
9. ACCOUNTANTS' REPORT (CONT'D)

5. STATEMENTS OF ASSETS AND LIABILITIES

The following Statement of Assets and Liabilities of the Company and of the Group has been prepared based on the audited financial statements of YLI, YLT and ATT as at 31 December 2001.

	Note	The Company RM'000	Group RM'000
Property, plant and equipment	6.2	--	74,697
Investments in subsidiaries	6.3	80,371	--
Current assets			
Inventories	6.4	--	19,168
Trade and other receivables	6.5	--	36,113
Short term deposits with licensed banks		--	2,000
Cash and bank balances		--	3,744
		--	61,025
Less: Current liabilities			
Trade and other payables	6.6	82	18,931
Borrowings	6.7	--	1,990
Taxation		--	2,710
		82	23,631
Net current (liabilities)/assets		(82)	37,394
		80,289	112,091
Financed by:-			
Share capital	6.8	67,940	67,940
Reserves	6.9	12,349	37,942
Shareholders' funds		80,289	105,882
Deferred taxation		--	6,209
		80,289	112,091
NTA per share (RM)		0.59	0.78

The accompanying notes set out in Section 6 herein form an integral part of, and should be read in conjunction with, the above Statements of Assets and Liabilities.

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9. ACCOUNTANTS' REPORT (CONT'D)

6. NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES

The Statements of Assets and Liabilities of the Group and of the Company should be read in conjunction with the notes set out below.

6.1. Significant Accounting Policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared in compliance with applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the purchase prices over the fair value of the net assets of subsidiaries at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation. Reserve on consolidation is stated at cost.

All intra group transactions, balances and unrealised profits are eliminated on consolidation. Unrealised losses resulting from intra group transactions are also eliminated unless the transaction provides evidence of impairment in which case they are recognised in the income statement.

(c) Property, plant and equipment**i) Owned assets**

Property, plant and equipment except for freehold land are stated at cost less accumulated depreciation.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. In determining the recoverable amount of property, plant and equipment expected future cash flows are not discounted to their present values. The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it will be charged to equity. Any subsequent increase in recoverable amount is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. Such subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

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9. ACCOUNTANTS' REPORT (CONT'D)

ii) Depreciation

Freehold land is not amortised. Freehold buildings are depreciated over the period of 50 years. Other property, plant and equipment are depreciated on a straight line basis so as to write off the cost of the property, plant and equipment over their estimated useful lives as follows:-

Plant and machinery	10% - 20%
Office and other equipment	20%
Motor vehicles	20%

(d) Investment

Long term investments are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost of finished goods and work-in-progress includes the cost of raw materials, direct labour and appropriate proportion of production overheads.

(f) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

ii) Financial statements of foreign operation

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:-

	<u>2001</u>
	RM
1 US Dollar	3.83
1 Singapore Dollar	2.05

(g) Taxation

The tax expense in the income statement represents taxation at current tax rates based on profit earned during the year.

Deferred taxation is provided on the liability method for all timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.

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9. ACCOUNTANTS' REPORT (CONT'D)**6.2. Property, plant and equipment**

	Freehold land and buildings RM'000	Plant and machinery RM'000	Motor vehicles, office and other equipment RM'000	Construction- in -progress RM'000	Total RM'000
Group					
Cost/Valuation					
At 1 January 2001	--	--	--	--	--
Additions	56	331	186	2,805	3,378
Disposals	--	(3)	(51)	--	(54)
Written off	--	(94)	--	--	(94)
Transfers	26	6,583	--	(6,609)	--
Exchange differences	--	--	(11)	--	(11)
Acquisition of subsidiaries	24,763	96,578	3,744	4,657	129,742
At 31 December 2001	24,845	103,395	3,868	853	132,961
Depreciation					
At 1 January 2001	--	--	--	--	--
Charge for the year	123	3,320	161	--	3,604
Disposals	--	(3)	(28)	--	(31)
Written off	--	(60)	--	--	(60)
Exchange differences	--	--	(10)	--	(10)
Acquisition of subsidiaries	2,870	49,238	2,653	--	54,761
At 31 December 2001	2,993	52,495	2,776	--	58,264
Net book value					
At 31 December 2001	21,852	50,900	1,092	853	74,697

RM'000

Net book value of freehold land and buildings

Freehold land	6,601
Freehold buildings	15,251
	<u>21,852</u>

Security

The property, plant and equipment of the Group with a total net book value of RM74,662,598 are charged to a bank as security for credit facilities granted to a subsidiary.

6.3 Investments in subsidiaries

	Company RM'000
Unquoted shares	<u>80,371</u>

Details of the subsidiaries, all of which are 100% owned are as follows:-

Name of Company	Principal Activities	Place of Incorporation
Yi-Lai Industry Berhad	Manufacture and sale of ceramic and homogeneous tiles	Malaysia
Alpha Tiles Trading Sdn. Bhd.	Trading and distribution of tiles	Malaysia
Yi-Lai Trading Pte. Ltd.*	Trading and distribution of tiles	Singapore

* Audited by other firm of accountants

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9. ACCOUNTANTS' REPORT (CONT'D)

6.4 Inventories

	<u>Group</u> RM'000
<i>At cost</i>	
Raw materials	7,442
Work-in-progress	759
Finished goods	8,222
Consumable stores	<u>2,211</u>
	18,634
<i>At net realisable value</i>	
Finished goods	<u>534</u>
	<u><u>19,168</u></u>

6.5 Trade Receivables

	<u>Group</u> RM'000
Trade receivables	35,277
Less: Allowance for doubtful debts	<u>(2,465)</u>
	32,812
Other receivables, deposits and prepayment	<u>3,301</u>
	<u><u>36,113</u></u>

6.6 Trade and other payables

	<u>Group</u> RM'000
Trade payables	6,691
Other payables and accruals	7,354
Due to a shareholder/director	78
Dividend payable by a subsidiary to its previous shareholders	<u>4,808</u>
	<u><u>18,931</u></u>

The amount due to a shareholder/director is unsecured, interest free and has no fixed term of repayment.

6.7 Borrowings

	<u>Group</u> RM'000
Bank overdrafts	
- secured	411
- unsecured	741
Trust receipts (secured)	583
Bankers' acceptance (unsecured)	<u>255</u>
	<u><u>1,990</u></u>

The bank overdrafts and trust receipts bear interest at 1% to 1.25% per annum above the bank's base lending rate and the bankers' acceptance bears interest of approximately 3.74% per annum. The bank borrowings are secured by way of fixed and floating charge on all the property, plant and equipment of a subsidiary.

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9. ACCOUNTANTS' REPORT (CONT'D)

6.8 Share Capital

	<u>Company/Group</u> RM'000
Ordinary shares of RM0.50 each:	
Authorised	<u>500,000</u>
Issued and fully paid:	
At 1 January	*--
Issued during the year	<u>67,940</u>
At 31 December	<u>67,940</u>

* 2 ordinary shares of RM1.00 each. During the year, the 2 ordinary shares of RM1.00 each was subdivided from RM1.00 each to RM0.50 each.

6.9 Reserves

	<u>Company</u> RM'000	<u>Group</u> RM'000
<i>Distributable</i>		
(Accumulated loss)/Retained profits	(82)	8,051
<i>Non-distributable</i>		
Share premium	12,431	12,431
Reserve on consolidation	--	17,633
Exchange fluctuation reserve	--	(173)
	<u>12,349</u>	<u>37,942</u>

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9. ACCOUNTANTS' REPORT (CONT'D)**7. CONSOLIDATED CASH FLOW STATEMENT**

The consolidated cash flow statement of Yi-Lai Group for the financial year ended 31 December 2001 are as follows:

	<u>Note</u>	<u>Group</u> RM'000
Cash flows from operating activities		
Profit before tax		27,660
Adjustments for:-		
Depreciation		3,604
Interest expense		14
Interest income		(54)
Loss on disposal of property, plant and equipment		2
Property, plant and equipment written-off		33
Pre-acquisition profits before tax		(17,607)
Operating profit before working capital changes		13,652
Changes in working capital:		
Inventories		(2,189)
Trade and other receivables		8,585
Trade and other payables		(9,082)
Due to shareholders		2
Cash generated from operations		10,968
Interest paid		(14)
Tax paid		(1,166)
Net cash generated from operating activities		9,788
Cash flows from investing activities		
Purchase of property, plant and equipment		(3,378)
Proceeds on disposal of property, plant and equipment		21
Interest received		54
Acquisition of subsidiaries, net of cash acquired	8.1	(71,695)
Net cash used in investing activities		(74,998)
Cash flows from financing activities		
Proceeds from short term borrowings		838
Proceeds from issue of shares		80,371
Dividend paid by a subsidiary to its previous shareholders		(11,219)
Net cash generated from financing activities		69,990
Net increase in cash and cash equivalents		4,780
Cash and cash equivalents at beginning of year		--
		4,780
Effect of exchange rate changes		(188)
Cash and cash equivalents at end of year	8.2	4,592

The accompanying notes set out in Section 8 herein form an integral part of and should be read in conjunction with the above consolidated cash flow statement.

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9. ACCOUNTANTS' REPORT (CONT'D)**8. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

The consolidated cash flow statement should be read in conjunction with the notes set out below.

8.1 Acquisition of subsidiaries

The effects of the acquisition of the above subsidiaries on the cash flows of the Group at the date of acquisition are as follows:

	<u>Group</u> RM'000
Property, plant and equipment	74,980
Current assets	68,191
Current liabilities	(40,001)
Deferred tax	(5,165)
Reserve on consolidation	<u>(17,633)</u>
Purchase price paid	80,372
Less: Cash and cash equivalents	<u>(8,677)</u>
Cash flow on acquisition net of cash acquired	<u><u>71,695</u></u>

8.2 Cash and cash equivalents

	<u>Group</u> RM'000
Cash and bank balances	3,744
Deposits with licensed banks	2,000
Bank overdrafts	<u>(1,152)</u>
	<u><u>4,592</u></u>

9. CONSOLIDATED NET TANGIBLE ASSETS PER ORDINARY SHARE

Based on the Statement of Assets and Liabilities of the Group at 31 December 2001 and incorporating the adjustment for public issue and estimated listing expenses, the net tangible assets per ordinary share of RM0.50 each is arrived at as follows:-

	RM'000
Net tangible assets of the Group at 31 December 2001	105,882
Add: Proceeds from public issue	26,532
Less: Estimated listing expenses	<u>(2,500)</u>
Net tangible assets	<u><u>129,914</u></u>
Number of ordinary shares of RM0.50 each that will be in issue:	
	'000
At 31 December 2001	135,880
Add: Public issue	<u>24,120</u>
Enlarged share capital	<u><u>160,000</u></u>
Net tangible assets per ordinary share	<u><u>0.81</u></u>

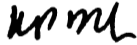
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9. ACCOUNTANTS' REPORT (CONT'D)

10. FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2001.

Yours faithfully



KPMG

Firm No.: AF 0758

Chartered Accountants



Lee Soon Teck

Partner

Approval Number: 1587/06/02 (J)

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