and codeshare partners.<br>Operate own warehouse.<br>RFS connection domestic network | Barrier of entry to market<br>Fuel price increase<br>Exchange rate fluctuation<br>Economic recession<br>Political instability<br>Conversion cost increase |

## 4. Proposed Operating Plan and Schedule

### 4.1 Route planning

The operating plan and schedule of SFE is formulated based on market demand. In this case, it was made in consultation with our freight forwarder and logistic partners. The operating plan is also in line with the aircraft utilization, operating threshold, and crew roster.

From the aircraft utilization, the A330-200F operating plan is 450 hours per month plus we have allowed additional 50 hours per month for ad-hoc, extra flights and charter. This would reach monthly operating threshold for A330-200F therefore making our utilization economical. The shortest route in this plan is to operate between Australia east coast (SYD, MEL) to Perth on daily basis. The longest flight is to USA (HNL, LAX) for 2 times per week. The balance is operating the aircraft to Asia Pacific (China, Hong Kong, Vietnam, and Thailand)

For A320/A321F in year three, the operating plan is 250 hours per month plus we have allowed additional 50 hours per month for ad-hoc, extra flights and charter. Again, this would make our aircraft operating at threshold with the most economic outcome. The A320/A321F would operate mostly domestic within Australia from our Perth hub.

## 4.2 Schedule Planning

Below schedule is divided into three parts:

1. Schedule for 2-unit Airbus A330-200F based in Melbourne.
2. Schedule for 2-unit Airbus A330-200F based in Sydney, and
3. Schedule for 2-unit Airbus A320/A321F based in Perth.

The schedule allows additional 50 hours availability each aircraft for ad-hoc, charter flights and extra flights. For A320/A321F we have allowed 100 hours each aircraft for similar purpose.

The projected schedule in the business plan is for 50 weeks per annum therefore allowing 2 weeks for minor and a heavy maintenance check. Based on the Airbus Maintenance Planning Document (MPD), our understanding of maintenance intervals are as follows:

1. A-Check, every 500 hours
2. C-Check, every 18 months
3. D-Check, every 36 months

This can be adjusted depending on utilization and approvals from authorities but mainly Australian authorities under CASA (Civil Aviation Safety Australia).

## Melbourne A330


## Sydney A330


## 5. Management Summary

The management of SFE are highly experienced people. The management team is prepared to perform and to contribute to the success of the business. Below are the summary of Directors and Management team of SFE:

| | | Board of Directors |
|---|---|---|
| Chairman | Michael Johnston | Mr. Johnston is the Chairman of Sky Freight Express Pty. Ltd. He has more than 28 years of experience in the travel, tourism, and airline business. Michael has been engaged in commercial business in the Australian and Asian markets with Sempati Air, Garuda Indonesia, Merpati Air, Mandala Airlines, Air Paradise International, Indojet Asia, Boaraq Airways, Singapore Airlines, and Qantas Airways & Ansett Australia. Michael has held PR in Indonesia and speaks Bahasa Indonesian he also has a degree in travel and tourism management. |
| Director | Capt. Dean Giannis | Captain Giannis is the Director of Sky Freight Express Pty. Ltd. Captain Dean Giannis has over 25 years aviation industry experience, A320 Captain, A330 First Officer with |

| | | |
|---|---|---|
| | | Australian, New Zealand and United States of America FAA Air Transport Pilot Licenses. He has a former background in business management and planning, recruitment and selection, rostering, safety management, quality control, retail accounting, stock control and customer service.<br>Captain Giannis has worked for various charter, freight and corporate aviation companies throughout the past 25 years and has recently worked for Strategic Airlines/Air Australia, Virgin Group Airlines/Tigerair Australia. |
| Director | Capt. Ricky Lukman | Captain Ricky Lukman is the Director of Sky Freight Express Pty. Ltd. He has over 20 years of experience in the aviation industry. He is the holder of Australian, Vietnamese and Indonesian Air Transport Pilot Licenses and has worked in numerous countries as a First Officer and Captain. He was also a former Australian flight instructor; company aviation safety officer and he has conducted route opening and inaugural flights for Vietjet Air and Citilink Garuda Indonesia. He has a former background of management, rostering, supervising, hiring, operations, quality control, client relations, and export logistics in various non-aviation businesses. |
| Director | Farshal Hambali | Mr. Hambali is the Director of Sky Freight Express Pty Ltd, and is a member of the Remuneration and Audit Committee. Mr Hambali has more than 25 years of experience in the Airline Industry, Aviation, Travel and Tourism businesses and has worked with major brands such as Qantas, British Airways, and the Virgin Group with experience in the Commercial, Marketing and Customer Service area. Mr. Hambali studied Mass Communication at the University of Indonesia and has a Masters of Tourism Business from Trisakti Tourism Institute where he graduated with honors. |

The following are SFE Board of Management including Senior Accountable Management as required by Civil Aviation Safety Australia (CASA):

**Captain Derek Fox, Chief Executive Officer**

Captain Fox is a prominent individual in Australian aviation with a career spanned for more than 50 years. Having started with Royal Australian Air Force (RAAF), Captain Fox has held numerous management positions with Tiger Airways Australia, Airline PNG and recently Air Nauru. As operating Captain, Mr. Fox has flown many types of aircraft including Boeing 737 series, B 747's, B717 and Airbus A320. Mr. Fox has served as CASA Flying Operations Inspector, Check Captain and Training Captain. He is now on active duty with Australian Air Force Cadets Elementary Flying Training School (EFTS).

**Captain Michael Harris, Head of Flying Operations (Chief Pilot)**

Captain Harris is an experience pilot and manager. He has more than 35 years of flying and managerial experience. Mr. Harris career started in 1984 and has worked for many airline brands including Ansett Australia, Impulse Airlines, Malaysian Airlines, Transavia, Air Pacific and recently Nauru Airlines where he is also responsible as Head of Flying Operations (HOFO)

**Phillip Cullen, Head of Aircraft Airworthiness and Maintenance Control**

Mr. Cullen is a licensed aircraft engineer (LAME) with more than 30 years of experience. He started his career with United Airlines and then worked with Jetstar, QantasLink, and Impulse before acting as CASA Airworthiness Inspector in 2014. Mr. Cullen has held various aircraft type rating for airframe, engine and avionics for Boeing and Airbus as well as Pratt & Whitney and Rolls-Royce Engines. Mr. Cullen's expertise including regulatory compliance, project management, safety, and quality as well as change management.

**Neil Cerche, Head of Training and Checking**

Mr. Cerche is a Senior Pilot with experience more than 33 years in the industry having started flying since 1977. Since then, Mr. Cerche has been working with various airlines like Australian Airlines, Kuwait Airways, Malaysian Airlines, Vietnam Airlines and recently, Tigerair Australia. Mr. Cerche has numerous aircraft type rating including B737-series and A320 series. The role of Head Training, Checking is a crucial role for our business, and we believed Mr. Cerche can do the job by managing this area for SFE.

**Jose Faktaufon, Safety and Quality Manager (including Security)**

Mr. Faktaufon has over 25 years in various leadership roles and all facets of personnel and aviation maintenance management. His career started in 1997 with Royal Australian Air Force (RAAF). Mr. Faktaufon expertise is in the areas of workplace health, safety, compliance including overall safety and quality of air transport. His work experience includes working for RAAF, Air Nugini and recently Air Nauru. The role of Safety and Security is paramount to SFE therefore Mr. Faktaufon expertise would be a great asset to SFE.

Other senior management appointed by SFE including following prominent individual:

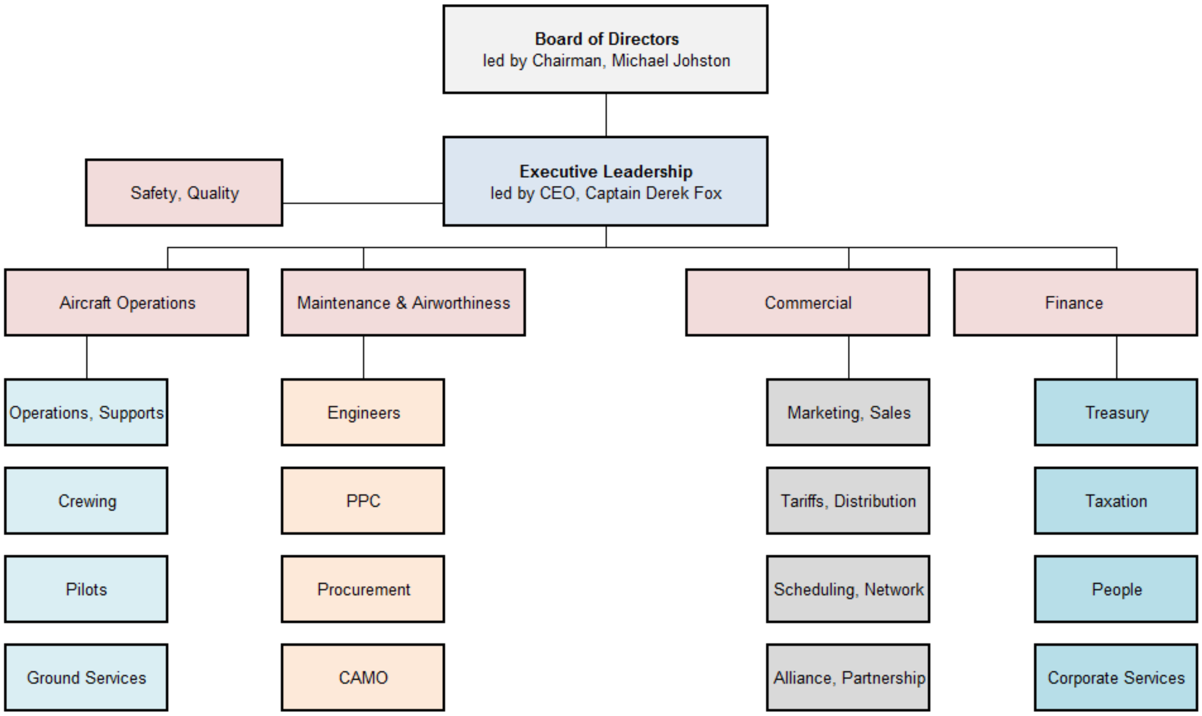
1. Lyal Tan, Head of Operations Control
2. Allen Wang, Head of Crewing, and
3. Steve Core, Ground Service Manager

Other positions which are non-CASA requirement will be recruited by SFE in timely manner. The management structure allows senior management roles in Commercial, Finance, Legal and People Management. These roles are priority for SFE and as committed, we will have the right people in these key positions with experience and know how, to drive their team to perform at their best to give exceptional service delivery.

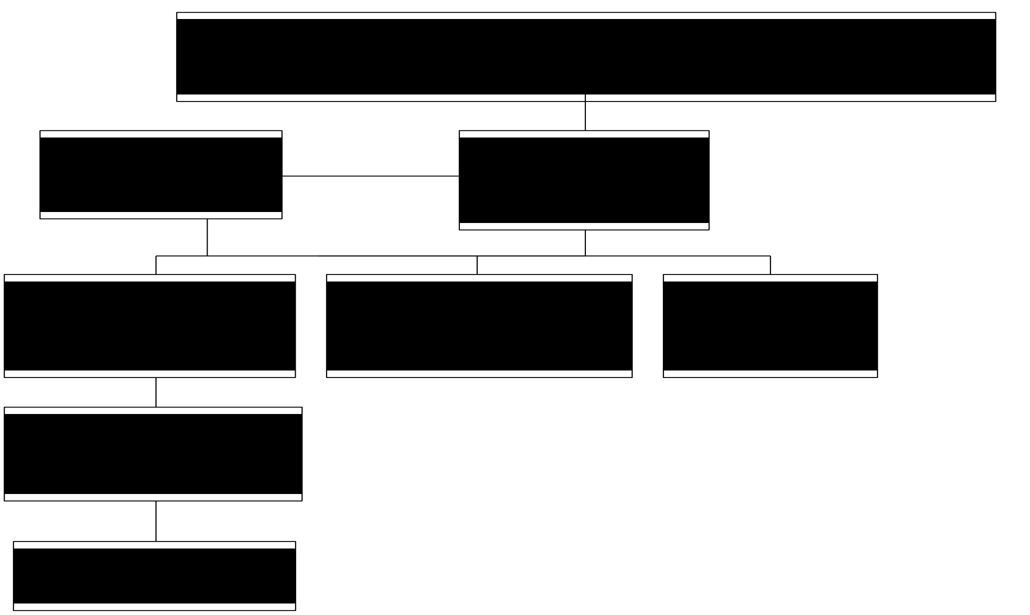
The **operational Headquarters will be in Sydney, New South Wales**. Therefore, most of our operational management including Chief Executive Officer (CEO) shall be based in Sydney. SFE will have a corporate office in Melbourne, Brisbane, and Perth. Because of the commercial reason, the marketing and sales team shall be based in Sydney as this is where major companies, forwarders, shippers are located. Sydney is also accounted to more than 45% of the total Air Cargo, both export and import. Therefore, we believe that basing our commercial team in Sydney is a right decision. We will also be placing sales executives in Perth, targeting mining and resources customers.

## 5.1 Organization Structure

The organization chart for SFE is as follows:




In addition to the corporate structure, below is the structure for Air Operator Certificate (AOC) regulated by Civil Aviation Safety Australia (CASA):



## 5.2 Personnel Plan

The personnel plan for SFE will be made in stages. The initial stage will see us hiring the executive Leadership team and the senior management team. This will allow the key personnel to work diligently on executing the Business Plan, mainly securing government approvals, permits and primary certifications.

The second phase in the recruitment of staff is to operate 4 x units Airbus A330-200F. We have calculated a total of 80 employees is needed to operate these four aircraft. We will employ 40 pilots in total, plus office and admin staff. In year three with additional 2 x units of Airbus A320/A321F, SFE will employ additional 64 employees, therefore in year three we will employ close to 150 people in total. Below is the personnel plan for operating 4 x units Airbus A330-200F and additional Airbus A320/A321F in year three:

| Personnel | Headcount |
|---|---|
| | |
| **Board of Directors** | 4 persons |
| **Executive Leadership** | 8 persons including C level executives |
| **Senior Management** | 4 persons |
| **Pilots (Captain, First Officer)** | 40 persons |
| **Engineers** | 23 persons |
| **Ground staff, Marketing, Admin, Clerks** | 22 persons |
| **Total** | 101 persons |

Additional personnel plan in Year 3 when operating 2 x units A320/A321F will be as follows:

| Personnel | Headcount |
|---|---|
| | |
| **Pilots (Captain, First Officer)** | 20 persons |
| **Engineers** | 11 persons |
| **Ground staff, Marketing, Admin, Clerks** | 33 persons |
| **Total** | 64 persons |

As previously stated, the personnel placement shall be divided between Melbourne, Sydney, Perth, Brisbane Office. At this stage it is assume SFE only employ staff in Australia. The plan is to appoint a General Sales Agent (GSA) overseas at places that SFE operate into such as China, Vietnam, Thailand, Hong Kong, and USA.

SFE may from time to time use consultants to assist on projects and goals. We assume no in-house legal so this part will be outsourced to Legal/Law office. SFE may outsource other professionals to achieve our goals related to station openings, operational efficiencies, marketing and also government relations to secure flight rights and licenses.

## 6. Financial plan

As previously outlined SFE management is confident in running this Air Cargo business. We believe the market and demand is there to stay and grow. Covid-19 pandemic is accelerating the Air Cargo business.

Australia is also in need of another major Air Cargo operator, so the idea is to work towards becoming a major player in the Air Cargo business in Australia by year three.

The following are the important financial assumptions of the business plan:

1. The employee salary is made in line with the current economic situation. Pilot remuneration is offered at rates higher than the current national pilot award.

2. Fuel is one of the major cost drivers. We assume fuel price (Jet A1) at 0.60 US Cents per liter and fuel burn per hour of 6000 litres for A330-200F and 3000 litres for A320/A321F. Fuel is accounted for approximately 25% of the cost.

3. Maintenance and engineering costs are the next biggest cost item. They account for more than 15% of the cost. The maintenance cost involved components, engine reserves and the cost of consumable items. In the exercise we have also allowed budget for return conditions of the aircraft when lease is terminated.

4. Insurance is another major cost approximately 5% of the total cost. The insurance will cover both aircraft and passenger liability.

5. Provision has been made for marketing budget and also GSA commission for our sales representative overseas. We also allow budget for delayed flights and cost related to delays and cancellation.

6. The overhead costs include salaries, taxes on salaries, office running costs such as utilities, communication, monthly installment, and rentals. It also includes budget for travel and entertainment for the offices in Sydney, Melbourne, Brisbane, and Perth.

7. Based on Australian company tax we have allowed 30% tax rate in the business plan. Certainly, as a start-up we are seeking some tax incentives from the government as a new player, especially starting up in the time of the Covid Pandemic. We will be looking at tax incentives to minimize our company taxation.

8. Finally, the investment is divided into two parts, the initial investment is USD 100,000,000 to fund 4 Airbus A330-200F and in the year three – we will have the second batch of investment valued at USD 27 Million round to fund 2 Airbus A320/A321F.

## 6.1 Investment, start-up capital, note all costs are in USD.

| COST ELEMENT | Qty | Unit | Price | Total |
|---|---|---|---|---|
| **AIRCRAFT** | | | | |
| **Outright Purchase 1 A330F** | 1 | Aircraft | 60,000,000 | 60,000,000 |
| **Upfront Payment - A330F Lease Converted** | 3 | Aircraft | 850,000 | 2,550,000 |
| 3 Months Leased Deposit | 3 | mth | 2,550,000 | 7,650,000 |
| TCRF, Galley | 4 | sets | 500,000 | 2,000,000 |
| **Upfront Payment -A320 Lease Converted** | 2 | Aircraft | 500,000 | 1,000,000 |
| 3 Months Leased Deposit | 3 | mth | 1,000,000 | 3,000,000 |
| TCRF, Galley | 2 | sets | 500,000 | 1,000,000 |
| | | | | |
| **Flight Crew/Engineer** | | | | |
| Pilot Training, Sim, CCQ | 60 | CAPT | 10,000 | 600,000 |
| FO Training, Sim, CCQ | 60 | FO | 10,000 | 600,000 |
| Maintenance Contract | 2 | mth | 2,000,000 | 4,000,000 |
| Insurance | 3 | mth | 200,000 | 600,000 |
| | | | | |
| **Delivery Cost:** | | | | |
| Regulatory | 1 | One time | 20,000 | 120,000 |
| Documentation | 1 | One time | 10,000 | 60,000 |
| Livery Painting | 1 | One time | 50,000 | 300,000 |
| Acceptance | 1 | One time | 20,000 | 120,000 |
| Ferry Flight | 1 | One time | 300,000 | 1,800,000 |
| Australian Permits | 1 | One time | 15,000 | 90,000 |
| | | | | |
| **Consumable Material:** | | | | |
| Brakes | 1 | One time | 25,000 | 150,000 |
| Main Wheel | 1 | One time | 25,000 | 150,000 |
| Nose Wheel | 1 | One time | 25,000 | 150,000 |
| Lubricant (Hyd, Oil) | 1 | One time | 20,000 | 120,000 |
| | | | | |
| **Corporate/HR** | | | | |
| AIL | 1 | one time | 200,000 | 200,000 |
| AOC & Variations | 1 | one time | 1,500,000 | 1,500,000 |
| Product Investment | 1 | one time | 900,000 | 900,000 |
| Office Rental City (Mel, SYD, PER, BNE) | 4 | site | 50,000 | 200,000 |
| Office Rental Airport (MEL) | 1 | site | 25,000 | 25,000 |
| Office design & equipment | 5 | site | 100,000 | 500,000 |
| Legal & Consultant Fee, PR, Branding | 1 | unit | 250,000 | 250,000 |
| Travel & Entertainment | 1 | one time | 200,000 | 200,000 |
| Pre-ops Salaries | 6 | mth | 949,066 | 5,694,394 |
| | | | | |
| TOTAL START-UP COST | | | | **95,529,394** |
| WORKING CAPITAL 6 MONTHS A330F | 880 | FH/mth | **10,607** | **56,004,382** |

**TOTAL FUNDING REQUIREMENTS** **USD$151,533,777**

## 6.2 Projected Profit and Loss Statement

Due to the size of spreadsheet, Projected Profit and Loss Statement shall be send in separate format together with the overall projections.

## 6.3 Projected Cash Flow Statement

| Description | YEAR | | | | | |
|---|---|---|---|---|---|---|
| | | Y1 | Y2 | Y3 | Y4 | Y5 |
| | 0 | 1 | 2 | 3 | 4 | 5 |
| **Cash Inflow :** | | | | | | |
| Capital Investment | 151,533,776.66 | | | - | | |
| Revenue A332F ( 4 Unit) | - | 284,588,690.00 | 293,126,350.70 | 301,920,141.22 | 310,977,745.46 | 320,307,077.82 |
| Revenue A320F ( 2 Unit) | - | - | - | 81,033,562.00 | 83,464,568.86 | 85,968,505.93 |
| Revenue Codeshare | - | - | - | 1,200,000.00 | 1,236,000.00 | 1,273,080.00 |
| Total Revenue | - | 284,588,690.00 | 293,126,350.70 | 384,153,703.22 | 395,678,314.32 | 407,548,663.75 |
| | | | | | | |
| **Cash Outflow :** | | | | | | |
| Total Cost | - | 211,682,678.93 | 218,033,159.30 | 276,580,488.83 | 284,877,903.49 | 293,424,240.60 |
| Overheads | - | 11,388,788.40 | 11,730,452.05 | 19,214,470.45 | 19,790,904.57 | 20,384,631.70 |
| | | | | | | |
| **EBIT** | **(151,533,776.66)** | **61,517,222.67** | **63,362,739.35** | **88,358,743.94** | **91,009,506.26** | **93,739,791.45** |
| ( 1 - T ) Tax = 30% | 1 | 18,455,166.80 | 19,008,821.80 | 26,507,623.18 | 27,302,851.88 | 28,121,937.43 |
| **EAT ( 1 - T )** | **(151,533,776.66)** | **43,062,055.87** | **44,353,917.54** | **61,851,120.76** | **63,706,654.38** | **65,617,854.01** |
| | | | | | | |
| Disc Factor (8%) | 0.925925926 | 0.85733882 | 0.793832241 | 0.735029853 | 0.680583197 | 0.630169627 |
| Discounted cashflow | (140,309,052.46) | 36,918,772.18 | 35,209,569.76 | 45,462,420.19 | 43,357,678.51 | 41,350,378.58 |
| Discounted comm. | (140,309,052.46) | (103,390,280.28) | (68,180,710.52) | (22,718,290.33) | 20,639,388.18 | 61,989,766.76 |

| | |
|---|---|
| NPV | $127,057,833.91 |
| IRR | 22.19% |
| PP | 38 Months |

NOTE:
It is to be noted that the value of aircraft purchsed A330-200F remain at purchase price if not appreciated. The appreciation
Value shall be subject to independent expert for aircraft appraisals. Therefore this projetion does not factored in aircraft depreciation for purchased aircraft

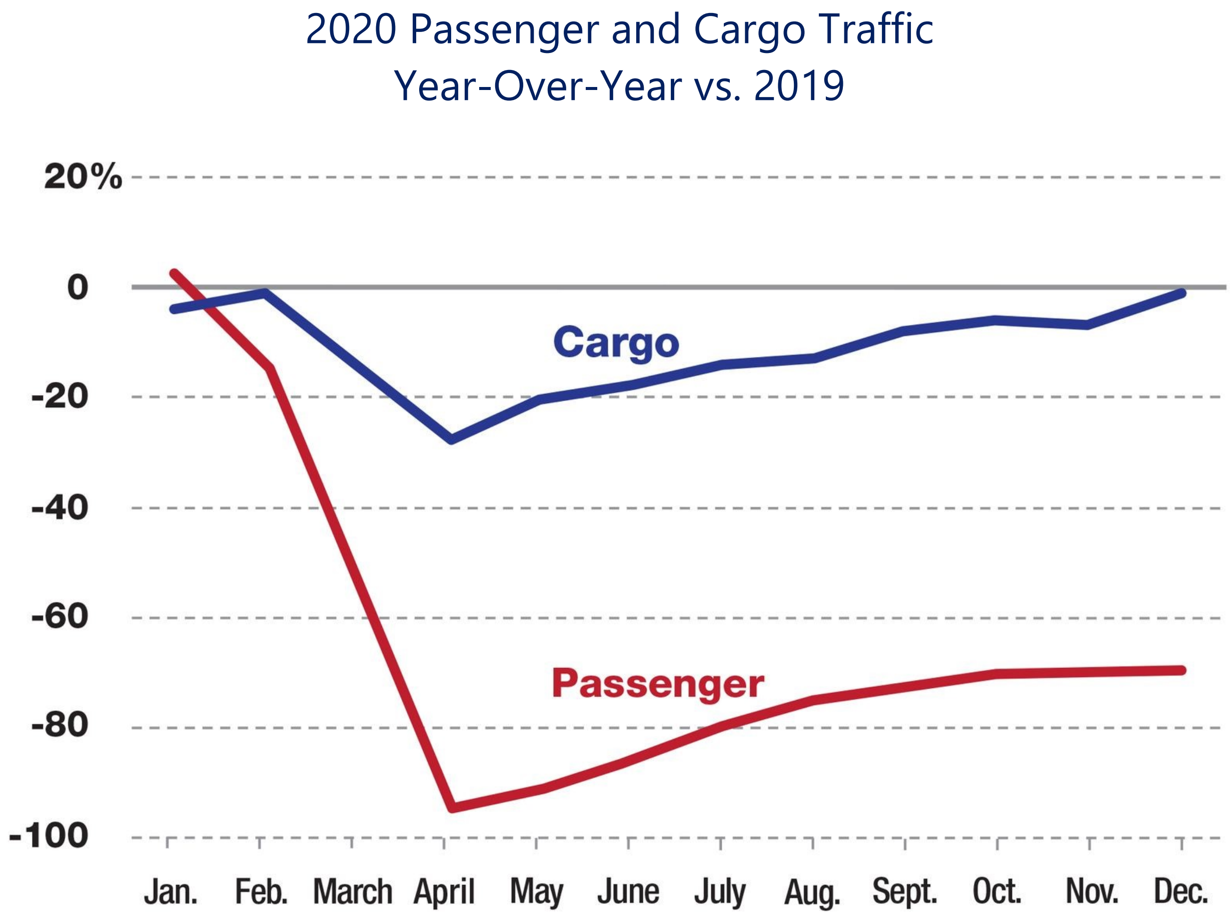
## 6.4 Payback Period

NPV: $127,057,833.91
IRR: 22.19%
PP: 38 x months

Based on our projection, the Payback Period is projected to be 38 Months after revenue service commenced with IRR of 22.19%.

## 7. Risk Factors

7.1 Industry condition and competition




Air cargo activity recovered to pre-COVID-19 levels by the fourth quarter despite a deep global recession. With less capacity available, yields have increased: Transpacific yields before the pandemic were \$3-3.50/kg**; today they are \$8/kg**. Yields will fall when belly capacity returns as the COVID-19 crisis fades, of course, and the ocean freight network eventually will work out its bottlenecks. **But on balance, air cargo looks set for a promising period of growth.**

What are the implications of these changes for stakeholders? First, they strengthen the financial prospects of air cargo operators—including integrators, all-cargo airlines, and passenger airlines with cargo businesses. FedEx and UPS reported quarterly **revenue increases of 19% and 21%,** respectively. Atlas Air earned $360 million in net profits for 2020—a $653 million improvement over 2019 results. Taking a broader view, cargo accounted for 12% of 2019 airline industry revenue. **In 2020, it was approximately 30%.**

Second, we are likely to see more dedicated freighters on the other side of the crisis. This is because belly capacity will be reduced due to a surge in twin-aisle retirements, coupled with lower production rates. Aerodynamic Advisory expects twin-aisles to comprise just 16% of jetliner production after the crisis, compared to 24% before. This could provide a much-needed lifeline to struggling programs such as the Boeing 777. DHL, for example, ordered eight 777 freighters in January.

Third, passenger-to-freighter conversion activity will be robust. Most freighters are converted passenger airliners, and there is an ample supply of low-cost aircraft "feedstock" thanks to COVID-19, with thousands of aircraft parked and headed for retirement.

Finally, maintenance, repair and overhaul suppliers will also benefit. The nearly 1,900 active freighters are older than passenger aircraft, which means there will be plenty of activity for aircraft maintenance suppliers. OEMs with equipment on older fleets, such as Pratt & Whitney, will see tailwinds for mature aftermarket revenue streams.

7.2 Implementation of growth strategy

It is to be noted that the current initial business plan with 4 units Airbus A330-200F is made with high utilization. Allowing only limited hours for extra flights, charters or ad-hoc. We believe this is the strategy for us in the first 2 years of start-up.

Our growth strategy will commence in year three after initial operation. By this time, we are aiming to add 2 units Airbus A320/A321F into the fleet. The objective is to add our domestic network so that we have a complete combination of international-regional-domestic network to offer to our customers.

By this time, we will have our A320/A321F's in moderate utilization to allow more charter flights, extra flights, and ad-hoc flights. With our A320/A321F's we will be able to offer a robust domestic and regional network schedule.

Below are the growth strategies we have in place for SFE, to be done in phases:

1 On the start-up phase with 4 x Unit A330-200F's, we have allowed 50 hours per aircraft to accommodate charter, extra frequencies, and ad-hoc flights.

2 On the year three, adding 2 x Unit A320/A321F's expanding our domestic and regional network and allow 100 hours per aircraft for extra flights and charter within domestic and short haul international sector such as New Zealand and Indonesia

3 At the same time, we will seek opportunity to partner with major logistic companies like DHL, Amazon Prime and Toll to operate wet lease aircraft on their behalf. We believe this is the most logical path to grow and scale our business.

4 By the year three, we will be seeking for revenue from interline and codeshare with our air cargo partners. We will target companies such as Emirates Sky Cargo, Qatar Cargo and Lufthansa Cargo to partner with. We have factored in extra revenue from this post from year three however this is a revenue source that will be pushing at that stage.

5 Finally, the growth strategy will involve adding more of our own aircraft after year 5. Seeking opportunity for more Airbus A330-200F, A320/A321F or even aircraft with smaller capacity to cater the cargo shipments to regional airports. For the purpose of commonalities, the logical aircraft type would be ATR42-500 or -600 with 8 tons of cargo capacity.

## 7.3 Internal and External Risk Factors

There are risks in any business. It is important for the management of SFE to:

- Identify the risks.
- Estimate the risks, and
- Evaluate risks from time to time.

At this stage we have classified the risk into internal and external risks. For internal risks, the challenge is limited Freighter Aircraft in the market. There is an over availability of passenger aircraft, however the challenge is limited to MRO capability to convert them into a Freighter plane. Hangar slots for conversion is at peak with many waiting lists.

SFE's strategy to mitigate this would include, operating a Passenger to Freight (P2F) aircraft to start with. Another option we have identified operators with pure freighters who wish to come into wet lease (ACMI) arrangement, so this is another method of risk mitigation. Having said that, the cost to operate ACMI would be at a higher cost than our own aircraft. This is something that we can look at if we need to in the start-up phase, whilst we are waiting for the appropriate aircraft to become available, or conversion slots obtained for Passenger to Freight Conversion. Operating ACMI is not unusual in this business. Airlines like Qantas, Virgin Australia also operate their air cargo division mostly on a wet lease arrangement with another operator.

External risks are mainly related to fuel price and macro-economic situation. Fuel is now on the trend of a low slope but whether this will sustain, is a big question mark. Fuel prices continue to be susceptible to political events and other factors that can affect the supply of fuel, and SFE cannot predict near or long-term fuel prices. In the event of a fuel supply shortage resulting from a disruption of oil imports or otherwise, higher fuel prices or curtailment of service could result. One of the methods to mitigate this risk is through Fuel Hedging exercise.

Economic slowdown is another factor. If the economy is slowing down, trading of goods may slowdown and affect the air cargo market. If this is occurring, SFE would need to adjust the schedule and re-arrange our contractual arrangements with our suppliers. Having said that, at this stage we see no indicator of slowing down in the air cargo sector. Air Freight is now more important than before with delivery of vaccines, medical supplies on one side, and the growth of e-commerce and online shopping on another end. Air Cargo is more relevant than before.

Operational risks are another aspect. This involved day to day operation of flight operations and service delivery. Operational risks mitigation can be covered by a sufficient budget, to allow any unwanted event. Another method is additional insurance coverage, SFE management will have a close look at additional insurance coverage to cover operational risks.

In summary, risks are there, however with SFE management's experience we wish to assure our investors that the exercise to mitigate the risk will be performed regularly. We will have rules and KPI's to ensure that risks are managed and/or mitigated.

### 7.4 Risk Mitigation

Based on the potential risks outline above, SFE management has carefully considered options to mitigate these risks. Below is the plan for risk mitigation based on the potential risk:

- **Availability of Freighter Aircraft**. As outlined, it is a challenge to secure Freighter Aircraft in the current market condition. To convert passenger aircraft to freighters is also not an easy exercise due to limitation of MRO slots availability. To mitigate this risk, SFE management will seek an option of operating Passenger to Freighter (P2F) aircraft in the start-up phase for bridging. Another option is to exercise Wet Lease (ACMI) basis from another operator.

- **Fuel increase**. The only way to mitigate this risk is using fuel hedging technique. SFE management can consider hedging some percentage of their fuel cost using either forward or option method. The practice of aviation industry fuel can be hedged from 20% to 70% of the required fuel plan.

- **Economic slowdown**. If this is occurring, SFE management shall exercise capacity management and re-negotiation of contracts with our suppliers. If the economic slowdown is local or regional basis, SFE may consider sub-leasing the aircraft to other markets i.e., USA, Europe, China, and Africa/Middle East.

- **Operational risk**. The mitigation for this particular risk is budget provision and additional insurance coverage. SFE management will exercise the option of additional insurance coverage to cover any unwanted operational failure.

- **Government regulation**. If any un-favored Government regulation imposed to the industry or SFE such as additional tax or charges, SFE management would have to increase our freight costs. Alternatively, price can be remaining in the expense of giving up profit. The latter is not a preference. Again, additional insurance for this purpose is worth excercising.

- **Security risk**. Security threat is real and SFE management will assign dedicated Safety/Security personnel to develop a Transport Security Program outlining security risk and mitigation plan.

- **Data breach risk**. SFE will at the forefront of the importance of private data and information. We will ensure that all IT, booking, and payment systems comply with Government privacy law in Australia and places we operate. To mitigate this risk, we will ensure that all of our staff, our agents, representative are briefed and trained on privacy law. We will appoint a consultant to ensure safeguards of our cyber security.

- **Cargo crime**. Cargo crimes include theft of goods transported as cargo, and shipment and smuggling of contraband, counterfeit, and pirated goods through the cargo distribution network. SFE will have a contracted Security Personnel that checks and re-checks the cargo versus documentation. Heavy penalties will apply to SFE employees, agents or representatives when it comes to cargo crime.

- **Hazardous materials**. Risks are introduced when hazardous materials are not declared, leading to the potential transport of prohibited materials by air or improper handling of hazardous goods during loading and while in transit. To mitigate this risk, SFE will have all operational staff trained with Dangerous Goods annually.

- **Aircraft hijacking and sabotage**. Individuals with access to aircraft may pose a risk of potential hijackings and aircraft sabotage. SFE therefore will develop an Emergency Planning Response Manual, to ensure relevant personnel have access to our aircraft and develop relationships with relevant authorities in Australia and countries we operate.

- **Severe business disruptions, network disruptions**. Aircraft may have technical issues that cause delays and cancellations. To mitigate this risk, SFE will have maintenance by power by the hour technical coverage with our engineering partners. We will have contracts in place to support AOG (Aircraft on Ground) situations with spares and parts support within 24 hours to support our schedule integrity. We have allowed in the budget to cover penalties from our shippers and agent as delay/cancellation reserves.

- **Act of terrorism**. An inevitable threat for any business therefore all of our pilots, crews and staff will be carefully screened in particular the air crew. Our emergency response plan will ensure that we cover mitigation for act of terrorism.

- **Financial risk**. This type of risk involves payment problems, debt issues, cash flow problems, shortage of cash, missing accounts, and excessive costs as well as poor revenues. To mitigate this risk, SFE will ensure proper contract development with our agents and freight forwarders.

All payments to be made upfront before the flights. Cash management system will be in place in collaboration with our bank partners. Management will have access to financial dashboard to ensure appropriate action is taken in the event of poor revenue and/or shortage of cash.

Thank You

**Sky Freight Express Pty. Ltd.**
**(Sky Freight Express)**
Incorporated in Sydney, Australia 2021
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