

KODA LTD

Letter to Shareholders – Business Update

Dear Shareholders,

The Board of Directors of Koda Ltd (the “**Company**”) has long believed in the importance of continuous communication with you - our shareholder. To date we have done this through our annual reports and announcements. We are pleased to now supplement this with the following update letter.

As you are no doubt aware, the US economy and more specifically, falling US house prices, poses significant challenges to furniture manufacturers who supply to the US market. In FY2007, the US market (including Canada) accounted for some 40% of our sales.

We would like to update you on the following:

US Market and Sales Revenue

1. We previously mentioned in Note 8 of our 3rd Quarter Results (ending March 31, 2008) that one of our US clients delayed some US\$2.0 million worth of orders they had placed. This client informed us that they needed time to study the impact of the sub-prime fallout and in particular the slowdown in housing and furniture sales. This delayed order was fully delivered in 4Q2008;
2. We previously mentioned in Note 10 of our 3rd Quarter Results (ending March 31, 2008) that we were uncertain how the US economic slowdown would affect our customer and ourselves. Since then, almost all our US clients have reported widespread slowdowns (but not a collapse) in non-essential spending including spending on furniture. As a result, more of our US clients have adopted a ‘wait-and-see’ approach. Whilst this has not resulted in complete order cancellations, it has caused reduction of repeat orders. Thus, sales to the US in the last quarter (ended 30 June 2008) have been below expectations.
3. The slowdown in sales revenue has also been partly self-imposed. We remain cautious in our credit management. We do not take orders from any new client without letters of credit (LCs) or other secured forms of payment. However, we have initiated discussion with several banks on trade financing facilities cum credit protection.
4. On the other hand, we believe our overall sales revenue has done better than some other market rivals due to our new product range designed for and pitched at non-US clients. These products did well in our round-robin international furniture fairs during January to April 2008 where we secured an aggregate US\$7.3 million worth of orders and acquired a record-high 92 new customers mainly from Europe, Middle East, India, Africa and other Asia-Pacific countries.
5. Regretfully, the new product range, more marketing trips to non-US and new clients and lower than expected economies of scale arising from patchy US orders will result in higher costs in the 4th Quarter of 2008.

Vietnam and Production

6. There have been concerns over soaring inflation in Vietnam and the possible depreciation of the Vietnamese Dong, but to date these have had little impact on our business. The main increase in our costs is due to Point 5 above.
7. With respect to the Dong-denominated assets and liabilities for our Vietnam operations, our natural hedging strategy has to date been successful. The current gap is small and manageable.
8. One area where the current weakness in the Vietnamese Dong will affect us, is the translation of the part of the earnings from our 70% owned Rossano Design Co., Ltd ("Rossano"). Rossano is a Vietnamese company and which services the domestic Vietnam market.
9. We previously noted that higher steel and building materials prices delayed completion of our new Vietnam factory. Given current market conditions such a delay has not been an issue. We are, however, pleased to report that the new factory buildings are now complete. We have commenced trial production and expect the factory to be fully functional by end-August 2008.

Other

10. We previously sounded a cautious tone in Note 10 of our 3rd Quarter Results (ending March 31, 2008). Given the above, we had been right to do so. However, it is important not to exaggerate the impact of the US on 2008 revenue and earnings. There have been offsetting revenue gains and some of the larger costs are one-off in nature (e.g. the new factory etc.).

Given the above, our revenue, margins and net profit for FY2008 is likely to be weaker than that achieved in FY2007. Our financial results for the year ended June 30, 2008 are likely to be released in the last week of August. In it outlook for FY2009 will be provided.

From the Board of Directors of Koda Ltd