
12. INDEPENDENT MARKET RESEARCH REPORT

(Prepared for inclusion in this Prospectus)

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

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20 JUN 2005

**The Board of Directors
Daya Materials Berhad
Suite 18.01, 18th Floor
MWE Plaza
No. 8, Lebuhr Farquhar
10200 Penang**

Dear Sirs:

**Executive Summary of the Independent Market Research Report on the
Strategic Analysis of Polymer Insulation for the Power Cable Industry in Malaysia**

The purposes of the Summary Independent Market Research Report of Daya Polymer Sendirian Berhad prepared by Frost & Sullivan (M) Sdn Bhd is for inclusion in the Prospectus of Daya Materials Berhad (herein together with all its proposed subsidiaries will be referred to as the "DMB" or the "Company") in relation to the proposed listing of and quotation for the entire issued and paid-up share capital of DMB on the MESDAQ Market of Bursa Malaysia Securities Berhad.

A Snapshot of the Global Economy

The global economy has expanded throughout 2004 with an estimated GDP¹ growth of 4.0 percent at an aggregate level vis-à-vis 2003 as compared with a growth of 3 percent in 2003 vis-à-vis 2002. According to the World Bank, developing nations have registered strong growth notably China with 8.8 percent, Russia with 8.0 percent and India 6.0 percent in 2004. The combined performance of these countries have contributed to overall economic performance for developing nations as a whole to register an estimated 6.1 percent growth rate in 2004. However expectation for global growth in 2005 and 2006 will be moderate at forecasted GDP of 3 percent to 3.5 percent based on World Bank estimates. The expected moderate growth for 2005 is due to several reasons. In the first instance the U.S. investment cycle is expected to reach its peak in 2005 which implies a slowdown in growth for the U.S. economy.

¹ Gross domestic product

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Secondly, world demand is expected to outstrip supply, which will further lead to an increase in the prices of oil and gas and other commodities. This will affect individual income and expenditure, thus moderating demand for goods in general.

Thirdly, central banks of developed countries may increase interest rates, attracting more currency inflows and preventing the economy from being overheated. However, such a move can slow investment growth. In addition, both the U.S. and Europe are running on high budget deficits and therefore it is expected that these economies will tighten their budgets and this could again potentially slow down the growth for the year.

Lastly, China is expected to continue its efforts in slowing down growth in order to prevent its economy from overheating. China's government efforts to achieve a more sustainable growth for the long term is expected to weaken the economy whilst sustaining strong demand over the medium term.

Meanwhile, the situation will be further complicated if the current high crude-oil prices are prolonged. Possible impacts could include a slowdown in global economic growth, a full blown recession in the U.S. and also a hard landing for the Chinese economy. However, the risks of high oil prices are limited because the global economy is in a "low-inflation environment" and, is stronger and able to withstand these kinds of increases.

Malaysian Economy

The Malaysian economy expanded by 7.1% in 2004, the fastest growth since 2000. The economy benefited from both stronger external and domestic demand.

Notwithstanding some moderation in global growth in the second half of the year, the Malaysian economy remained resilient with the private sector continuing to be the principal driving force of domestic economic expansion. In 2004, the Government progressed further in fiscal consolidation. The overall Federal Government deficit declined to 4.3% of GDP in 2004 (2003: -5.3%). The Government, while consolidating, remained supportive of growth with policies targeted at enhancing the business environment for the economy.

All sectors registered positive growth during the year except construction. In the manufacturing sector, both export- and domestic-oriented industries expanded strongly with high capacity utilisation, in line with the upturn in the global electronics cycle as well as stronger domestic demand.

The services sector experienced a stronger expansion, driven mainly by higher consumer spending amidst rising disposable incomes as well as higher tourist arrivals and increased trade-related activities.

The prospects for the Malaysian economy in 2005 remain sound. Real GDP is expected to expand by 5 – 6%. The sustained global growth, the modest downturn in the global semiconductor industry as well as relatively favourable prices for primary commodities are expected to provide support to export growth.

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In the domestic economy, the private sector would remain as the main driver of growth, as the Government remains committed to optimising expenditure in order to strengthen the fiscal position. In particular, private sector expenditure is projected to sustain a strong expansion of 8.7% (11.1% in 2004). Both household consumption and business outlays are projected to remain resilient, thereby cushioning some of the effects of lower public investment spending arising from the Federal Government's gradual fiscal consolidation programme.

The manufacturing sector, which accounts for about a third of total private sector investment, is projected to record a strong positive growth for the third consecutive year. The strongest growth in capital spending is expected in the services sector, particularly in the utilities and telecommunications sub-sectors. Growth in the services sector is projected to be sustained at 5.7%, reflecting expansion across all sub-sectors.

With the core inflation projected to remain low in 2005 (1.8%), monetary policy is able to remain supportive of the further expansion in private sector activities.

(Source: Bank Negara Malaysia Annual Report 2004)

Dependence on Other Industries

The polymer insulation industry is dependent on the cable industry and the feedstock of polyethylene. For the period between 1998 - 2002, the local production of polyethylene increased by 9.6%, the imports of polyethylene similarly rose by 6.5% as consumption increased by 8.5%. The increase in local consumption of polyethylene was due to the local Electric and Electronics (E&E) industry rebound, which uses it to produce plastic components during this period.

Polyethylene exports from Malaysia also witnessed an increase of around 73.2 percent in 2003 vis-à-vis 2002 due to a rise in global demand. This caused a shortage in the local supply of polyethylene in 2003. However the situation improved in 2004 with the increase in the local production of polyethylene, the petrochemical industry was less dependent on imports. This resulted in a decline in imports by around 7.8 percent in 2004 and there was no shortage of polyethylene in this period.

However, local producers of polyethylene do not produce all grades of the said raw material, especially for specific power cables as the volumes required here are not economical for the local producers. Therefore power cable manufacturers still have to import these specific grades in order to meet the technical requirement of their end product – cables.

In addition, polymers being commodities are governed by the demand – supply equation and are therefore price elastic. A small reduction in supply or a shortage could cause prices to rise disproportionately. In turn this had caused polymer insulation prices to go up in tandem with the price of polyethylene.

12. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)***Overview of Polymer Insulation for the Power Cable Industry in Malaysia***

Due to the application of advance technology, high capital expenditure, long gestation in getting product certification, price sensitivity to feedstock and relative small size of the domestic market coupled with feedback from end users, Frost & Sullivan believes that Daya Polymer is the sole local producer for polymer insulators of semi-conductive compound and MV-XLPE (medium voltage cross-linked polyethylene) in 2004.

There are thirteen major power cable manufacturers in Malaysia. Based on feedbacks of cable manufacturers, of these, nine companies namely; Universal Cable Malaysia Bhd, Olympic Cables Sdn Bhd, Central Cables Sdn Bhd, Federal Power Sdn Bhd, Tenaga Cable Industries Sdn Bhd, Leader Cable Industry Bhd, Fujikura Federal Sdn Bhd, Power Cables Malaysia Sdn Bhd and Furukawa Electric Cables (M) Sdn Bhd, are equipped with the necessary equipment such as the CCV² machines. These industrial machines are normally used to incorporate polymer compounds (both semi-conductive and XLPE) into the manufacturing process of power cables. Based on our discussions with local power cable manufacturers, Daya Polymer now supplies to all nine of these major players

Market Forecast

Based on the expected compound annual growth rate of 13.7 percent, for the network distribution that will be expanded and upgraded to improve coverage (Under the Eighth Malaysia Plan 2001-2005), the market forecast is as depicted in Figure 1-2.

Figure 1-2 presents the market size and forecast for polymer insulators for the period 2004-2009

Figure 1-2

Year	Semi-conductive Revenues (RM)	LV-XLPE Revenues (RM)	MV-XLPE Revenues (RM)
2003	25 million	45 million	50 million
2004	28 million	51 million	57 million
2005	32 million	58 million	65 million
2006	37 million	66 million	74 million
2007	42 million	75 million	84 million
2008	48 million	86 million	95 million
2009	54 million	97 million	108 million

Source: Frost & Sullivan

² Catenary Continuous Vulcanization

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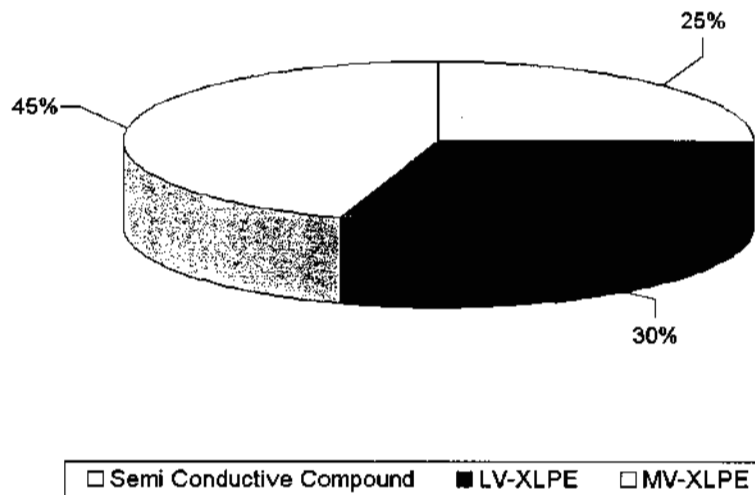
In terms of revenue, MV-XLPE accounts for the highest share – around 45 percent in 2004 – of the market share of polymer insulators used in power cables as outlined above. The expectation of higher demand and volume provided by MV-XLPE is the prime rationale for Daya Polymer to target and venture into this segment in Malaysia. Chart 1.1 shows the percentage composition of the polymer insulator market in terms of percentage on revenues.

Malaysian Polymer Insulation Market Components

Chart 1.1 below outlines the Malaysian polymer insulation market components for the power cable industry in 2004.

Chart 1.1

Polymer Insulation Market Components for the Power Cable Industry in Malaysia



Source: Frost & Sullivan

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Competitive Structure

Figure 1-3 presents the polymer insulator competitive structure in Malaysia for the year 2004.

Figure 1-3

Types of Competitors	For Semi Conductive and MV-XLPE, no local producer For LV-XLPE: Plastrate, Commercial Plastic Foreign Producers: Dow Chemicals (US), Borealis (Europe), Hanwha Corporation (Korea), LG (Korea)
Distribution Structure	Local -Directly to cable manufacturer Foreign – Indirectly through distributors and agents
Tiers of Competition	Local-market Export-market
Key End-User Group	Cable Manufacturers
Competitive Factors	Quality Price Delivery Service

Source: Frost & Sullivan

Industry Outlook

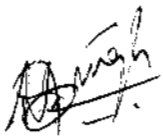
As the capacity utilization increases in the manufacturing sector and the inventory levels decreasing, it is expected that there would be more manufacturing activities leading to increase in employment as well as a strengthening of both consumer sentiments and business confidence. This is expected to translate to a more vibrant Malaysian economy.

In light of the above as well as based on the premise that Daya Polymer is the sole producer of semi conductive compounds and MV-XLPE in Malaysia and potentially the primary producer for the entire South East Asia region, coupled with the growth prospects of the polymer insulators market at a CAGR of around 13.7 percent throughout the forecast period, make this an attractive proposition for the company.

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Frost & Sullivan has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the limitations of among others, secondary statistics and primary research. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and / or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Yours Sincerely



Sanjay Singh
Director
Industrial Practice

13. VALUATION CERTIFICATE

(Prepared for inclusion in this Prospectus)



Date : 20 JUN 2005

The Board of Directors
Daya Polymer Sdn Bhd
No.1744, Jalan Industri Dua
Taman Industri Bukit Panchor
14300 Nibong Tebal
Pulau Pinang

Dear Sirs

REPORT AND VALUATION OF FACTORY PREMISES NO.1744, JALAN INDUSTRI DUA, TAMAN INDUSTRI BUKIT PANCHOR, 14300 NIBONG TEBAL, PULAU PINANG ERECTED ON LOT NO.2795, HELD UNDER GRANT NO.59361, MUKIM 7, SEBERANG PERAI SELATAN, PULAU PINANG

This certificate has been prepared for inclusion in the Prospectus of DMB to be dated 30 June 2005, in relation to the Public Issue of 56,890,000 new ordinary shares of RM0.10 each at an issue price of RM0.23 per ordinary share payable in full on application.

In accordance with your instruction, we have valued the abovementioned property at RM4,400,000.00 (herein after referred to as "the subject property") vide our Valuation Report being reference : 406C2003/204 (Date of inspection 17th November 2003, Material Date of Valuation 15th December 2003).

This valuation report has been prepared in accordance with the "Guidelines on Asset Valuation issued by the Securities Commission" and in compliance with the Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia and also with the necessary professional responsibility and due diligence.

We have valued the property listed below at market value, in its existing state with the buildings completed and issued with Certificate of Fitness For Occupation and with title free from all encumbrance, using the COST METHOD OF VALUATION. Evidences of value had been derived from sale comparables obtained from Jabatan Penilaian dan Perkhidmatan Harta, Kementerian Kewangan Malaysia.

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**Rahim & Co Chartered Surveyors
(Penang) Sdn. Bhd.** (119499-A)

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13. VALUATION CERTIFICATE (Cont'd)

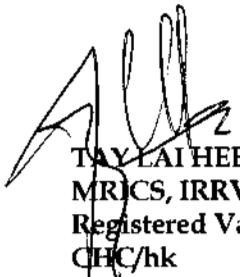
Property is held for owner occupation

Title No.	Grant No.59361
Lot Nos.	2795
Mukim	7
District	Seberang Perai Selatan
State	Pulau Pinang
Location/ Address of property	Factory Premises No.1744, Jalan Industri Dua, Taman Industri Bukit Panchor, 14300 Nibong Tebal, Pulau Pinang
Land Tenure	Freehold
Category of Land Use	Industry
Land Area	12,671 sq.m.
Register Owner	Daya Capital Sdn Bhd
Encumbrances	Charged to UNITED OVERSEAS BANK (MALAYSIA) BERHAD on three(3) occasions vide :- i) Gadaian Perserahan No.12668/96 Jilid No.698 Folio No.5 Registered on 31 st July 1996 ii) Gadaian Perserahan No.12669/96 Jilid No.698 Folio No.6 Registered on 31 st July 1996 iii) Gadaian Perserahan No.3120/2001 Jilid No.893 Folio No.183 Registered on 5 th March 2001
Express Condition	"Tanah ini hendaklah digunakan untuk tujuan perusahaan"
Restriction-In-Interest	- NIL -
Description of Buildings	a) <u>Main Factory Building (Factory Building I)</u> Single-storey building with mezzanine floor <u>Construction</u> Piled reinforced concrete foundations, concrete encased steel portal frames supporting steel purlins covered with metal roofing sheets. External walls clad with corrugated galvanised metal surmounted on plastered dwarf brickwalls. Internal partition are gypsum boardings surmounted with glass panels. Mezzanine floor constructed of steel plates on suspended rolled steel joists. <u>Existing Use</u> Ground Floor : Administrative Office and Production Area Mezzanine : Production Area Gross Built-Up Area : 3,048 sq.m. (32,809 sq.ft.)

13. VALUATION CERTIFICATE (Cont'd)

Description of Buildings	<p>b) <u>Warehouse (Factory Building II)</u></p> <p>Single-storey building</p> <p><u>Construction</u></p> <p>Piled reinforced concrete foundation. Concrete encased steel portal frames supporting steel channel purlins covered with metal roofing sheets. External walls clad with corrugated galvanised metal sheets surmounted on plastered dwarf brickwalls.</p> <p><u>Existing Use</u></p> <p>Warehouse, TNB Substation, Canteen and Toilets</p> <p>Gross Built-Up Area : 648 sq.m. (6,975 sq.ft.)</p>
Date of Certificate of Fitness	17 th November 1997
Age of Building as at date of Valuation	About 6 years old
Method of Valuation	Cost Method of Valuation
Date of Valuation	15 th December 2003
Market Value	RM4, 400,000.00

Yours faithfully,

RAHIM & CO CHARTERED SURVEYORS (PENANG) SDN BHD(119499-A) (VE(1)0065/1)


TAY LAI HEE
MRICS, IRRV, FISM
Registered Valuer (V-171)
CHC/hk

14. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)

DAYA MATERIALS BERHAD (636357-W)

1744, Jalan Industries Dua, Taman Industri Bukit Panchor,
14300 Nibong Tebal, Penang.
Tel : 04-593 8811 / Fax : 04-593 8833

23 JUN 2005

The Shareholders
Daya Materials Berhad


Registered Office:
Suite 18.01, 18th Floor
MWE Plaza
No. 8, Lebuhr Farquhar
10200 Penang

Dear Sir/Madam,

On behalf of the Board of Directors of Daya Materials Berhad ("DMB" or the "Company"), I report after due inquiry that during the period from 31 December 2004 (being the date to which the last audited financial statements of the Company and its subsidiary company have been made up) to 23 JUN 2005 (being a date not earlier than 14 days before the issue of this Prospectus), that:-

- (a) the business of the Company and its subsidiary company has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Company and its subsidiary company which have materially affected the business and operations or the value of the assets of the Company or any of its subsidiary company;
- (c) the current assets of the Company and its subsidiary company appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in the proforma consolidated balance sheets in Section 10.7 of this Prospectus, there are no contingent liabilities by reason of any guarantee or indemnity given by the Company or any of its subsidiary company;
- (e) there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of, since the last audited financial statements of the Company and its subsidiary company; and
- (f) save as disclosed in the proforma consolidated balance sheets in Section 10.7 and in the Accountants' Report in Section 11.0 of this Prospectus, there have been no material changes in the published reserve or any unusual factors affecting the profit of the Company and its subsidiary company since the last audited financial statements of the Company and its subsidiary company.

Yours faithfully,
For and on behalf of the Board
DAYA MATERIALS BERHAD



KAMALUL ARIFIN BIN YUSOF
Chairman