

7. INDEPENDENT MARKET RESEARCH REPORT



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ECOMATE HOLDINGS BERHAD
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Malaysia.

Dear Sirs,

Independent Market Research Report on the Outlook of Malaysia's Furniture Industry and the Global Furniture Market in conjunction with the Listing of ECOMATE HOLDINGS BERHAD on the ACE Market of Bursa Malaysia Securities Berhad

PROVIDENCE STRATEGIC PARTNERS SDN BHD ("PROVIDENCE") has prepared this independent market research report on the Outlook of Malaysia's Furniture Industry and the Global Furniture Market for inclusion in the Prospectus of ECOMATE HOLDINGS BERHAD.

PROVIDENCE has taken prudent measures to ensure reporting accuracy and completeness by adopting an independent and objective view of these industries within the confines of secondary statistics, primary research and evolving industry dynamics.

For and on behalf of PROVIDENCE:

ELIZABETH DHOSS
EXECUTIVE DIRECTOR

About PROVIDENCE STRATEGIC PARTNERS SDN BHD:

PROVIDENCE is an independent research and consulting firm based in Petaling Jaya, Selangor, Malaysia. Since our inception in 2017, PROVIDENCE has been involved in the preparation of independent market research reports for capital market exercises. Our reports aim to provide an independent assessment of industry dynamics, encompassing aspects such as industry performance, demand and supply conditions, competitive landscape and government regulations.

About ELIZABETH DHOSS:

Elizabeth Dhoss is the Executive Director of PROVIDENCE. She has more than 10 years of experience in market research for capital market exercises. Elizabeth Dhoss holds a Bachelor of Business Administration from the University of Malaya, Malaysia.

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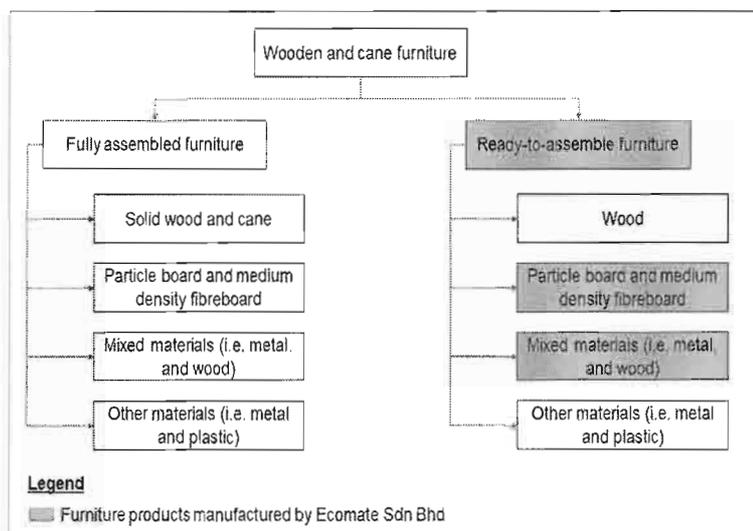


1 FURNITURE INDUSTRY IN MALAYSIA

1.1 INDUSTRY SIZE AND GROWTH POTENTIAL

Furniture are movable objects intended to support various human activities such as seating, eating, and sleeping. Furniture is also used to hold objects at a convenient height for work, or to store things. Furniture can be a product of design and is considered a form of decorative art. Wooden and cane furniture are made from wood and cane; particle boards or mixed medium whereby metal elements are included for design and functional purposes.

Ecomate Sdn Bhd is principally involved in the design, development and production of ready-to-assemble furniture products comprising living room furniture, bedroom furniture as well as other types of furniture products. The furniture products produced by Ecomate Sdn Bhd are primarily made from particle boards and mixed medium. Ready-to-assemble furniture products are delivered to consumers in a flat pack format, whereby furniture components are packed separately along with assembly instructions and basic assembly tools. By adopting the flat packed format, manufacturers are able to save on shipping costs, and translate these savings to customers, and ultimately, end consumers.



Malaysia manufactures several types of furniture products, including but not limited to, wooden and cane furniture as well as metal furniture. However, in terms of value of the gross output of the furniture industry, the manufacture of wooden and cane furniture is the largest segment. This is due to the abundance of tropical wood found in Malaysia, where approximately 80.0% of furniture exports are manufactured from rubberwood.¹ Between 2010 and 2019, the production of furniture in Malaysia grew from RM11.4 billion to RM17.8 billion at a compound annual growth rate (“CAGR”) of 5.1%. Over the same period, the production of wooden and cane furniture, as indicated by the manufacturing sales value of wooden and cane furniture, grew from RM3.9 billion to RM6.2 billion at a CAGR of 5.3%.

Malaysia’s furniture manufacturers are primarily located in the states of Johor and Selangor,² with the Muar district considered to be the country’s major production base, producing about two-thirds of Malaysia’s furniture exports.³ Muar’s proximity to rubberwood resources (such as the districts of Segamat and Batu Pahat, and the states of Melaka and Negeri Sembilan), as well as its proximity to the Johor Port and Singapore has contributed to the growth and expansion of the furniture industry in the district.

Between 2010 and 2019, Malaysia’s furniture exports increased from RM8.0 billion to RM11.1 billion at a CAGR of 2.7%. Malaysia’s furniture imports also witnessed growth over the same period, increasing from RM1.3 billion to RM3.1 billion at a CAGR of 9.9%. Despite the higher growth rate in Malaysia’s furniture imports, Malaysia is still a net exporter of furniture. Further, a significant volume of Malaysia’s locally manufactured furniture is exported. Furniture exports constituted between 62.0% and 70.5% of manufactured furniture between 2010 and 2019. In 2019, Malaysia was ranked the 11th largest furniture exporter globally with exports totalling RM11.1 billion.

¹ Malaysian Investment Development Authority (“MIDA”)

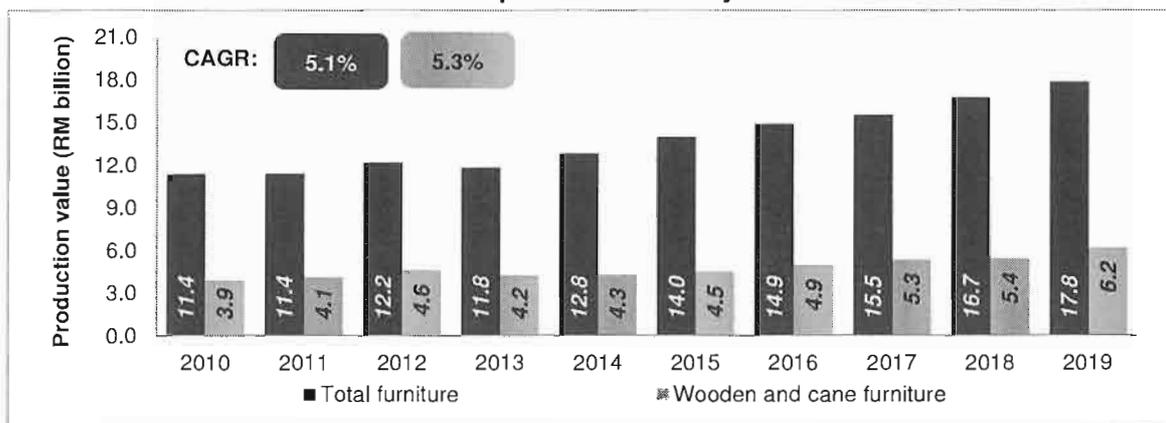
² MIDA

³ Furniture manufacturers target RM12b exports by 2020, 4 August 2017, The Malaysian Reserve

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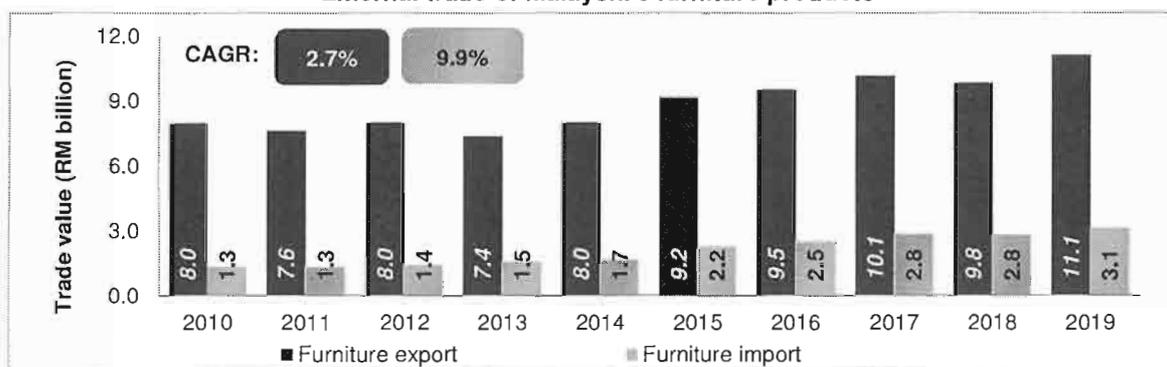
Furniture production in Malaysia



Source: Centre for Industrial Studies ("CSIL"), Department of Statistics Malaysia, PROVIDENCE analysis

Laws and regulations imposed by other countries may also have an effect on Malaysia's furniture exports. In July 2018, the United States of America ("USA") began imposing tariffs on the People's Republic of China ("China") for the latter's alleged unfair trade practices, thus sparking the ongoing USA-China trade war. As a result of the imposed tariffs by the USA, China also imposed its own tariffs on the USA. With the USA-China trade war dispute being in motion, export-oriented furniture manufacturers have the potential to benefit from the 10% tariff imposed by the USA on more than 5,000 new Chinese imports worth USD200.0 billion, which includes furniture. This increase in import tariff resulted in a drop in China's exports to the USA from USD22.9 billion in 2018 to RM17.0 billion in 2019. Malaysia gained benefit from the ongoing trade war between the USA and China, with its furniture exports to the USA rising from USD0.9 billion in 2018 to USD1.1 billion in 2019.

External trade of Malaysia's furniture products



Source: United Nations Commodity Trade Statistics Database, Department of Statistics Malaysia, PROVIDENCE

The Malaysia External Trade Development Corporation ("MATRADE") estimates that the furniture industry in Malaysia is expected to generate RM12.0 billion in revenue by 2020, and continue contributing to the nation's exports earning. The World Bank's economic growth forecast for Malaysia, as measured by real gross domestic product ("GDP"), was lowered to a contraction of 4.9% from the previously estimated 3.1% decline following the country's sharper-than-expected GDP contraction in the second quarter of 2020 (2Q 2020) due to the impact of the COVID-19 pandemic. The World Bank's revised 2020 GDP forecast for Malaysia is within Bank Negara Malaysia's contraction forecast of between 3.5% and 5.5% for the year. Precautionary spending by consumers, due to the COVID-19 pandemic, has the potential to impact demand for furniture, thereby affecting Malaysia's furniture exports in 2020.

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1.2 DEMAND CONDITIONS: KEY GROWTH DRIVERS

Rising demand for Malaysian furniture products globally will boost the furniture industry in Malaysia

Global consumption of furniture increased from USD340.2 billion in 2010 to USD495.7 billion in 2019 at a CAGR of 2.9%. Demand for furniture is expected to further grow on the back of a global growth in population, urbanisation, disposable incomes, and real estate. An increase in furniture demand globally signifies growth opportunities for the furniture industry in Malaysia, as consumers may opt to purchase imported furniture due to factors such as product pricing, design and quality. In line with the increasing furniture demand globally, demand for Malaysian furniture products has also increased globally, as depicted by Malaysia's growth in furniture exports. Between 2010 and 2019, Malaysia's furniture exports increased from RM8.0 billion to RM11.1 billion at a CAGR of 2.7%. Malaysia primarily exported its furniture to the USA in 2019, where Malaysia's furniture exports to the USA formed approximately 43.2% (RM4.8 billion) of Malaysia's total furniture exports in that year. This was followed by Japan (7.5%, RM834.1 million), Singapore (7.2%, RM799.8 million), Australia (5.5%, RM605.6 million), and the United Kingdom (5.0%, RM559.9 million). The rising demand for Malaysian furniture products globally will continue to boost the furniture industry in Malaysia.

Implementation of plans, policies and initiatives will help propel the furniture industry in Malaysia

Several plans, policies and initiatives have been implemented by the Government and / or various trade bodies to help propel the furniture industry in Malaysia. These initiatives may boost the country's furniture industry in terms of labour supply as well as global recognition. Initiatives specific to the furniture industry's labour supply include:

- **Furniture Technology Certification Course**

A free course launched by the Malaysian Furniture Council ("MFC") in collaboration with VTAR Institute which aims to produce skilled manpower for the furniture industry. The Furniture Technology Certification Course provides graduates with employment opportunities in the furniture industry, where potential roles include furniture production technician, production supervisor, and quality control / quality analysis roles.

- **Wood Industry Skills Development Centre ("WISDEC")**

Under the Sixth Malaysia Plan (1991 – 1995), the Government established WISDEC as a centre to hold programmes and courses to train skilled workers in the wood-based industry. Furniture-related courses offered at WISDEC include 'Wood-based Industry Apprentice Scheme', Certificate in Furniture Design and Making', 'Basic Furniture Making', 'Furniture Making (Build-in Furniture)', 'Furniture Quality Control', 'Furniture Entrepreneur Business Coaching', and 'Furniture Making – Display Cabinet'.

There are also several furniture-related events and exhibitions held annually in Malaysia which serve as a platform for furniture industry players to showcase their products and to help boost the reputation of Malaysia's furniture industry as a manufacturer as well as designer. These events and exhibitions include:

- **Export Furniture Exhibition ("EFE")**

The EFE, which was first launched in 2005, is an annual furniture trade exhibition that is organised by the MFC. Beginning from 2018, the Malaysian Furniture Creativity Award will be awarded at the EFE. The Malaysian Furniture Creativity Award was initiated by the MFC to recognise product innovation and quality to encourage furniture designers to move towards original design manufacturers, thereby gaining recognition in terms of product design and branding.

- **Professional Designers Programme ("PDP")**

The PDP, which was launched by the Malaysian Timber Industry Board ("MTIB"), is aimed at showcasing furniture designs by Malaysian and international designers, where the prototypes are manufactured by selected Malaysian furniture factories. As such, the PDP helps boost the reputation of Malaysia as a manufacturer as well as a designer of furniture.

- **Malaysian Furniture & Furnishings Fair**

The Malaysian Furniture & Furnishings Fair which was first launched in 2008 and organised by the Kuala Lumpur and Selangor Furniture Industry Association, is a home furniture fair that enables furniture industry players in Malaysia to showcase their products and services to consumers, thus boosting the country's furniture industry.

- **Malaysian International Furniture Fair**

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First launched in 1995, the Malaysian International Furniture Fair is an annual furniture fair that attracts local and international furniture exhibitors and buyers. The Malaysian International Furniture Fair helps to create business and networking opportunities for local and international furniture industry players.

In 2020, physical events and exhibitions were either deferred or cancelled due to the widespread COVID-19 pandemic that resulted in state of emergencies being declared in various countries and travel restrictions imposed by various governments. These physical events and exhibitions are expected to resume once the COVID-19 pandemic subsides.

In 2016, the then Chief Minister of Johor, Datuk Seri Mohamed Khaled Nordin, launched the Roadmap for the Development of Johor's Wood Furniture Industry (2015 – 2020). The roadmap was developed by the MTIB in collaboration with the Johor State Government and Muar Furniture Association to ensure that the Johor furniture industry continues to play an active role in helping the Government achieve its target of increasing Malaysia's timber exports to RM53.0 billion (under the National Industry Timber Policy) by 2020. There are five strategic thrusts under the roadmap, namely, the relocation of the furniture industry, solution to the labour shortage in Johor's furniture industry, the development of entrepreneurs, branding and promotion for the furniture industry, and the supply of raw materials. The state of Johor is a key contributor to Malaysia's furniture exports, and thus, the Roadmap for the Development of Johor's Wood Furniture Industry (2015 – 2020) will help boost the country's furniture industry.

These initiatives, which are aimed at increasing the labour supply of Malaysia's furniture industry, as well as providing branding and promotion opportunities while developing entrepreneurs in the industry, will help propel the furniture industry in Malaysia.

Malaysia's favourable foreign currency exchange rates will facilitate the growth of the country's furniture exports

In 2019, Malaysia's furniture exports stood at RM11.1 billion, with the USA being Malaysia's top export destination. Malaysia's furniture exports to the USA in 2019 was approximately 43.2% (RM4.8 billion) of total furniture exports. This was followed by Japan (7.5%, RM834.1 million), Singapore (7.2%, RM799.8 million), Australia (5.5%, RM605.6 million), and the United Kingdom (5.0%, RM559.9 million).

Malaysia's favourable foreign currency exchange rates will help boost the country's furniture exports as consumers from other countries are more inclined to purchase furniture from Malaysia due to the cheaper product prices. However, it is important to note that China has a lower exchange rate compared to Malaysia, and this has contributed to its position as the largest furniture exporter globally. Nevertheless, Malaysia is still a large furniture exporter, and was ranked the 11th largest furniture exporter globally in 2019. A significant portion of Malaysia's locally manufactured furniture is exported, where between 2010 and 2019, Malaysia exported between 62.0% and 70.5% of its locally manufactured furniture.

The implementation of free trade agreements in Malaysia will have a positive effect on the country's furniture exports

Free trade agreements ("FTA") are generally aimed at providing the means to achieve quicker and higher levels of liberalisation that would create effective market access between the participants of the FTA. To date, Malaysia has implemented seven bilateral FTAs and seven regional FTAs. The seven bilateral FTAs are the Malaysia-Japan Economic Partnership Agreement, Malaysia-Pakistan Closer Economic Partnership Agreement, Malaysia-New Zealand Free Trade Agreement, Malaysia-India Comprehensive Economic Cooperation Agreement, Malaysia-Chile Free Trade Agreement, Malaysia-Australia Free Trade Agreement, and the Malaysia-Turkey Free Trade Agreement. The seven regional FTAs that have been implemented are the ASEAN FTA, ASEAN-China FTA, ASEAN-Korea FTA, ASEAN-Japan Comprehensive Economic Partnership, ASEAN-Australia-New Zealand FTA, ASEAN-India FTA, and the ASEAN-Hong Kong FTA. Malaysia's total export value stood at RM986.4 billion in 2019, where FTA partner countries contributed to 68.1% (RM672.1 billion) of Malaysia's total exports.⁴

Malaysia is still continuing efforts to increase trade through the implementation of additional FTAs. Currently, Malaysia has two FTAs which have been signed but are pending ratification and entry into force. These two FTAs are the Regional Comprehensive Economic Partnership FTA which was signed on 15 November 2020, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") that was signed on 8 March 2018. The CPTPP is a renegotiated trade deal that resulted from the USA pulling out of the Trans-Pacific Partnership Agreement. However, the Government is currently reviewing the

⁴ Ministry of International Trade and Industry ("MITI")

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CPTPP as it believes the terms need to be renegotiated so that smaller countries are given due consideration to compete against more developed nations.⁵

Further, Malaysia is also currently undertaking a FTA negotiations, namely Malaysia-European Free Trade Association Economic Partnership Agreement (MEEPA). These FTAs provide exporters in Malaysia with market access, cost savings from elimination or reduction of customs duties and from mutual recognition agreements, trade facilitating customs procedures and removal of onerous regulations. This will have a positive effect on Malaysia's furniture exports due to the increased trade facilitation.

1.3 INDUSTRY DYNAMICS

1.3.1 Supply conditions

The furniture industry is dependent on the availability of labour and raw materials used in the production of furniture. As a low technology, labour-intensive industry, it is important for furniture manufacturers to be able to attract and retain talent to ensure that the manufacturing of furniture is completed in a timely manner.

Between 2010 and 2019, the production of wooden and cane furniture in Malaysia, measured by manufacturing sales value, increased from RM3.9 billion to RM6.2 billion at a CAGR of 5.3%. Despite the growth in Malaysia's furniture industry, the number of employees in the country's furniture industry decreased by 1.8% from 33,305 employees in 2010 to 29,477 employees in 2019. This has resulted in labour shortage which has hampered the growth of the country's furniture industry.

According to the Roadmap for the Development of Johor's Wood Furniture Industry (2015 – 2020), the local workforce prefers to work in the retail and services sectors in Malaysia rather than the country's furniture industry. As such, Malaysia's furniture industry has a certain degree of dependency on foreign labour,⁶ and the freeze on the hiring of foreign workers imposed by the Government in February 2016 has further exacerbated the labour shortage faced by the industry.^{7,8} However, the freeze was then lifted for the manufacturing, construction, plantation and furniture-making industries⁹ on the condition that the employers are required to prove that they were unable to find suitable candidates from the local population.¹⁰ To help mitigate the labour shortage in Malaysia, the Government launched the Temporary Enforcement Card ("e-card") for Foreign Workers Programme from 15 February 2017 to 30 June 2017. The e-card functions as a temporary confirmation of employment for illegal foreign workers, which replaces valid travel documents from their respective countries.

According to the MFC, the furniture industry in Malaysia is still short of foreign workers.¹¹ This labour shortage has not only resulted in longer lead time, but has also caused furniture manufacturers to be unable to expand their manufacturing facilities in a timely manner to meet growing furniture demand. While furniture manufacturers have moved towards adopting automation in their manufacturing process to reduce dependency on labour, automated production lines require high investments and do not completely eliminate the use of labour. Further, Malaysian furniture has the potential to fetch premium prices if the furniture is handmade.¹² As such, the furniture industry in Malaysia continues to be reliant on labour, thus making it crucial for furniture industry players to have sufficient labour supply.

In September 2018, the Government announced that a standardised minimum wage of RM1,050 a month, or RM5.05 an hour, which was implemented throughout the country from January 2019. The decision was based on recommendations from the National Wage Consultative Council following its review of the 2016 Minimum Wage Order. The Minimum Wage Order 2016 had provided for minimum wage rates of RM1,000 a month for Peninsular Malaysia and RM920 a month for Sabah, Sarawak and Labuan. Since then, the minimum wage has been increased to RM1,100 a month, and subsequently RM1,200 with the latter taking effect commencing 1 February 2020. This increase in minimum wages contributes to higher operating costs for furniture industry players.

The availability of raw materials is also critical in the production of furniture. Manufacturers that are able to secure a steady and reliable supply of raw materials that meet the required quality standards in a cost

⁵ Malaysia still weighing pros and cons of trade pact, says Dr M, 27 September 2018, Free Malaysia Today

⁶ Malaysia labour shortage needs fixing, 11 September 2017, Furniture Today

⁷ Malaysia freezes recruitment of all foreign workers including those from Bangladesh, 19 February 2016, The Straits Times

⁸ Four sectors allowed to hire foreign workers, 12 May 2016, The Star

⁹ Four sectors allowed to hire foreign workers, 12 May 2016, The Star

¹⁰ Malaysia to partially lift ban on hiring foreigners, 10 May 2016, The Straits Times

¹¹ Furniture industry lacks 35,000 foreign workers, 14 operators forced to cease operation, says Cai Chun Cai, 11 April 2016, Malaysian Chinese News

¹² Muar furniture sector short of 10,000 workers, 17 August 2017, The Sun Daily

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effective and timely manner will be able to remain sustainable and competitive in the long term. Raw materials for furniture manufacturing include, but are not limited to, wood, plastic, and metal. As Malaysia primarily manufactures wooden and cane furniture, a large proportion of Malaysia's furniture is made from rubberwood¹³, with the country's furniture manufacturers requiring high volumes of rubberwood at competitive prices in order to meet furniture demand. However, local sawmillers typically export rubberwood due to the higher price of rubberwood in the export market.¹⁴ Between 2010 and 2017, Malaysia's export value of rubberwood increased from RM66.6 million to RM310.9 million at a CAGR of 24.6%. The export of rubberwood to countries such as China, Japan, Vietnam, and the Republic of China, has resulted in a shortage of rubberwood locally. In order to ensure that there is an adequate supply of raw materials for the furniture industry in Malaysia, the Government imposed a ban of rubberwood exports in July 2017,¹⁵ and is also conducting research to look into alternative materials such as oil palm trees as a long-term solution.¹⁶

The widespread COVID-19 pandemic has led many governments to impose various levels of states of emergencies in an effort to curb the spread of the virus, resulting in business operation disruptions. This has also temporarily disruption the supply of furniture as global supply chains were affected.

1.3.2 Product / service substitution and reliance and vulnerability to imports

There are no direct substitutes for furniture. In addition, as the furniture manufacturing industry in Malaysia is mainly for exports, it is therefore not vulnerable to foreign imports.

1.3.3 Relevant policies, laws and regulations

Relevant policies, laws and regulations pertaining to the furniture industry in Malaysia include the following:

- **Wood-Based Industries (State Legislatures Competency) Act 1984**

Under the Wood-Based Industries (State Legislatures Competency) Act 1984 which came into force upon the adoption of the National Forestry Act 1984, State Governments have the authority to pass laws with respect to the establishment and operation of wood-based industries. In Johor, according to the Johor Wood-Based Industries Enactment 1986, no person shall site, construct, erect, establish, operate or maintain a wood-based industry, except under and in accordance with a licence issued to him by the State Authority and signed by the State Director of Forestry.

- **Malaysian Timber Certification Scheme**

The Malaysian Timber Certification Scheme was developed by the Malaysian Timber Certification Council. It is a voluntary scheme that aims to fulfil the demand for certified timber products as well as to ensure the long-term sustainability of Malaysia's forest resources. This is done by providing independent assessment for forest management and chain of custody certification to ensure the sustainable management of Malaysia's Permanent Reserved Forests.

- **Industrial Co-ordination Act 1975**

The Industrial Co-ordination Act 1975 aims to provide for the co-ordination and orderly development of manufacturing activities in Malaysia. It requires manufacturing companies with shareholders' funds of RM2.5 million and above or companies with 75 full-time employees and above to apply for a manufacturing licence for approval by MITI. Applications for the manufacturing licence are submitted to MIDA, and subsequently approved and issued by MITI.

- **Employment Act 1955**

The Employment Act 1955 stipulates employee rights and welfare benefits which are to be complied by employers. The Ministry of Human Resource is responsible for monitoring and ensuring compliance. Under the Employment Act 1955, an employer is required to obtain a licence to import legal foreign workers under the contract of services, and ensure that their welfare and rights such as their wages, hours of work, rest days, and sick and annual leaves, are fulfilled.

- **Occupational Safety and Health Act 1994**

The Occupational Safety and Health Act 1994 aims to provide for employee health and safety while at work. As such, employers are required to ensure that work site facilities and systems are practicable, safe and without risks or hazard to employees' health and safety. In addition, employers are also required to provide employees with the training, knowledge, information and supervision, in providing a

¹³ MIDA

¹⁴ Rubberwood export ban: RM12b target for furniture makers by 2020, 3 July 2017, New Straits Times

¹⁵ Govt steps in to address shortage of rubber wood, 29 June 2017, The Sun Daily

¹⁶ Oil palm trunks can be an alternative to rubberwood, 7 April 2017, The Malaysian Reserve

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safe working environment without risks to their health, safety and welfare. The Department of Occupational Safety and Health is authorised to ensure that companies have taken proper steps to ensure a safe working environment for their employees.

- **Sales Tax Act 2018**

The Sales Tax Act 2018 provides for the charging, levying and collecting of sales tax. A sales tax is charged and levied on all taxable goods manufactured in Malaysia by a registered manufacturer and sold, used or disposed of by him; or imported in Malaysia by any person.

- **Service Tax Act 2018**

The Service Tax Act 2018 provides for the charging, levying and collecting of service tax. A service tax is charged and levied on any taxable services provided in Malaysia by a registered person in carrying on his business. Under the Service Tax Act 2018, the Minister of Finance may prescribe any service to be a taxable service.

1.4 COMPETITIVE LANDSCAPE

The furniture industry in Malaysia is fragmented, and predominantly consists of small and medium enterprises.¹⁷ While the furniture industry is fragmented, there remains barriers to entry within the ready-to-assemble furniture production segment. Among the barriers to entry is the capital intensive nature of ready-to-assemble furniture production activities, whereby significant investments are required for machinery acquisition to achieve optimum output, economies of scale and consistent product quality. Pricing is also an entry barrier as buyers seek competitively priced ready-to-assemble furniture products. Further, ready-to-assemble furniture industry players need to possess design and development capabilities to launch new product designs periodically to attract buyers. Collectively, these act as barriers to entry for new players in the ready-to-assemble furniture segment.

Ecomate Holdings Berhad is involved in the manufacturing of ready-to-assemble furniture products through its wholly-owned subsidiary, Ecomate Sdn Bhd, which undertakes the design and development, production as well as marketing and sales of home furniture. In 2019, Malaysia's furniture exports stood at RM11.1 billion. In the same year, Ecomate Holdings Berhad recorded RM42.4 million in revenue, whereby RM36.0 million was derived from export sales. Based on Ecomate Holdings Berhad's export revenue of RM36.0 million relative to Malaysia's furniture exports of RM11.1 billion, Ecomate Holdings Berhad registered a market share of 0.3% in 2019.

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¹⁷ Technological innovations in Malaysia's wooden furniture industry: Knowledge and linkages, 2011, Ng Boon-Kwee and K. Thiruchelvam

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The following sets out the latest available revenues of selected private and public listed furniture industry players that are involved in the manufacturing and export of furniture products, with segmental revenues for furniture exceeding RM30.0 million. The private and public listed furniture industry players listed below are ranked based on Group revenue.

Industry player	Latest available financial year ended	Segmental revenue for furniture * (RM)	Group revenue (RM)	Gross profit (RM)	Gross profit margin (%)	Profit before tax (RM)	Profit after tax (RM)
Lii Hen Industries Berhad ^a	31 December 2019	836,659,154	836,659,154	175,929,301	21.0	105,685,130	79,551,757
Latitude Tree Holdings Berhad ^a	30 June 2020	680,880,000	684,740,000	73,276,000	10.7	22,975,000	16,789,000
Poh Huat Resources Holdings Berhad ^a	31 October 2019	700,997,115	700,997,115	122,781,186	17.5	64,135,498	50,899,220
Jaycorp Berhad ^a	31 July 2020	227,993,000	309,348,000	60,758,000	19.6	24,928,000	16,831,000
Sern Kou Resources Berhad ^a	30 June 2020	91,369,073	300,088,869	39,129,296	13.0	22,366,957	16,668,922
LY Furniture Sdn Bhd ^b	31 December 2019		241,324,421	22,524,571	9.3	8,313,749	6,324,262
HeveaPac Sdn Bhd ^c	31 December 2019		263,693,804	19,303,394	7.3	14,740,018	15,721,565
Techcential Sdn Bhd	31 December 2019		183,758,446	40,802,361	22.2	18,520,413	13,013,506
SWS Capital Berhad ^a	31 December 2019	85,864,158	178,295,631	24,995,902	14.0	-10,649,462	-10,698,950
SYF Resources Berhad ^a	31 July 2020	116,923,000	132,890,000	-10,677,000	-8.0	-20,453,000	-19,831,000
Samling Housing Products Sdn Bhd	30 June 2019		106,592,975	12,191,998	11.4	3,665,709	2,813,508
SHH Resources Holdings Berhad ^a	30 June 2020	104,119,545	104,119,545	14,723,933	14.1	-2,882,725	-3,292,405
Wegmans Holdings Berhad ^a	31 December 2019	85,362,871	85,362,871	Not available	Not available	9,631,937	7,941,263
Mobilia Holdings Berhad	31 December 2019	75,589,000	75,589,000	19,452,000	25.7	11,027,000	8,420,000
Spring Art Holdings Berhad ^d	31 December 2019	61,431,240	61,431,240	17,848,755	29.1	10,441,446	8,068,807
Value Plus Industries Sdn Bhd	31 December 2018		58,191,756	7,698,767	13.2	765,610	588,411
Soon Her Sing Industries (M) Sdn Bhd	30 September 2019		56,099,515	11,342,695	20.2	3,375,057	2,416,751
Dee Noon Corporation Sdn Bhd	31 August 2019		54,355,117	9,406,726	17.3	4,015,727	3,583,834
Eurospan Holdings Berhad ^a	31 May 2020	47,050,905	47,050,905	7,436,277	15.8	-2,177,755	-2,491,137
Ecomate Sdn Bhd	29 February 2020	42,398,000	42,398,000	12,854,000	30.3	6,642,000	5,827,000
Décor Trend Industries Sdn Bhd	31 December 2019		37,138,535	5,546,399	17.9	- 279,478	- 379,038
Reliable Trend Sdn Bhd	31 December 2019		33,955,931	8,001,798	23.6	2,918,518	2,122,330

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Notes:

^a Listed on the Main Market of Bursa Malaysia Securities Berhad

^b Subsidiary of LY Corporation Limited, a company listed on Catalist of Singapore Exchange Securities Trading Limited

^c Subsidiary of HeveaBoard Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad

^d Listed on the ACE Market of Bursa Malaysia Securities Berhad

^e Save for Ecomate Sdn Bhd, the segmental revenue for furniture is disclosed for public listed companies as the segmental revenues for private companies are not publicly available from the Companies Commission of Malaysia

Latest available as at 22 January 2021

Source: Various annual reports, company websites, MATRADE, Companies Commission of Malaysia, PROVIDENCE analysis

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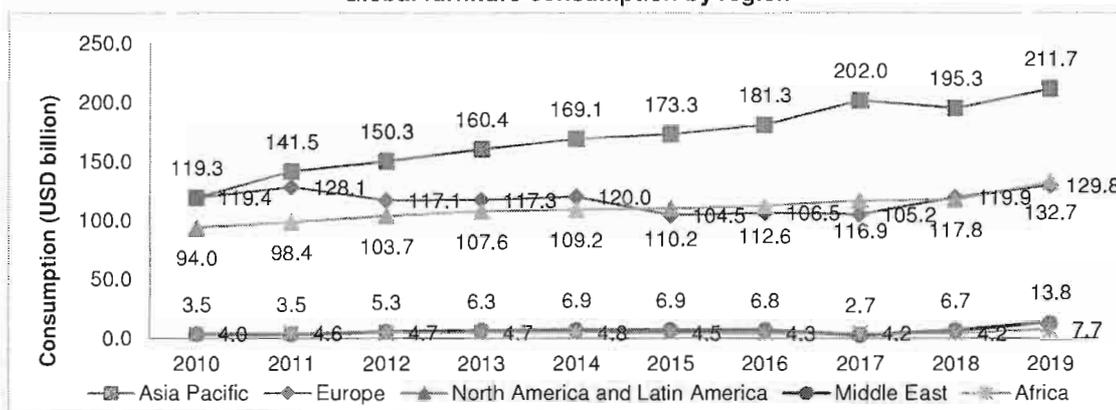
2 GLOBAL FURNITURE MARKET

2.1 INDUSTRY SIZE AND GROWTH POTENTIAL

Between 2010 and 2019, global exports of furniture rose from USD111.5 billion to USD157.1 billion at a rate of 3.9%. Global import of furniture witnessed growth over the same period, increasing from USD113.0 billion to USD143.2 billion at a CAGR of 2.7%. In 2019, China was the largest furniture exporter, accounting for approximately 34.3% of furniture exports globally. While Poland was the 2nd largest furniture exporter globally at 7.3%, China had a significant lead on Poland and the other major furniture exporting countries. With regards to global furniture imports, the USA was the largest furniture importer in 2019, with the country's furniture imports comprising approximately 25.5% of global furniture imports. The USA's furniture import is significantly greater than that of Germany (9.5%), which was the 2nd largest furniture importer globally in 2019. Malaysia, a net exporter of furniture, was the 11th largest furniture exporter globally. Over the long term, the global furniture market is expected to further grow on the back of an increasing population, growing urbanisation, rising disposable incomes, and a growing real estate industry globally.

Global consumption of furniture increased from USD340.2 billion in 2010 to USD495.7 billion in 2019 at a CAGR of 2.9%. Globally, China was the largest consumer of furniture in 2019, recording USD123.0 billion in terms of furniture consumption, and comprising 27.7% of global furniture consumption. This was followed by the USA (USD91.7 billion, 20.6%) and Germany (USD22.9 billion, 5.2%). On a regional basis, the Asia Pacific region was the top consuming region in 2019, recording USD211.7 billion in consumption, and forming approximately 42.7% of global furniture consumption in the same year. Between 2010 and 2019, the regions of Middle East, Africa and Asia Pacific recorded furniture consumption growth rates that were higher than the global growth rate of 4.3%. The Middle East region witnessed the highest growth, with furniture consumption increasing from USD3.5 billion to USD13.8 billion at a rate of 16.6%. This was followed by Africa (7.5%), Asia Pacific (6.6%), North America and Latin America (3.9%) and Europe (0.9%).

Global furniture consumption by region



Source: CSIL, United Nations Commodity Trade Statistics Database, PROVIDENCE

Furniture consumption in Asia Pacific was primarily driven by China, which was the largest furniture consuming nation in the region in 2019. India was the 2nd largest furniture consumer in the region in 2019, with USD15.5 billion, followed by Japan with USD15.2 billion. The economic growth, increasing disposable income, population growth, and increased urbanisation rates recorded by the top furniture consuming nations in the Asia Pacific have contributed to the growth in furniture consumption in the region. Based on furniture import value, Malaysia was ranked the 10th largest furniture importer to China with USD68.1 million.

The USA's furniture consumption in 2019 stood at USD91.7 billion, and thus, the USA represented the largest consumer in the North America and Latin America region. Canada was the 2nd largest furniture consumer in the region in 2019 at USD11.2 billion, followed by Brazil at USD8.0 billion. Furniture consumption in the North America and Latin America region is primarily driven by the USA, whose furniture consumption comprised 69.1% of regional furniture consumption.

In 2019, the USA primarily imported furniture from China, Vietnam and Canada, while Canada primarily imported furniture from China, the USA and Mexico, and Brazil primarily imported furniture from China Mexico and United States. Based on furniture import value, Malaysia was ranked the 6th largest furniture importer to the USA with USD1.1 billion in 2019, and the 7th largest furniture importer to Canada with

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USD99.3 million. The close ties between the USA and Malaysia on trade and investment issues as well as the favourable exchange rates have had a positive effect on the USA's import of furniture from Malaysia.

Furniture consumption in Europe was largely driven by the top furniture consuming nations in the region, namely Germany, the United Kingdom, and France. Germany was the largest consumer of furniture in Europe, with USD22.9 billion in furniture consumption in 2019. The United Kingdom was the 2nd largest furniture consumer in the region with USD14.4 billion, followed by France with USD13.4 billion. The economic growth, increasing disposable income, population growth, and increased urbanisation rates recorded by the top furniture consuming nations in Europe have contributed to the growth in furniture consumption in the Europe region. In 2019, Germany primarily imported furniture from Poland, China, and the Czech Republic, while France primarily imported furniture from China, Germany and Italy, and the United Kingdom primarily imported furniture from China, Italy and Poland.

Global furniture consumption is expected to dip to USD400.4 billion in 2020, with China, USA and Germany as the top 3 consuming nations globally.

2.2 FURNITURE ELECTRONIC COMMERCE MARKET

Furniture can be purchased via offline sales channels such as traditional brick-and-mortar stores, or through online sales channels such as electronic commerce ("e-commerce") websites. E-commerce refers to the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the Internet. E-commerce transactions may take place between enterprises, households, individuals, governments, and other public or private organisations. The method of payment and delivery of the e-commerce goods or services may be done through a computer network / internet or traditionally through the exchange of payment at the point of delivery.

Retail businesses (e-commerce businesses and traditional retail stores) today, including furniture businesses, are increasingly adopting omni-channel retailing. Omni-channel retailing involves the convergence of e-commerce businesses and traditional retail stores (brick-and-mortar stores) as merchants aim to provide customers with a seamless experience whether shopping online via a desktop or mobile device or at a traditional retail store. This has resulted in e-commerce businesses opening brick-and-mortar extensions to establish a physical presence, while businesses with brick-and-mortar stores have started adopting electronic channels to market and sell their products. Businesses who have adopted this convergence of brick-and-mortar stores and online businesses to create a physical and digital presence are commonly referred to as bricks-and clicks.

Between 2012 and 2016, global furniture e-commerce sales registered an average annual growth rate of 15.0%. Furniture e-commerce sales in China and India were higher than the global average growth of 15.0%, recording average annual growth rates of 22.0% and 17.0% respectively over the same period.¹⁸ In 2016, global furniture e-commerce sales stood at USD28.6 billion, and accounted for 4.0% of global furniture sales. Global furniture e-commerce sales then increased to USD56.1 billion in 2019.

The furniture e-commerce industry is a growing industry due to the rapid growth in the number of Internet users and the corresponding rise in Internet usage as consumers are increasingly leveraging on the Internet to shop. This is evidenced by the growing number of individuals using the Internet worldwide, which increased from 34.3% in 2012 to 51.4% in 2019. The increased accessibility and connectivity provided by the Internet is expected to continue having a positive effect on global furniture e-commerce sales, as consumers opt to shop online. The percentage of consumers which prefer to purchase furniture online rather than in-store increased from 27.0% in 2016 to 30.0% in 2017.

Due to mandatory movement controls and business operation restrictions imposed by various countries in an effort to contain the COVID-19 pandemic, e-commerce has become an increasingly important sales channel for the furniture industry in 2020. While world furniture consumption is projected to dip from USD495.7 billion in 2019 to an estimated USD400.4 billion in 2020 (CAGR -19.2%), e-commerce sales of furniture is projected to rise from USD56.1 billion to an estimated USD72.3 billion (CAGR 28.9%) during the same period.

¹⁸ CSIL