

10.0 INDEPENDENT MARKET REPORT
(Prepared for the inclusion in the Prospectus)

Infocredit D&B

Creating value...building trust

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10 FEB 2004

The Board of Directors
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Batu 8, 84200 Muar
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RE: INDEPENDENT MARKET CONSULTANT REPORT FOR UDS CAPITAL BERHAD

This Report has been prepared for inclusion in the Prospectus to be dated **20 FEB 2004**
pursuant to the proposed listing of UDS Capital Bhd ("UDS") on the Second Board of the
Malaysia Securities Exchange Berhad.

This research is undertaken with the purpose of providing an overview of the furniture industry in Malaysia as well as the operations of the Company within the industry. The research methodology for the research includes both primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, Government literatures, in-house corporate databases, Internet research and online databases.

Infocredit D&B (Malaysia) Sdn Bhd ("Infocredit D&B or the Expert") has prepared this Report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Report. In addition, the Expert acknowledges that if there are significant changes affecting the contents of the Expert's Report after the issue of the Prospectus and before the issue of securities, then the Expert has an on-going obligation to either cause the Report to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Report in the Prospectus.

An Executive Summary is highlighted in the following sections.

For and on behalf
INFOCREDIT D&B (MALAYSIA) SDN BHD



Tan Sze Chong
Managing Director

EXECUTIVE SUMMARY**A Industry Overview****1 Global Economic Outlook**

The global economic outlook showed signs of recovery after a string of adverse shocks occurred in the first half of 2003. The recovery was accompanied by forward looking indicators such as the strengthening of equity markets, a rebound in business and consumer confidence, reduction of interest rates in the Euro area and the United States of America ("U.S.A.") and signs of pick-up in investments particularly in the U.S.A., Japan and the Asian emerging markets.

There are regional variations in economic growth. The U.S.A. had remained as the main engine of global growth but emerging markets in Asia, notably China is set to lead the global economic rebound especially now that the Severe Acute Respiratory Syndrome ("SARS") crisis has ceased. The recovery is expected to be more buoyant than the rest of the world, as growth is expected to reach 6.4% by 2004. The robust growth will be driven by rising labour productivity, a rebound in global trade and the information technology ("IT") sector. Although domestic demand growth is becoming broadly based, the recovery for these countries remains dependent on external demand. The prospect of a foreseeable weaker global recovery is a potential risk. International Monetary Fund's ("IMF") growth forecasts for emerging markets in Asia are 5.9% for 2003 and 6.2% for 2004.

The U.S.A. is forecast to chart a stronger Gross Domestic Product ("GDP") growth of 3.9% in 2004, while the Euro area is expected to further improve by 1.9% in 2004. Japan, which has shown further signs of bottoming out, has entered into a recovery mode and is projected to grow by 1.4% in 2004. China, India and Newly Industrialised Asian Economies (Hong Kong Special Administrative Republic, Korea, Singapore, Taiwan) are expected to pose strong GDP growth in 2003 respectively at 7.5%, 5.6% and 2.3% and in 2004 GDP is forecast to grow stronger respectively at 7.5%, 5.9% and 4.2%.

Even in an optimistic year, there are several global downside risks facing the global economy. Softer equity prices and weaker growth in trading partners are also potential threats to growth. Although growth in China as a trading partner should provide some support to the downside, a loss of growth momentum in the demand for electronic products could dampen outlook further. This in turn would hurt industrial production, consumption and investment.

2 The Malaysian Economic Outlook

The Malaysian economy registered stronger growth at 5.1% in the third quarter of 2003 from 4.5% in the second quarter 2003¹. The improved performance was mainly driven by the private sector and a low interest rate environment. The pick-up of the private sector was the result of increase consumption and investment coupled with growth in productivity². Going forward, the outlook for the following year is set towards strengthening the country's economic position. Malaysia's GDP is expected to accelerate from 4.5% in 2003 to about 6% in 2004, driven by improving export performance, domestic consumption and private investments. Furthermore, the RM7.3 billion economic stimulus package unveiled on 21 May 2003, swift conclusion of the Iraq war and the end of the SARS epidemic had regained consumer confidence.

External trade performance showed improvements during the first half of 2003 recording a 4.3% growth compared to 2.0% within the corresponding period in 2002³. The upsurge was brought about by an upturn demand for rubber products, which increased to 10.7% and the recovery of global electronics demand particularly from the East Asian countries. Bank Negara Malaysia ("BNM") projects a higher export growth of 5.2% in 2003 compared with 3.6% for 2002. This is in view of the country's success in attracting export-oriented projects, particularly in the electrical machinery and appliance production sectors. According to the Ministry of International & Trade Industry, total exports of these products increased by 16.1% year-on-year reaching RM92.3 billion in 2002. Public sector investment and consumption have taken a more passive role in 2002 compared to 2001. The Ministry of Finance expects the private sector to take a more aggressive role in 2003 with private sector investment projected to grow by 14.4% or 13.1% of the GDP.

BNM's forecast is based on the assumption of modest world economic growth, some pick-up in the global electronics industry, firm commodity prices and further expansion in intra-regional trade. This forecast is lower than its previous forecast of 6.5% in October 2002. BNM is also cutting its intervention rate by 50 basis points to 4.50% as a pre-emptive measure to support domestic growth potential. Together with the other measures in the economic package to increase disposable income, it is expected to enhance the potential for supporting the growth prospects. With economic fundamentals remaining strong, proactive policy measures such as fiscal and monetary expansion to stimulate domestic demand, and the diversified and resilient economic base has allowed the growth momentum to be sustained despite the SARS outbreak and the uncertain external environment.

Growth in the manufacturing sector is anticipated to be higher across the board. The manufacturing sector is expected to continue its expansion to record 6.5% increase in output in 2003 and contribute 1.9 percentage points to GDP growth while the services sector recovering from the SARS outbreak recorded higher growth of 4.2%, contributing 2.4 percentage points⁴.

¹ Source: BNM Press Release on Third Quarter 2003 dated 19 November 2003

² Source: BNM Press Release on Third Quarter 2003 dated 19 November 2003

³ Source: Economic Report 2003/2004

⁴ Source: Economic Report 2003/2004

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Growth in domestic-oriented industries continued to pick up, registering an increase of 11.5% in 2003 after a sluggish 0.8% growth in 2002. This was brought about by higher consumption level of plastic products where plastic parts for household appliances contributed to the strong growth due to increase in disposable income from the stimulus package and a growing consumer confidence. Meanwhile, the export-oriented industries showed better performance in the first half of 2003, recording a 4.3% growth compared to 2.0% within the corresponding period in 2002. The upsurge was brought about by an upturn demand for rubber products, which increased to 10.7%. Wood-based products recorded a slight output growth of 1.7% in the first half of 2003 with major contribution from the plywood industry.

The manufacturing sector continues to be the major engine of growth for the Malaysian economy. The manufacturing output has registered an average annual growth rate of 9.1% for the period 1996-2000 against the target growth rate of 10.7% under the Seventh Malaysia Plan. Under the Eighth Malaysia Plan, the annual average growth rate for the manufacturing sector is expected at 8.9% for the period of 2001 to 2005. As export-oriented industries will continue to dominate the manufacturing sector, the sector's growth is expected to be export-led, projected to earn up to 89% of the country's foreign exchange earnings by 2005.

The outlook for the manufacturing sector remains positive despite a fall in foreign investments in recent years. To speed up recovery of the global economy, some Multinational Corporations ("MNCs") have relocated its labour-intensive and low-end operations to the lower cost countries such as China and Thailand. However, some companies have moved its high-end operations to Malaysia to tap on the superior manufacturing facilities, competitive tax, incentive scheme and well-trained labour force. The fiscal stimulus packages and low interest rate regime help ensure a brighter prospect for the manufacturing sector in 2003.

3 Broad Industry Assessment – Furniture & Fixtures

- The furniture industry in Malaysia is highly diverse and includes a broad range of furniture types serving many different market applications. Typically, furniture products can be categorised into five main sub-groups of wooden, rattan, metal, plastic and other furniture.
- Previously a small cottage industry, the furniture industry has transformed into mass-production export-oriented industry, represented by a large number of companies with automated plants and sophisticated machinery. It is estimated that there are approximately 3,500 manufacturers in the country. An estimated 81% are small-scale manufacturers, and the remaining 19% are the middle to large operators.

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Table 1: Industrial Expansion of Furniture Manufacturers, 1985-2000

Year	Number of Establishments	Production Capacity (m ³ of wood)	Workforce Employed
1985	450	75,000	10,000
1990	1,680	150,000	18,000
1995	> 3,000	280,000	39,000
2000	> 3,500	540,000	47,000

Sources: *The Malaysian Furniture Industry/Jegatheswaran Ratnasingam, Malaysia Furniture Industry Council ("MFIC"), Malaysian Timber Industry Board ("MTIB")*

- Furniture manufacturing, which is a downstream activity of the timber industry is fragmented. It includes knocked-down furniture, self-assembled wooden furniture, office furniture, lounge sets, bedroom and dining sets, upholstery furniture, beds and mattresses and other furniture related products. Local players concentrate on producing homogeneous products for the export market, which are typically distinguished only by certain variations in machinery and in-house facilities.
- There are various incentives offered to the furniture industry such as investment incentives, pioneer status with fixed tax-exemption periods, subsidies in the form of tax relief for capital investments, re-investment allowances, manpower training and recently the Information Technology scheme to enable employers to buy computers for training.
- A global survey conducted in 2000 revealed that Malaysia had attained the 10th position among the world's top furniture exporting nations in 2000. It is also the only ASEAN nation in the list of top exporting nations. Malaysia was also ranked the world leader in terms of achieving the highest furniture exports to production ratio with 85% of its manufactured furniture being exported to over 150 countries around the world.
- The Malaysia furniture industry is a mature industry and it has a proven track record in the global front. The industry is export-oriented where most players are in competition with major furniture producing countries in Asia such as Taiwan and South Korea. On average, Malaysia exports approximately 85% of its furniture production, raking in almost RM5 billion worth of earnings a year⁵. The industry will experience continuous growth due to active participation in trade exhibitions and growing external demand. As at 2003, exports of furniture rebounded to RM5.7 billion and the Malaysian International Furniture Fair anticipate exports to grow by 10% in 2004⁶. Being ranked as the world's 10th largest furniture producer in 2002, Malaysia had gained 2.6% of the US\$ 100 billion global market with the U.S.A accounting RM1.6 billion or 13.6% of total furniture export sales.

⁵ Source: Bank Negara Malaysia, 2002

⁶ Source: News Straits Times, Business Times, 10 February 2004

Government Legislations, Policies and Incentives

The Malaysian Government promotes the furniture industry by offering various investment incentives and facilities such as awarding pioneer status with fixed tax-exemption periods, subsidies in the form of tax relief for capital investment, re-investment allowances and manpower training⁷.

Some of the major incentives for investments for the wood-based industry include:

- Pioneer Status
- Investment Tax Allowance (“ITA”)
- Reinvestment Tax Allowance (“RA”)
- Tax Exemption on the Value of Increased Exports
- Double Deduction of Promotion Exports

Other Government incentives:

- Double deduction of export credit insurance premiums
- Incentives for research & development (“R&D”)
- Incentives for training
- Incentives for restructuring
- Strategic incentives for forest plantation projects
- Infrastructure allowance
- Double deduction of freight charges
- Drawback of custom duties
- Exemption from customs duty on machinery, equipment and raw material

Capital and Labour Intensiveness

The furniture industry is currently employing about 40,000 workers in all with a breakdown of 24,000 unskilled, 9,600 semi-skilled and 6,400 skilled workers. With an average projected increase of between 5%-10% for each sector in the industry, the total number of workforce in furniture industry is projected at 32,070 unskilled, 14,670 semi-skilled and 8,560 skilled workers with a total of 55,300 in all by 2000.⁸

The furniture industry is at present still very much a labour intensive industry. It faces shortage of labour as compared to other manufacturing industries as many local employees still perceive this industry as dirty, dangerous and demanding. It is estimated that about 50% of floor workers employed by manufacturers are foreign labour from third world countries. These foreign workers are mainly involved in manual, unskilled and semi-skilled sections works.

⁷ Source: MTIB

⁸ Source: The Malaysian Furniture Industry/Jegatheswaran Ratnasingam, MFIC.

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In addition, the present rules and regulations on employing foreign labour are also restricting the expansion plans of most of the small and medium-sized manufacturers. The specific labour problems faced by the industry are:

- Lack of skilled and semi-skilled manpower
- Substantial increase in cost of general labour rate from RM12 to RM25 per day, contributing to increased production cost
- Restrictive Governmental policies in the importation of foreign labour

As it is, the existing educational system in Malaysia does not offer specialised courses for both technical and tertiary levels to cater to the needs of the furniture industry as compared to other sectors such as construction, industrial engineering, electronics and etc. It is the opinion of the industry analysts that to attract more labour force into the furniture industry, the relevant Government agencies should strongly recommend the inclusion of furniture engineering course as an additional specialised curriculum into the educational system.⁹

⁹ Some comments from this section were reiterated from the trade interview conducted with MFIC

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4 Focused Industry Assessment
D) Value-added Furniture Manufacturing Services (“FMS”)

- Based on furniture industry structure classification by Malaysian Industrial Development Authority (“MIDA”) and Infocredit D&B Research, the value-added FMS is classified as a supporting sub-segment of the furniture industry, which forms the limb of wood-based boards.
- Value-added FMS can be broadly defined as product specialisation of custom-made and value-added furniture parts encompassing joinery, decorative fixtures, laminated boards, kitchen worktops, and other sets of loose furniture accessories following a conceptualised design framework, and on a project to project basis. It is also frequently referred as panel products due to its high association with the FMS.
- In Malaysia, value-added FMS is still at its infancy stage, with only an estimated ten to fifteen companies in operation under this focused segment. Some of the major FMS companies are *Cheay Enterprise Sdn Bhd, Mico Chipboard Company Berhad, Malaysian Aica Berhad and UDS*.

The following segments (panel products, kitchen worktops (comprising kitchen furniture) and furniture hardware) are the products of FMS activities. These products provide the value-added components to the FMS industry. An example of value-added service would be board lamination of panel products and kitchen worktops. Meanwhile, hardware such as pneumatic nails and staples are also used to form the value added components in a broad range of furniture manufacturing activities.

PANEL PRODUCTS

- Panel products are boards or sheets made by bonding together wood, wood particles or wood fibres either with or without the use of a synthetic adhesive. Wood-based panel product-mix consists of plywood, particleboard and fibreboard that can be used for decorative purposes in internal linings, floorings and ceilings. The production of wood-based panel products is closely associated with value-added FMS as a majority of panel products are either manufactured into laminated boards or moulded particleboards.
- Major producers of plywood are *Aokam Perdana Berhad, Megaply Industries (M) Sdn Bhd, Seng Choon Plywood (M) Sdn Bhd and Evermaster Group Berhad*.
- Some of the major producers of medium density fibreboards (“MDF”) are *Hume Fibreboard Industries Sdn Bhd, Golden Hope Fibreboard Sdn Bhd, Guthrie MDF Sdn Bhd, Evergreen Fibreboard Sdn Bhd, Teem-Well (M) Sdn Bhd*.

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- The number of establishments operating in Malaysia has declined substantially from 122 manufacturers in 1997 to 96 manufacturers in 2002, plagued by high price competition from neighbouring countries¹⁰.
- The top export destinations for panel boards are:
 - a) Fibreboards : China, Japan, Europe, Middle East, The U.S.
 - b) Plywood : Australia, Denmark, Japan, Singapore, U.K.
 - c) Particle boards : China, South Korea, Taiwan, Vietnam

KITCHEN FURNITURE – KITCHEN WORKTOPS

- The main products forming part of the kitchen furniture are of *Wood kitchen cabinets and Kitchen worktops*. Most part of the kitchen furniture such as commercial kitchens, kitchen doors and kitchen cabinets are mainly wood-based.
- The wood kitchen cabinets and laminated kitchen worktop for example provides the value-added element in FMS. Kitchen furniture supply could be classified by type of door finishing (laminated kitchens, solid wood kitchens, lacquered kitchens, veneer kitchens) according to the pricing range of middle to middle-upper range. The kitchen furniture may be produced on a stock or custom basis and may be shipped assembled or unassembled (knockdown).
- Wooden kitchen furniture is a major contributor to the wooden furniture export which accounted for 11.7% of the overall total export of all wooden furniture in 2002 as compared to upholstered wooden seats, which accounted for 10.1%¹¹.
- The weak external demand in 2001 has resulted in declining export growth of wooden kitchen furniture by 15.8% (2000: -2.3%). However, the demand for wooden kitchen furniture fared better in 2002, rebounded with 3.9% growth compared to the declined growth in 2001. Manufacturers are expected to regain better export performance in 2003.

¹⁰ Source: Department of Statistics, "Monthly Manufacturing Statistics September 2003"

¹¹ Source: Department of Statistics

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FURNITURE HARDWARE

- Furniture hardware consists of a broad variation of products including wire nails, industrial fasteners, pneumatic tools, air tackles and various types of other products.
- There are various types of pneumatic fasteners such as pneumatic nailers, staples corrugated fasteners, pneumatic finish nails, roofing nails and coil nails in the market. Air staples are commonly applied in various industrial applications such as furniture production (for upholstery seats and other furniture fastening work), carton box closing and pallet applications. Air nails and coil nails are mainly utilised in furniture making, panel products and also interior finishing.
- There are approximately six to eight major manufacturers of industrial coil nails and staples in Malaysia.
- The locally produced coil nails in Malaysia are of different series/models and head designs; usually clipped head or full round head nails. Many of these hardware products are marketed under brand names such as Madura, Atro, BEA, SENCO and Bostitch in the local and export market.
- Furniture hardware export recorded a declining growth of 7.0% in 2002, with a total export value of RM26.2 million as compared to RM28.2 million in 2001. Nevertheless, the decline in export performance will not cause an adverse impact on UDS Group's revenue since furniture hardware constitutes only 7.0% of the Group's revenue for FYE 2003.

II) Upholstered Furniture (Sofa)

- Sofa is a major contributor to the furniture industry. The sofa furniture export market recorded an increased of 7.2% in 2002 after recording a lacklustre growth of -9.9% in 2001¹². The rebound was mainly due to an upturn demand for high-end wood products and customised designed office and household furniture and fixtures.
- The major sofa manufacturers are located in industrial areas in Johor, Selangor and Penang. There is an abundance of small to medium sofa manufacturers located in Johor, estimated at between 500 and 800.
- The sofa furniture industry is highly competitive in Malaysia; where there are more than 50 medium to large sofa manufacturers competing to seize new market share especially in the export segment.
- The sofa furniture industry is a mature industry in Malaysia where some major sofa players have already been established in the market for more than 15 years.

¹² Source: Department of Statistics

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- About two thirds of upholstered furniture manufacturers in Malaysia were found to place emphasis on the latest styles and modern designs using sophisticated technology. The improvement in the quality of local furniture products is also partly the Government's effort in encouraging the development of Original Design Manufacturing ("ODM") to increase the production of higher-end and value-added furniture products.
- Furniture is a major export contributor to the nation's economy and as such, this industry is looked upon as an industry with enormous growth potential. Total export earnings for the entire furniture industry recorded RM5.4 billion in 2002 and the wood furniture sector alone accounted for more than three quarters in 2002 with an export value of RM4.2 billion. Malaysia is a major supplier of wooden furniture products to the traditional markets namely the U.S., Japan, U.K., Europe and the Middle East countries.
- The total export value for upholstered wooden furniture is RM386.9 million in 2001. Upholstered wooden seats furniture, which also include sofa furniture accounted for 10.1% of the overall export of wooden furniture category in 2002.

5 Industry Players

The furniture industry in general consists of a large number of companies with automated plants and sophisticated machinery, producing mass volumes for export. It is estimated that 3,500 manufacturers are operating in the country. Furniture manufacturing, which is a downstream activity of the timber industry is fragmented. It includes knocked-down furniture, self assembly wooden furniture, office furniture, lounge sets, bedroom and dining sets, upholstery furniture, beds and mattresses and other furniture related products. Many of the local players concentrate on producing homogeneous products for the export market, which are typically distinguished only by certain variations in machinery and in-house facilities.

6 Industry Dynamics

Supply

The industry comprises a wide range of furniture products that can be classified into wooden furniture, rattan furniture, metal furniture, plastic furniture and others such as mattresses and furniture hardware.

Local furniture manufacturers are urged to move towards ODM instead of solely depending on contract manufacturing. The gradual shift from Original Equipment Manufacturing (“OEM”) to ODM and Original Brand Manufacturing (“OBM”) strategies will determine the next growth spurt of the Malaysian furniture industry and increase the nation’s competitiveness in the international market. Currently, most high-end furniture makers are traced to the European and Western countries, where they have already built reputable brand names worldwide. However, with the current aggressive R&D practice, it will not be long before Malaysia breakthrough international barriers by offering world-class renowned brands.

The Government has also deployed preventive measures to ensure sustainable timber resources such as rubber wood.

Demand

The increasing supply of condominiums, apartments, hotels, office and retail space is expected to boost domestic demand for furniture. This also argues well for sofa and upholstery manufacturers as these products are lighter, comfortable and suitable for the modern and contemporary lifestyle. The steady growth of households in Malaysia, that registered an average annual growth of 3.02% (1993-2002), is a positive indicator to the increasing domestic demand for household furniture including sofa and upholstery furniture. Based on a total household of 5.333 million, the domestic demand for furniture in Malaysia is estimated at RM914.5 million in 2002 (2001: RM895.1 million).

In general, the demand for furniture products, especially household furniture is expected to remain strong as it is considered a necessity. Key international demand for furniture is from the U.S., Japan, U.K., Singapore, Australia, the United Arab Emirates and Canada. However, Australia, Korea and Taiwan are steadily gaining prominence. Malaysia is now ranked among the top exporting furniture nations in both the U.S. and Japan. Demand for Malaysian furniture range is on the rise worldwide as buyers are becoming increasingly attracted and satisfied with the quality and value of the products.

7 Industry Outlook

The outlook of the furniture industry has remained favourable over the past five years with an annual growth of 5%. Furthermore, furniture is a major export contributor to the nation's economy and as such, this industry is looked upon as an industry with enormous growth potential. For the year 2002, export earnings increased slightly to RM5.4 billion¹³ as compared to RM4.8 billion in 2001.

The onslaught of globalisation and liberalisation is expected to have a major impact on the furniture industry as free market practices will dictate the future of this industry. International buyers are increasingly more demanding in terms of design work, quality, environment and safety standards as well as competitive pricing.

The global furniture manufacturing industry is in a transition itself, as manufacturers no longer confine their activities to the boundaries of a single host country. The free flow of components, sub-assemblies, accessories and supplies from different locations around the world is characterising the current trend in the global furniture industry. Therefore, going global is a key strategic move to remain competitive in this industry. As the World Trade Organisation ("WTO") regulations on free market practices becomes a reality, players that have been enjoying protection through tariff imposition and Government subsidies will be challenged by other low-cost producers such as China.

Malaysia's stand on the global front has gone through a multi-facet challenge, from complying with the ISO 9000 Quality Management System to the recent regional financial crisis. The resilience of the industry is attested as proven by the fact that Malaysia is in the 10th position in the global furniture export league table in 2000.

As the economic gap between the Organisation for Economic Co-operation and Development ("OECD") countries and the developing world narrows, the imbalance in furniture trade will be reduced. The purchasing power of the Asian economies will improve and domestic markets will soon expand.

The Asean Free Trade Area ("AFTA") which houses an estimated population of 500 million, is a good example of a domestic market created to cushion the turbulence of external markets. The anticipated increase in intra-regional trade is also expected to off set any adverse affect of the intra-regional trade, which will ensure the sustainability and growth of the Malaysian furniture industry in the future.

¹³ Source: Department of Statistics

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However, the impact of AFTA is still unclear, as it could be positive as well as negative. It depends on the strategies employed by the manufacturers. Most of the small and medium scale manufacturing companies would feel the pressure in competing with other countries. However, manufacturing companies believe that AFTA would give them better opportunities as they are able to import certain raw materials cheaper and are able to export their end products at a better rate. Manufacturing companies need to increase their competitiveness in pricing and product quality in order to face stiff competition from manufacturers in other countries with low cost competitiveness.

The Government's role in the development and growth of the furniture industry cannot be denied, as the industry has been alleviated to greater heights through the assistance of various policies and incentives. With the inherent competitive edge coupled with the enhancement of creative and innovative skills, the growth momentum of the Malaysian furniture industry is sustainable.

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B Business Overview**1 Principal activities and operations**

UDS Capital Berhad (“UDS”) was established in 28 December 1999 as an investment holding company and it has nine subsidiary companies of which five of them are actively involved in the manufacturing of wood-based furniture, fixtures and accessories and upholstered furniture (settee and sofa). The five subsidiary companies are U.D. Trading Sdn Bhd (“UDT”), U.D. Panclform Sdn Bhd (“UDP”), Sin Wee Seng Industries Sdn Bhd (“SWS”), U.D. Industries Sdn Bhd (“UDI”) and U.D. Wood Products Sdn Bhd (“UDW”).

The activities of the wood-based furniture, fixtures and accessories division which is undertaken by UDT, UDI, UDP and UDW involves the following:-

- (i) Value-added FMS including lamination and moulding of particle boards, MDF boards and plywood into laminated boards such as kitchen worktops (marketed under the brand name “panform”), custom-made decorative boards, antique finishing laminated boards and others. These products are supplied to other furniture manufacturers;
- (ii) Manufacturing of pneumatic fasteners such as air nails, air staples and coil nails which are sold under its own brand name “UD”;
- (iii) Manufacturing of kitchen and living room furniture; and
- (iv) General trading of furniture products and equipments

The manufacturing and sale of upholstered furniture is undertaken by SWS which focuses more on ODM and customised design backed by its in-house R&D know-how and high quality manufacturing process. Made mainly from leather and fabric, the products are exported to overseas markets such as Japan, Europe, the U.S., Middle East, Australia and others.

The UDS Group’s differentiation lies not only in its specialisation that begins from materials sourcing to product design and finishing but also leveraging on its wide array of product lines to cater to different segments of the market.

The Group provides a diversified range of value-added furniture manufacturing and supporting services for the furniture industry especially for kitchen worktops and board lamination. This includes wood-based boards such as chipboards, particleboards, laminated tops and other wood-based panel products including plywood.

10.0 INDEPENDENT MARKET REPORT (Cont'd)**2 Market Positioning****I) FMS**

The closest competitors of UDS are Minply Holdings (M) Berhad, Mico Chipboard Berhad, Malaysian Aica Berhad and Sunply Industries (M) Sdn Bhd. The few selected players have similar activities such as board lamination, manufacturing or trading of panel boards, furniture hardware and other furniture products. Based on table below, UDS and Minply Holdings (M) Berhad are the two companies providing a fully integrated production process.

Companies	Plywood	Boards	Furniture Hardware	Board Laminates	Tabletops	Others	Status	Product Description
Cheay Enterprise Sdn Bhd		#				Furniture	Mfg	Fibreboards, furniture
Jacksing Deco-Board Sdn Bhd					#	Panel	Mfg	Panel products and wooden table tops
Len Cheong Furniture Sdn Bhd				#	#	Moulding, Furniture parts	Mfg/Trdg	Laminated board
Malaysian Aica Berhad (Maica)		#		#		Furniture parts	Mfg	Chipboards, table tops lamination
Mico Chipboard Berhad		#	#	#		Furniture parts	Mfg	Plain chipboard, laminated chipboard, furniture components and melamine impregnated paper
Minply Holdings (M) Berhad	#	#	#	#	#	Furniture parts & moulding	Mfg	Integrated value-added manufacturing services
Permaju Industries Berhad	#			#		Furniture parts	Mfg	Plywood and Laminated Board
Seng Choon Plywood (M) Sdn Bhd	#			#		Door s	Mfg	Decorative paper overlay and PVC overlay panels
Sunply Industries (M) Sdn Bhd	#	#				n.a.	Mfg	Printed opeley fancy plywood
UDS Capital Berhad	#	#	#	#	#	Furniture parts, settees and sofas and moulding	Mfg/Trdg	Integrated value-added manufacturing services

Note:

Mfg=Manufacturing Trdg=Trading

Sources: Infocredit D&B, Trade Interviews, Malaysia Securities Exchange Berhad

- The competitive advantage of the UDS Group lies in its strength where it has a group of subsidiary companies that integrate with one another into FMS. In addition to manufacturing finished furniture products, the Group also manufactures semi-finished furniture parts to support the furniture industry.

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- The value-added FMS market recorded an estimated market revenue of RM491.5 million in 2002, an increased of 6.7% from the total market revenue of RM460.6 million in 2001. UDS is ranked the 4th largest player in the total FMS market in 2002 with a market share estimated at 13.6%. The three largest players in the FMS industry by revenue ranking are public listed companies (Mieco Chipboard Bhd, Minply Holdings Bhd and Permaju Industries Bhd).
- The UDS Group's turnover recorded an increased of 11% growth from RM66.8 million in the FYE 2002 to RM74.2 million in the FYE 2003. The major contributions were attributable by the Group's lamination, boards and settee and sofa sets. Meanwhile, knocked-down furniture sets such as buffet and hutch, dining, bedroom and living sets have shown improvement in growth for the FYE 2003.

II) The upholstery furniture (settee and sofa)

- Our research findings suggest that UDS Group is one of the major exporters of settees and sofas with an estimated market share of 5.5% in the Malaysian upholstery furniture export category in 2002. This is a broad comparison based on a diverse product-mix comprising settees and sofas furniture upholstered from a variety of raw materials from full leather, Polyvinyl Chloride ("PVC") artificial leather, half leather or fabrics
- SWS, a subsidiary of UDS Group produces mainly genuine leather settee and sofa sets and is estimated that there are about 19 major players in this category
- The other major players identified under this segment are HTL Leather Sdn Bhd, Lorenzo Sofa (Malaysia) Sdn Bhd, Aquila Sofa Sdn Bhd, Master Sofa Industries Sdn Bhd, Isella Sofa Design Sdn Bhd, Casa Salotti Design Manufacturer Sdn Bhd and Even Sofa Sdn Bhd. The majority of leather sofa furniture players focuses mainly on domestic home users (mid to high-end), home office users and to the corporate offices. Some of the established settee and sofa players such as Fella Design and Lorenzo have their own showrooms for end-users to view the product range besides distributing the sofa furniture through a wholesale and retailer.

11.0 VALUATION CERTIFICATE

(Prepared for the inclusion in the Prospectus)

COLLIERS
JORDAN LEE & JAAFAR

Date : 10 FEB 2004

The Board of Directors
UDS Capital Berhad
PTD 6001, Jalan Perindustrian 5
Kawasan Perindustrian Bukit Bakri
Batu 8, 84200 Muar
Johor Darul Takzim

COLLIERS, JORDAN LEE &
JAAFAR (M'CCA) SDN. BHD.
(136815-K) (VE (1) 0083/3)
No. 669 & 669A,
Jalan Melaka Raya 8,
Taman Melaka Raya,
75000 Melaka.
Tel No: 06-2835522 (4 lines)
Fax No: 06-2837635, 2846972
E-mail: cjljmk@tm.net.my

Dear Sirs

**VALUATION OF PROPERTIES
BELONGING TO UDS CAPITAL BERHAD ("UDS")**

This certificate has been prepared for inclusion in the Prospectus of UDS to be dated 20 FEB 2004, in relation to the Public Issue of 15,200,000 new ordinary shares of RM0.50 each at an issue price of RM0.88 per ordinary share payable in full on application.

In accordance with your instruction, we have assessed the Market Values of the landed properties set out below in conjunction with the listing of UDS on the Second Board of the Malaysia Securities Exchange Berhad. We have valued the aforesaid properties on 8th January, 2003, the details of which are set out in our valuation reports bearing Reference Nos. MK/SC134/03/J151, MK/SC135/03/J151, MK/SC137/03/J138 and MK/SC138/03/J153.

The basis of the valuation is the Market Values of the subject properties. The Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

These valuation reports have been prepared in accordance with the "Guidelines on Asset Valuation for submission to the Securities Commission (1995)" issued by the Securities Commission in compliance with the Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia and with the necessary professional responsibility and due diligence.

International Property Consultants • Chartered Valuation Surveyors • Registered Valuers & Real Estate Agents •
Project & Property Managers • Plant & Machinery Valuers • Auctioneers

Executive Chairman **JORDAN LEE**, KMN, Fism, Frics, Apeps, Irrv, Msivz, Scv. Executive Director **LEE THIAM SING**, Msm, Apeps. Director **P. TANGGA PERAGASAM**, Fism, Frics.

JAAFAR ISMAIL, Fism, Frics, **THOO SING CHOON**, Frics, Irrv, Aci, Arb, Fpos, **CHIN LAI SITT**, Fism, Frics, Irrv, LLB (Hons), CLP, **TH'NG KIM KOK**, Mism, Frics
Headquarters : Kuala Lumpur : Level 6, Block G North, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur. Tel: 03-20655811 (10 lines) Fax No: 03-20955843
Agency Division : Colliers International Property Consultants Sdn. Bhd.
 Nos. 109 & 209, Block C, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, 46350 Petaling Jaya, Off Jalan Damansara, Kuala Lumpur. Tel: 03-7660220 Fax: 03-7660230
Other Offices : Selangor : 31, Jalan Kapar, 41400 Klang, Selangor Darul Ehsan. Tel: 03-33420660 (3 Lines) Fax No: 03-33417886
 N. Sembilan : 9A, Kompleks Negeri, Jalan Dr. Krishnan, 70000 Seremban, Negeri Sembilan Darul Khusus, Malaysia. Tel: 06-7638890 & 7638990 Fax No: 06-7637936
 Perak : Suites 1, 2, & 3, Tingkat Kedua, Labrooy House, Jalan Dato Sagor, 30000 Ipoh, Perak Darul Ridzuan. Tel: 05-2414826 (3 Lines) Fax No: 05-2563663
 Johor : Suite 026, 3rd Floor, PanGlobal Plaza, Jalan Wong Ah Fook, 80000 Johor Bahru, Johor Darul Takzim. Tel: 07-2232299 Fax No: 07-2245899
 Pahang : 17, Jalan Gambut 2, 25000 Kuantan, Pahang Darul Makmur. Tel: 09-5555588 Fax No: 09-5142146
 Penang : Lot 2.01, 2nd Floor, Southern Bank Building, 21, Lebuh Pantai, 10300 Pulau Pinang. Tel: 04-2637749 & 2637750 Fax No: 04-2637644
Asso. Office : Kuching : Lot 216 (2/F), Jalan Haji Taha, 93400 Kuching, Sarawak. Tel: 082-419200 & 419222 Fax No: 082-429315



Other Colliers Offices : Australia, China, Hong Kong, India, Indonesia, Japan, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam, Austria, Belgium, Czech Republic, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Portugal, Republic of Ireland, Russia, Scotland, Slovenia, South Africa, Spain, Turkey, United Kingdom, The Americas Argentina, Canada, Mexico, Venezuela and United States Of America.

11.0 VALUATION CERTIFICATE (Cont'd)**COLLIERS**
JORDAN LEE & JAAFAR**SCHEDULE****Properties Held for Owner-Occupation**

Property Identification	General Description of Property	Market Value (RM)
<p>Lot PTD No. 4085, HS (D) 22978, Mukim of Sri Menanti, District of Muar, State of Johore.</p> <p>The subject property is a parcel of freehold industrial land bearing a postal address of No. 10 (PTD No. 4085), Kawasan Perindustrian Parit Jamil, Parit Jawa, 84150 Muar, Johor Darul Takzim</p> <p>The category of land use is perusahaan/perindustrian and the registered proprietor is Starlight Industry Sdn Bhd. It has a provisional land area of 1.6840 hectares (4.1612 acres)</p>	<p>The subject property is a plot industrial land occupied as a 'Sofa' Manufacturing Factory. It comprises a block of single-storey factory building together with a front office annexe, a rear factory extension and other ancillary buildings.</p> <p>The factory cum office annexe is constructed of mild steel "I" shaped stanchions, steel portal frames on reinforced concrete footings and reinforced concrete floorings, pitch roof of mild steel purlins covered with PVC roofing sheets, corrugated PVC cladding walls on a 3-metre high plastered brickwalls and ventilation blocks. This factory cum office building has a gross floor area of about 4,459.34 square metres.</p> <p>The rear factory extension is constructed of steel framework on reinforced concrete footings, steel roof trusses covered with metal roofing sheets, metal cladding walls and reinforced concrete floor slab. It covers an area of about 594.58 square metres.</p> <p>The above buildings were constructed in accordance with the building plan and building extension plan approved by the local authority in year 2001 and 2002 respectively except for the loft floor in the factory building which is used as showroom, sewing and store area.</p>	4,095,000
<p>Lot PTD No. 4084, HS (D) 22977, Mukim of Sri Menanti, District of Muar, State of Johore.</p> <p>The subject property is a plot of freehold vacant industrial land located in Phase II (2) of the Kawasan Perindustrian Parit Jamil, Muar, Johor Darul Takzim.</p> <p>The land is categorised for industrial use and is registered under the ownership of Oricna Industry Sdn Bhd. It has a provisional land area of 1.6840 hectares (4.1612 acres).</p>	<p>The subject vacant industrial land is roughly rectangular in shape, with a road frontage width of about 119.52 metres and an average depth of about 141.09 metres.</p> <p>It has been earth-filled to a level slightly above the frontage road. The site boundaries are yet to be provided with any fencing.</p>	1,360,000
<p>Lot PTD Nos. 7722 and 7723, HS (M) 3867 and 3868, Mukim of Bandar, District of Muar, State of Johore.</p> <p>The property comprises two adjoining units of double-storey semi-detached houses. They are identified as Nos. 48-10 and 48-11, Jalan Khalidi, 84000 Muar, Johor Darul Takzim and having a respective land area of 299.8967 square metres and 444.1715 square metres.</p> <p>Both lots have a freehold tenure and categorised for residential building use. They are under the registered ownership of Sin Wee Seng Industries Sdn Bhd.</p>	<p>These two adjoining units of double-storey semi-detached houses have been issued with a Certificate of Fitness for Occupation by the Majlis Perbandaran Muar on the 3rd December, 2002.</p> <p>These buildings are similarly constructed of reinforced concrete frameworks and floor slabs, pitch roof of timber trusses covered with quality cement tiles, plaster board ceilings, plastered brickwalls with timber panel doors, aluminium frames glass sliding doors and casement windows. The floorings are of ceramic tiles throughout.</p> <p>Each unit has a similar gross built-up area of 225.39 square metres.</p>	740,000
<p>Lot No. 1420, GM 848, Mukim of Sungai Raya, District of Muar, State of Johore.</p> <p>The property is a plot of road frontage orchard small-holding located along the north-western side of Jalan Raja, Bukit Pasir, Muar, Johor Darul Takzim.</p> <p>It is a freehold land with a land area of 0.5741 hectare, categorised for agricultural use and under the registered ownership of Sin Wee Seng Industries Sdn Bhd.</p>	<p>This is an agricultural land fully planted with mature durian, duku and duku-langsar trees of about 15 to 20 years old.</p> <p>The front south-eastern portion of the land is erected with an old single-storey dwelling house of semi-permanent construction, consisting of timber framework with concrete flooring, pitch roof of timber trusses covered with corrugated zinc roofing sheets, timber board on about one metre high plastered brickwalls, and having a gross floor area of about 205.14 square metres.</p> <p>The land is flat in terrain and is rectangular in shape, with a frontage width of about 37.19 metres onto Jalan Raja and a depth of 167.07 metres.</p> <p>The building is being tenanted at a rental of RM500/- per month on a 3-year tenancy, expiring on 14th March, 2005.</p>	320,000

11.0 VALUATION CERTIFICATE (Cont'd)**COLLIERS**
JORDAN LEE & JAAFAR

We have valued the properties listed below with titles free from all encumbrances, using the Comparison, Cost or Investment Methods of Valuation and are of the opinion that the Market Values of these properties are as follows:

Registered Owner/ Property Address/ Reference No.	Date of Valuation	Tenure	Land Area	Building/Age of the Building	Gross Built- Up Area (sq.m)	Existing Use/Description	Market Value (RM)
Starlight Industry Sdn Bhd No. 10 (PTD No. 4085) Kawasan Perindustrian Parit Jamil, Parit Jawa 84150 Muar Johor Darul Takzim MK/SC134/03/J151	08.01.2003	Freehold	1.6840 ha. (4.1612 ac)	Single-storey factory building and office annexe/one year Rear Factory Extension	4,459.34 594.58	Sofas Manufacturing Factory	4,095,000
Oriena Industry Sdn Bhd PTD 4084, Parit Jamil Industrial Estate Phase I (1) Parit Jawa, Muar Johor Darul Takzim MK/SC135/03/J151	08.01.2003	Freehold	1.6840 ha. (4.1612 ac)	A plot of vacant industrial land	-	-	1,360,000
Sin Wee Seng Industries Sdn Bhd Nos. 48-10 and 48-11 Jalan Khalidi, Muar Johor Darul Takzim MK/SC137/03/J138	08.01.2003	Freehold	744.0682 sq.m (8,009 sq.ft)	Two (2) adjoining units of newly completed double-storey semi-detached houses	450.78	Residential uses	740,000
Sin Wee Seng Industries Sdn Bhd Lot No. 1420, Mukim of Sungai Raya, Muar Johor Darul Takzim MK/SC138/03/J153	08.01.2003	Freehold	0.5741 ha. (1.42 ac)	A plot of road frontage orchard small- holding erected with a single- storey dwelling house of semi- permanent construction	205.14	Agricultural/ Homestead use	320,000
						TOTAL	RM6,515,000

Brief details of the above-mentioned properties are attached in the following Schedule.

Yours faithfully
COLLIERS
JORDAN LEE & JAAFAR (M'CCA) SDN BHD


LEE THIA SENG (M)
Registered Valuer (No. 315)

12.0 DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



Capital Berhad

友利新资本有限公司
UDS CAPITAL BERHAD (502246-P)

Registered Office:
No.67, 2nd Floor
Room B, Jalan Ali
84000 Muar
Johor Darul Takzim

10 FEB 2004


The Shareholders
UDS Capital Berhad

Dear Sirs/Madams,

On behalf of the Board of Directors of UDS Capital Berhad ("UDS" or the "Company"), I report after due inquiry that during the period from 31 August 2003 (being the date to which the last audited financial statements of the Company and its subsidiary companies have been made up) to **10 FEB 2004** (being a date not earlier than 14 days before the issue of this Prospectus), that:-

- (a) the business of the Company and its subsidiary companies 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 companies which have materially affected the business and operations or the value of the assets of the Company or any of its subsidiary companies;
- (c) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in the proforma consolidated balance sheets in Section 8.9 of this Prospectus, there are no contingent liabilities by reason of any guarantee or indemnity given by the Company or any of its subsidiary companies;
- (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 companies; and
- (f) save as disclosed in the proforma consolidated balance sheets in Section 8.9 and in the Accountants' Report in Section 9.0 of this Prospectus, there have been no changes in the published reserve or any unusual factors affecting the profit of the Company and its subsidiary companies since the last audited financial statements of the Company and its subsidiary companies.

Yours faithfully,
For and on behalf of the Board of
UDS CAPITAL BERHAD


Dato' Tan King Tai @ Tan Khoon Hai
Executive Director



PTD 6001, Batu 8, Jalan Perindustrian 5, Kawasan Perindustrian Bukit Bakri,
84200 Muar, Johor Darul Takzim, Malaysia.
Tel:606-986 5236 (Hunting Line) Fax:606-986 5239

