

9. ACCOUNTANTS' REPORT



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The Board of Directors
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18 March 2002

Gentlemen

This report has been prepared for inclusion in the Prospectus to be dated **27 MAR 2002** in connection with the Public Issue of 24,120,000 ordinary shares of RM0.50 each at an issue price of RM1.10 per ordinary share in Yi-Lai Berhad (hereinafter referred to as "Yi-Lai" or the "Company") and the listing of and quotation for its entire issued and paid-up share capital of 160,000,000 ordinary shares of RM0.50 each on the Main Board of Kuala Lumpur Stock Exchange ("KLSE").

1. GENERAL INFORMATION

1.1 Incorporation and principal activities

Yi-Lai was incorporated on 6 June 2000 as a public limited company. The principal activity of the Company is an investment holding company.

1.1.1 Restructuring and flotation scheme

In conjunction with the listing and quotation of the entire issued and paid-up share capital of the Company on the Main Board of KLSE, the Company undertook the following restructuring scheme:-

i) Acquisitions of subsidiaries

On 13 September 2001, the Company acquired the entire issued and paid-up share capital of the following subsidiaries based on their NTA as at 31 December 1999 at a total consideration of RM80,371,207 by the issuance of 135,879,996 new ordinary shares of RM0.50 each.

a) Acquisition of YLI

Acquisition of the entire issued and paid-up share capital of Yi-Lai Industry Berhad ("YLI") comprising 10,600,000 ordinary shares of RM1.00 each for a purchase consideration of RM78,135,754 based on the audited NTA of YLI as at 31 December 1999 satisfied by the issuance of 132,100,618 new ordinary shares of RM0.50 each in Yi-Lai at an issue price of approximately RM0.59 per share.

b) Acquisition of YLT

Acquisition of the entire issued and paid-up share capital of Yi-Lai Trading Pte Ltd ("YLT") comprising 500,000 ordinary shares of SGD1.00 each for a purchase consideration of RM1,987,331 based on the audited NTA of YLT as at 31 December 1999 satisfied by the issuance of 3,359,890 new ordinary shares of RM0.50 each in Yi-Lai at an issue price of approximately RM0.59 per share.



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c) Acquisition of ATT

Acquisition of the entire issued and paid-up share capital of Alpha Tiles Trading Sdn Bhd ("ATT") comprising 2 ordinary shares of RM1.00 each for a purchase consideration of RM248,122 based on the audited NTA of ATT as at 31 December 1999 satisfied by the issuance of 419,488 new ordinary shares of RM0.50 each in Yi-Lai at an issue price of approximately RM0.59 per share.

ii) Public Issue and Offer for Sale

The Company will issue 24,120,000 new ordinary shares of RM0.50 each at an issue price of RM1.10 per ordinary share to eligible employees and Directors of Yi-Lai and the Malaysian Public ("Public Issue").

Simultaneously, the shareholders of Yi-Lai also offer for sale 1,000,000 ordinary shares of RM0.50 each at an offer price of RM1.10 per ordinary share to the Malaysian Public ("Offer for Sale").

1.2 Share Capital

The authorised share capital of the company as at 31 December 2001 is RM500,000,000 comprising 1,000,000,000 ordinary shares of RM0.50 each.

Issued and Paid-Up Share Capital

The changes in the company's issued and paid-up share capital since its incorporation are as follows:-

<u>Date of allotment</u>	<u>Number of ordinary shares</u>	<u>Par value</u>	<u>Consideration</u>	<u>Cumulative issued and paid-up share capital</u> RM
06.06.2000	2	1.00	Subscribers' shares	2
13.09.2001	4	0.50	Share split	2
13.09.2001	135,879,996	0.50	Issued as consideration for the acquisition of YLI, YLT and ATT	67,940,000

1.3 Subsidiaries

The information on the wholly-owned subsidiaries are as follows:-

<u>Name</u>	<u>Country and Date of incorporation</u>	<u>Authorised share capital</u>	<u>Paid-up share capital</u>	<u>Principal activities</u>
YLI	Malaysia 10.10.87	RM25,000,000	RM10,600,000	Manufacture and sale of ceramic and homogeneous tiles
YLT	Singapore 16.11.82	SGD500,000	SGD500,000	Trading and distribution of tiles
ATT	Malaysia 17.3.98	RM100,000	RM2	Trading and distribution of tiles

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The details of the subsidiaries in operations are as follows:-

1.3.1 YLI

The principal activities of the company consist of those relating to the manufacture and sale of ceramic and homogeneous tiles. The Company's factory is located at Lot 7020, Batu 23, Jalan Air Hitam, 81000, Kulai, Johor. The factory operates on a three (3) shift basis, with five (5) production lines which are represented by five (5) kilns, with a total production capacity of approximately 20,000 square meters per day. In August 2001, an additional kiln was installed and commenced production with total production capacity of approximately 6,500 square meters per day.

1.3.2 YLT

The principal activities of the company consist of those relating to marketing and distribution of ceramic and homogeneous tiles. The company's principal market is in Singapore.

1.3.3 ATT

The principal activities of the company consist of those relating to marketing and distribution of ceramic and homogeneous tiles. The company's principal market is in Peninsula Malaysia.

1.4 DIVIDEND**1.4.1 YI-LAI**

No dividend was paid or declared since its date of incorporation.

1.4.2 YLI

Details of dividends declared by the company during the financial years under review are as follows:-

<u>Year Ended</u>	<u>Issued and paid-up share capital</u> RM	<u>Gross dividend rate</u>	<u>Net dividend</u> RM
31.12.1997	10,600,000	100% (final tax exempt)	10,600,000
31.12.1998	10,600,000	50% (interim tax exempt) 73% (final tax exempt)	5,300,000 7,738,000
31.12.1999	10,600,000	176.60% (final tax exempt)	18,720,000
31.12.2000	10,600,000	151.20% (final tax exempt)	*16,027,200
31.12.2001	10,600,000	NIL	NIL

* The proposed dividends of RM16,027,200 was declared for the financial year ended 31 December 2000 and provided for in the financial statements for the year ended 31 December 2001 in accordance with the Malaysian Accounting Standards Board No. 19 Events After the Balance Sheet Date.

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Details of dividends declared by the company during the financial years under review are as follows:-

<u>Year Ended</u>	<u>Issued and paid-up share capital</u> SGD	<u>Gross dividend rate</u>	<u>Net dividend</u> SGD
31.12.1997	500,000	286% less 26% tax (final)	1,060,000
31.12.1998	500,000	338% less 26% tax (interim)	1,250,600
		379% less 26% tax (final)	1,402,300
31.12.1999	500,000	539% less 25.5% tax (final)	2,007,625
31.12.2000	500,000	NIL	NIL
31.12.2001	500,000	NIL	NIL

1.4.4 ATT

Details of dividends declared by the company during the financial years under review are as follows:-

<u>Year Ended</u>	<u>Issued and paid-up share capital</u> RM	<u>Gross dividend rate</u>	<u>Net dividend</u> RM
31.12.1999	2	RM600,000 per share (final tax exempt)	1,200,000
31.12.2000	2	NIL	NIL
31.12.2001	2	NIL	NIL

2. Auditors and Accounts

We have acted as auditors for YLI since 1996, YLB since the date of incorporation and ATT for the financial year ended 31 December 2001. The financial statements of YLT for the year ended 31 December 1997 had been audited by KPMG Singapore. The financial statements of YLT for the years ended 31 December 1998, 1999, 2000 and 2001 and ATT for the years ended 31 December 1998, 1999 and 2000 were audited by other firms of accountants.

The financial statements of all the companies for the past five (5) years under review were reported on without any qualification.

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3. SUMMARY OF HISTORICAL RESULTS

3.1 Pro Forma Group Results

We set out below the pro forma consolidated group results of Yi-Lai Group for the past four (4) financial years ended 31 December 2000 and actual consolidated group results for the financial year ended 31 December 2001:-

	← Pro forma →				Actual
	1997	1998	1999	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	82,735	67,060	79,729	98,697	108,202
Profit before depreciation and interest	38,650	30,565	29,288	32,421	35,744
Depreciation	(6,577)	(6,592)	(5,503)	(6,351)	(8,069)
Interest expenses	(4)	(2)	(2)	(1)	(15)
Profit before taxation	32,069	23,971	23,783	26,069	27,660
Taxation	(7,386)	(6,337)	(1,924)	(5,963)	(5,961)
Profit after taxation	24,683	17,634	21,859	20,106	21,699
Pro forma no. of ordinary shares of RM0.50 each in issue ('000)	135,880	135,880	135,880	135,880	135,880
Earnings per share (RM)					
- Gross	0.24	0.18	0.18	0.19	0.20
- Net	0.18	0.13	0.16	0.15	0.16

Notes:-

- a) *The pro forma consolidated results are prepared based on the assumption that YLI, YLT and ATT were acquired by Yi-Lai in the years under review, and the acquisition was accounted for under the acquisition method of accounting.*
- b) *The results of YLT for the past five (5) financial years stated in Singapore Dollar have been translated to Ringgit Malaysia for pro forma consolidation purposes based on the average exchange rate of each respective years as set out below:-*

<u>Year</u>	<u>Average exchange rate</u>
1997	1.907
1998	2.312
1999	2.191
2000	2.187
2001	2.105

- c) *The pro forma number of shares in issue represents the enlarged number of issued and paid-up share capital of Yi-Lai after the acquisition of YLI, YLT and ATT.*

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- d) *Inter-Company sales and purchases between YLI, YLT and ATT have been eliminated on consolidation.*
- e) *Gross/Net earnings per share for the financial years under review have been calculated based on profit before/after taxation divided by the number of shares in issue.*
- f) *There is no extraordinary item for the financial years under review.*
- g) *The effective tax rate in 1997, 2000 and 2001 were lower than the statutory tax rate due to the availability of reinvestment allowance incentive in YLI. The tax charge in 1999 was lower due to the waiver of income tax on 1999's profit in accordance with the provisions of the Income Tax (Amendment) Act, 1999 in Malaysia.*

3.2 YLI

The financial results of the company based on its audited financial statements for the past five (5) financial years ended 31 December 1997 to 2001 are set out below:-

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	<u>76,847</u>	<u>61,532</u>	<u>72,605</u>	<u>89,964</u>	<u>98,519</u>
Profit before depreciation and interest	31,899	24,653	26,017	30,007	33,078
Depreciation	(6,550)	(6,555)	(5,469)	(6,317)	(8,053)
Interest expenses	(4)	(1)	(2)	(1)	(15)
Profit before taxation	25,345	18,097	20,546	23,689	25,010
Taxation	(5,729)	(5,044)	(1,420)	(5,338)	(5,182)
Profit after taxation	<u>19,616</u>	<u>13,053</u>	<u>19,126</u>	<u>18,351</u>	<u>19,828</u>
No. of ordinary shares of RM1.00 each in issue ('000)	10,600	10,600	10,600	10,600	10,600
Earnings per share (RM)					
- Gross	2.39	1.71	1.94	2.23	2.36
- Net	1.85	1.23	1.80	1.73	1.87

Notes:

- a) *Gross/Net earnings per share for the financial years under review have been calculated based on profit before/after taxation divided by the number of shares in issue.*
- b) *There is no extraordinary item for the financial years under review.*
- c) *The effective tax rate in 1997, 2000 and 2001 were lower than the statutory tax rate due to the availability of reinvestment allowance incentive. The effective tax rate in 1999 was lower than the statutory tax rate due to the waiver of income tax on 1999's profit in accordance with the provisions of the Income Tax (Amendment) Act, 1999.*

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9. ACCOUNTANTS' REPORT (CONT'D)**3.3 YLT**

The financial results of the company based on its audited financial statements for the five (5) financial years ended 31 December 1997 to 2001 which are translated using the exchange rate stated in note (a) are set out below:-

	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000	<u>2001</u> RM'000
Revenue	21,339	19,379	19,555	12,080	10,607
Profit before depreciation and interest	6,751	5,739	1,946	827	948
Depreciation	(27)	(37)	(33)	(33)	(10)
Interest	--	(1)	--	--	--
Profit before taxation	6,724	5,701	1,913	794	938
Taxation	(1,657)	(1,244)	(504)	(96)	(164)
Profit after taxation	5,067	4,457	1,409	698	774
Equivalent no. of ordinary shares of RM1.00 each in issue (000)	897	897	897	897	897
Earnings per share (RM)					
- Gross	7.50	6.36	2.13	0.89	1.05
- Net	5.65	4.97	1.57	0.78	0.86

Notes:

- a) *The results of the company for the past five (5) financial years stated in Singapore Dollar have been translated to Ringgit Malaysia based on the average exchange rate of each respective years as set out below:-*

<u>Year</u>	<u>Average exchange rate</u>
1997	1.907
1998	2.312
1999	2.191
2000	2.187
2001	2.105

- b) *Gross/Net earnings per share for the financial years under review have been calculated based on profit before/after taxation divided by number of shares in issue.*
- c) *There is no extraordinary item for the financial years under review.*
- d) *The effective tax rates of the company for the years under review approximate the Singapore's statutory tax rate. In 1998, the effective tax rate was lower due to a tax rebate of 10% on the total taxation charged for the year. In 2000, the effective tax rate was lower due to provision for doubtful debts written back.*

The tax expense for 31 December 2001 was computed based on the new tax exemption scheme which took effect from Year of Assessment 2002.

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9. ACCOUNTANTS' REPORT (CONT'D)**3.4 ATT**

The financial results of the company based on its audited accounts for the ten (10) months period ended 31 December 1998 and financial years ended 31 December 1999 to 2001 are set out below:-

	10 months ended			
	31.12.1998	31.12.1999	31.12.2000	31.12.2001
	RM'000	RM'000	RM'000	RM'000
Revenue	2,095	14,944	31,677	36,751
Profit before depreciation and interest	173	1,325	1,663	1,724
Depreciation	--	(1)	(1)	(6)
Profit before taxation	173	1,324	1,662	1,718
Taxation	(49)	--	(529)	(615)
Profit after taxation	124	1,324	1,133	1,103
No. of ordinary shares of RM1.00 each in issue	2	2	2	2
Earnings per share (RM)				
- Gross	86,500	662,000	831,000	859,000
- Net	62,000	662,000	566,500	551,500

Notes:

- a) *The company was incorporated on 17 March 1998 and commenced its operations in May 1998.*
- b) *Gross/Net earnings per share for the financial years under review have been calculated based on profit before/after taxation divided by number of shares in issue respectively.*
- c) *There is no extraordinary item for the financial years under review.*
- d) *There was no taxation charge in 1999 due to the waiver of income tax under Income Tax (Amendment) Act, 1999. In 2000 and 2001, the effective tax rate was higher than the statutory tax rate due to general provision for doubtful debts not allowable for tax purposes.*

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9. ACCOUNTANTS' REPORT (CONT'D)

4. BALANCE SHEETS**4.1 YLI**

The balance sheets of the company based on its audited financial statements for the past six (6) financial years ended 31 December 1996 to 2001 are set out below:-

	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000	<u>2001</u> RM'000
Property, plant and equipment	39,302	46,584	42,372	48,526	47,001	74,663
Current assets						
Inventories	11,835	12,879	11,905	16,753	16,847	19,067
Trade receivables	19,793	21,739	13,200	13,040	18,553	17,077
Trade receivables from related parties	10,702	14,610	25,983	24,794	13,790	--
Due from related companies	--	--	--	--	--	10,463
Other receivables	349	142	185	570	700	3,195
Short term deposits with licensed banks	7,000	11,000	8,800	8,200	13,000	2,000
Cash and bank balances	976	1,376	92	2,103	3,662	1,771
	<u>50,655</u>	<u>61,746</u>	<u>60,165</u>	<u>65,460</u>	<u>66,552</u>	<u>53,573</u>
Less: Current liabilities						
Trade payables	3,333	3,571	2,282	6,266	4,615	6,676
Other payables	6,235	6,556	6,311	7,193	8,042	11,332
Due to related companies	--	--	--	--	--	11
Due to directors	2,632	1,929	--	--	--	--
Borrowings	--	--	1,208	--	--	1,990
Taxation	7,001	5,554	5,302	1,280	2,149	1,731
Proposed dividends	--	10,600	7,738	18,720	--	--
	<u>19,201</u>	<u>28,210</u>	<u>22,841</u>	<u>33,459</u>	<u>14,806</u>	<u>21,740</u>
Net current assets	<u>31,454</u>	<u>33,536</u>	<u>37,324</u>	<u>32,001</u>	<u>51,746</u>	<u>31,833</u>
	<u>70,756</u>	<u>80,120</u>	<u>79,696</u>	<u>80,527</u>	<u>98,747</u>	<u>106,496</u>
Financed by:-						
Share capital	10,600	10,600	10,600	10,600	10,600	10,600
Retained profits	58,099	67,115	67,130	67,536	85,886	89,687
Shareholders' funds	68,699	77,715	77,730	78,136	96,486	100,287
Deferred taxation	2,057	2,405	1,966	2,391	2,261	6,209
	<u>70,756</u>	<u>80,120</u>	<u>79,696</u>	<u>80,527</u>	<u>98,747</u>	<u>106,496</u>
NTA per share (RM)	<u>6.48</u>	<u>7.33</u>	<u>7.33</u>	<u>7.37</u>	<u>9.10</u>	<u>9.46</u>

Note:

- a) Net tangible assets per share is computed based on the total number of shares in issue.
- b) Trade receivables from related parties represent amount due from YLT and ATT.

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9. ACCOUNTANTS' REPORT (CONT'D)**4.2 YLT**

The balance sheets of the company based on its audited financial statements for the past six (6) financial years ended 31 December 1996 to 2001 which are translated using the exchange rates disclosed in note (a) are set out below:-

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	87	108	71	45	15	14
Current assets						
Inventories	--	--	5	14	9	3
Trade receivables	7,928	8,032	7,027	7,750	3,598	4,131
Other receivables	90	219	1,696	1,161	1,358	105
Trade receivables from a related party	73	97	25	--	2	--
Due from directors	--	--	--	12,953	--	--
Fixed deposits with a licensed bank	4,564	20,185	26,733	7,545	2,088	--
Cash and bank balances	2,904	437	1,379	790	1,262	334
	<u>15,559</u>	<u>28,970</u>	<u>36,865</u>	<u>30,213</u>	<u>8,317</u>	<u>4,573</u>
Less: Current liabilities						
Trade payables	--	16	18	23	41	15
Other payables	1,503	2,491	846	834	581	30
Trade payables to a related party	10,970	14,764	24,432	20,296	3,656	--
Due to a related company	--	--	--	--	--	1,022
Due to directors	108	--	70	--	--	--
Taxation	596	1,895	2,440	2,558	1,446	327
Proposed dividend	--	2,438	3,197	4,560	--	--
	<u>13,177</u>	<u>21,604</u>	<u>31,003</u>	<u>28,271</u>	<u>5,724</u>	<u>1,394</u>
Net current assets	<u>2,382</u>	<u>7,366</u>	<u>5,862</u>	<u>1,942</u>	<u>2,593</u>	<u>3,179</u>
	<u>2,469</u>	<u>7,474</u>	<u>5,933</u>	<u>1,987</u>	<u>2,608</u>	<u>3,193</u>
Financed by:-						
Share capital	897	897	897	897	897	897
Foreign currency translation reserve	6	254	243	238	196	6
Retained profits	1,566	5,670	3,968	852	1,515	2,290
Shareholders' funds	2,469	6,821	5,108	1,987	2,608	3,193
Deferred taxation	--	653	825	--	--	--
	<u>2,469</u>	<u>7,474</u>	<u>5,933</u>	<u>1,987</u>	<u>2,608</u>	<u>3,193</u>
NTA per share (RM)	<u>2.75</u>	<u>7.60</u>	<u>5.69</u>	<u>2.22</u>	<u>2.90</u>	<u>3.56</u>

Notes:-

- a) The audited balance sheets of YLT as at 31 December 1996 to 2001 have been translated to Ringgit Malaysia based on the closing rates of each respective years as set out below:-

<u>Year</u>	<u>Closing rate</u>
1996	1.805
1997	2.300
1998	2.280
1999	2.271
2000	2.184
2001	2.044

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- b) *Net tangible assets per share is computed based on the total number of shares in issue.*
- c) *Trade receivables from a related party represent amount due from a company in which certain directors have substantial financial interest.*
- d) *Trade payables to a related party represent amount due to YLI.*

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4.3 ATT

The balance sheets of the company based on its audited financial statements for the past four (4) financial years ended 31 December 1998 to 2001 are set out below:-

	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000	<u>2001</u> RM'000
Property, plant and equipment	--	4	3	20
Current assets				
Inventories	--	291	270	98
Trade receivables	908	4,953	10,256	11,604
Fixed deposits	152	365	378	--
Cash and bank balances	329	875	554	1,639
	<u>1,389</u>	<u>6,484</u>	<u>11,458</u>	<u>13,341</u>
Less: Current liabilities				
Trade payables	--	2	1	--
Trade payables to a related party	1,158	4,780	8,989	--
Due to a related company	--	--	--	9,430
Other payables	58	258	606	795
Taxation	49	--	484	652
Proposed dividend	--	1,200	--	--
	<u>1,265</u>	<u>6,240</u>	<u>10,080</u>	<u>10,877</u>
Net current assets	<u>124</u>	<u>244</u>	<u>1,378</u>	<u>2,464</u>
	<u>124</u>	<u>248</u>	<u>1,381</u>	<u>2,484</u>
Financed by:-				
Share capital	--*	--*	--*	--*
Retained profits	<u>124</u>	<u>248</u>	<u>1,381</u>	<u>2,484</u>
Shareholders' funds	<u>124</u>	<u>248</u>	<u>1,381</u>	<u>2,484</u>
NTA per share (RM'000)	62	124	691	1,242

* Denotes 2 ordinary share of RM1.00 each.

Notes:

- a) The first set of financial statements for the company was made up from 17 March 1998 to 31 December 1998.
- b) Net tangible assets per share is computed based on the total number of shares in issue.
- c) Trade payables to a related party represent amount due to YLI.

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