
3. RISK FACTORS

Applicants for the Public Issue/Offer Shares should carefully consider the following in addition to the other information contained elsewhere in the Prospectus before applying for the Public Issue/Offer Shares:-

(i) Business Risks

Ceramic tiles industry's performance is highly dependent on the property development activities and home improvement works. As such, the Group is subject to certain risks inherent in these industries. These risks, among others, include changes in the general economic conditions such as government regulations, taxation, inflation, interest rates, and exchange rates of foreign currencies; and changes to business conditions such as deterioration in market conditions, rising costs of labour and raw materials and machinery breakdowns. The Group is further subject to inherent risks in the manufacturing industry such as supply and price of raw materials such as clay, kaolin, labour and water and control over bad debts.

The Group is constantly reviewing its cost structure through its R&D department to reduce costs and wastage through efficient combinations of materials and production processes. Furthermore, due to good credibility of the Group, good relationships have been established with the suppliers. Over time, the Group will also introduce new products to expand its market share within the industry.

Although the Group seeks to mitigate these risks at the Group's level, no assurance could be given that any change to these factors would not have any material adverse impact on the Group's business.

(ii) No Prior Market For Yi-Lai Shares

Prior to this Public Issue/Offer, there has been no public market for Yi-Lai shares. There can be no assurance that an active market for Yi-Lai shares will develop upon its listing on the Main Board of KLSE or, if developed, that such market will be sustained. The Public Issue/Offer price of RM1.10 per share for the Public Issue and Offer Shares was entirely determined and agreed upon by Yi-Lai, the Offerors and Arab-Malaysian. The Public Issue/ Offer Price of RM1.10 per share for the Public Issue and Offer Shares has been determined after taking into consideration a number of factors, including but not limited to, the Company's financial and operating history and condition, its prospects and the prospects for the industry in which the Company operates, the management of the Company, the market prices for shares of companies engaged in businesses similar to that of the Company and the prevailing market conditions. There can be no assurance that the issue/offer price will correspond to the price at which Yi-Lai shares will be traded on the Main Board of KLSE upon or subsequent to its listing or that an active market for Yi-Lai shares will develop and continue upon or subsequent to its listing.

(iii) Competitive Risk

In the local market, at the lowest end of the ceramic tiles market, there is little product differentiation. At this level, competition is largely based on price. Given the high transport cost, there is little imported competition. However, there are a few barriers to entry, either technical or financial. Price cutting can be severe as a result of new entrants.

At the middle level, the market is getting increasingly sophisticated. Consumers are becoming increasingly more critical in their choice of wall and floor tiles. Real estate developers are now paying close attention to quality and price. The investment in sophisticated production process has therefore become a must. To gain economies of scale, tile manufacturers have expanded their production capacities.

3. RISK FACTORS (CONT'D)

At the upper end, the local producers not only have to fight against high quality imports with their strong brand names. In addition, they have to compete with other floor coverings particularly marble, granite and carpet. The local producers have yet to make a strong impact at this end of the market.

In the domestic market, competition in the ceramic tile industry will get stiffer in the medium term. The reduction of import duties under the Asean Free Trade Area ("AFTA") to 5% by the year 2003 will result in the import of relatively cheaper ceramic tiles from Thailand and Indonesia into Malaysia. It is almost certain that future profit margins for the ceramic tiles industry will not be as high as it had been in the past.

(Source: Report by Dynaquest Sdn Bhd - Ceramic Tiles 2001)

Nevertheless, the Company endeavours to increase or at least maintain its market share. No assurance is given that the Group will be able to increase or maintain its existing market share in the future or be unaffected by the competitive strategy adopted by other players in the industry.

(iv) **Dependency on Key Management**

As in other business, the Group believes that its continued success will depend significantly on the abilities and continued efforts of its existing Directors, Senior Management and long serving technical support staff.

The loss of key members of the senior management could adversely affect the Group's ability to compete in the industry. However, with the rigorous on-the-job training extended to the middle management and operations staff as well as strong technical support from various suppliers, coupled with a competitive remuneration scheme, the Group's management has expanded and strengthened over the years. Thus, the Group is confident that with the capabilities of its employees, it would not expect any difficulties in the younger members of the management team to eventually take over from their seniors in the future.

Therefore, every effort has been made to groom the younger members in the senior management to gradually take-over from the senior members to ensure smooth transition in the management team. Hence, the Group's future success will also depend upon its ability to attract new and retain existing skilled personnel.

(v) **Profit Forecast**

This Prospectus contains the profit forecast of the Yi-Lai Group that are based on certain assumptions deemed reasonable by the Directors of the Group, but which nevertheless are subject to uncertainties and contingencies. Because of the subjective judgements and inherent uncertainties of forecast, and because events and circumstances do not occur as expected, there can be no assurance that the profit forecast contained herein will be realised and actual results may be materially different from those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecasts that are contained herein.

3. RISK FACTORS (CONT'D)**(vi) Foreign Exchange Rates**

As Yi-Lai imports some of its raw materials and some spare parts from overseas, the recent financial crisis which had resulted in the adverse fluctuation of Ringgit Malaysia against other major currencies had a certain impact on the profitability of the Group during the financial year ended 1998. The effect was however mitigated in October 1998 as the risk of fluctuations was reduced due to the imposition of a fixed exchange rate of USD 1.00 : RM 3.80.

However, the Group is able to take advantage of "natural hedging" for payments and receipts as some of its materials for example, glaze materials from Taiwan are imported and finished goods are sold to YLT for export.

There could be no assurance that future foreign exchange fluctuations would not have an adverse impact on Yi-Lai, as that would depend on the economic and political climate of the country.

(vii) Political and Economic Risks

Adverse developments in political, economic and regulatory conditions in Malaysia and other countries where the Group markets its products, or sources its supplies, could materially affect the financial and operational condition or the overall profitability of the Group. Other political and economic uncertainties include the risk of war, expropriation, nationalisation, renegotiation, or nullification of existing contracts, changes in rates of interest and methods of taxation, changes in import tariff policies and currency exchange controls.

Nonetheless, no assurance could be given that any change to these factors would not have any material adverse impact on the Group's business.

(viii) Seasonal Sales Cycle

Basically the Group does not have any seasonal sales cycle, except on the few months prior to Chinese New Year and Hari Raya, when sales would be slightly higher due to increased renovation works. For example, the turnover for Fourth Quarter of 2001 is 27.1% which is slightly higher than the other the quarters in 2001.

For illustration purposes, the percentage of sales by quarters of YLI for the financial year ended 31 December 2001 is as follows:-

	Financial Year Ended 31 December 2001				Total
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Turnover RM'000	22,555	23,908	25,309	26,747	98,519
% of 2001 Turnover	22.9	24.3	25.7	27.1	100

(ix) Substantial Shareholders' Interest in Similar Business

Two (2) of the substantial shareholders of Yi-Lai, namely Lim Oon Kok and Wang Jen-Ching are the substantial shareholders of Yi-Lai Investment Pte Ltd, Singapore which in turn holds and owns 100% of the paid-up capital of Yi-Lai Ceramic Industry Company Limited (Shenyang), China.

3. RISK FACTORS (CONT'D)

Yi-Lai Ceramic Industry Company Limited (Shenyang) is also a manufacturer of ceramic tiles. The products of Yi-Lai Ceramic Industry Company Limited (Shenyang) are principally for the consumption of the domestic market of China.

As such, the potential for conflict of interest situations is minimal as the company in Shenyang operates in different market segments with different customers base.

However, to mitigate any potential conflict of interest, all related party transactions will be subject to periodic reviews by the Audit Committee to ensure that they have been transacted on commercial terms which will not be detrimental to the Yi-Lai Group and to report the position of such related transactions, if any, in the Annual Report of Yi-Lai.

Further information on the substantial shareholders' interest in similar businesses can be found in Section 10 of this Prospectus.

(x) **Supply and Prices of Raw Materials**

The Group enjoys good relationships with its raw material suppliers, and has good support from its principal suppliers. It is not dependent on any single supplier for sourcing its principal raw materials as it is the Group's policy to have multiple sourcing. The prices of these raw materials fluctuate and can be volatile. As most of the manufacturers buy their raw materials as and when necessary, they are susceptible to the vagaries of these raw material prices. Furthermore, the Group is susceptible to the volatility of energy prices like fuel oil and natural gas. However, the Group is able to enhance productivity to maintain reasonable profits as any fluctuations would similarly affect its competitors. Furthermore, its business operations are not likely to be affected by its present suppliers.

Nonetheless, no assurance can be given that any significant changes to the supply and prices of raw materials will not affect the future profitability of the Group.

The list of its raw material suppliers can be found under Section 4.8 in this Prospectus.

(xi) **Control by major shareholders**

Following the Public Issue, the major shareholders of Yi-Lai, namely Zabidi bin Md Zain, Wang Jen-Ching and Lim Oon Kok, collectively hold 60.23% of the Company's enlarged issued and paid-up share capital. The aforesaid shareholders, if they act together, may be able to influence the outcome of certain matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by law and/or by the relevant authorities.

(xii) **Dependence on major customers and suppliers**

Although the Group's products are mainly marketed and sold via its five (5) distributors, these distributors will in turn market and promote the Group's products through their own dealers, developers, contractors, retailers and other end-users. As such, the Group's products are being sold to a diverse class of customers which would limit the risk of over-dependency on a particular customer.

In terms of purchases, the contribution of the top 10 suppliers accounted for only approximately 40% of the Group's cost of sales, with no single supplier contributing more than 12% to the Group's purchases. As such, the risk of over-dependency on any particular customer and/or supplier is minimal.

The list of its five (5) distributors and top ten (10) suppliers can be found under both Section 4.7 and 4.8 in this Prospectus.

4. INFORMATION OF YI-LAI GROUP

4.1 Incorporation

Yi-Lai was incorporated in Malaysia on 6 June 2000 as a public limited company under the Companies Act, 1965 as Yi-Lai Berhad. It was incorporated for the purpose of implementing the listing exercise.

The subsidiary companies of Yi-Lai are as follows:-

Name	Date and place of incorporation	Issued and paid-up share capital	Effective equity interest (%)	Principal activity
YLI	10 October 1987 Malaysia	RM10,600,000	100	Manufacturing and sale of ceramic and homogeneous tiles
YLT	16 November 1982 Singapore	SGD500,000	100	Trading and distribution of tiles
ATT	17 March 1998 Malaysia	RM2	100	Trading and distribution of tiles

Yi-Lai has no associated company.

YLI, the manufacturing arm of the Group, began its operation in 1990 at its existing factory in Kulai, Johor. It was founded by Mr. Wang Jen-Ching. Mr. Wang has extensive knowledge in the tiles industry. YLI started operations with production of ceramic tiles. It later ventured into the production of homogeneous tiles. Today, the Group produces an extensive series of both the ceramic and homogeneous tiles. Please refer to Section 4.4 for an overview of the Group's business.

4.2 Share Capital and Changes in Share Capital

The present authorised and issued and paid-up share capitals of Yi-Lai are RM500,000,000 and RM67,940,000 respectively comprising 1,000,000,000 and 135,880,000 ordinary shares of RM0.50 each.

The changes in the issued and paid-up share capital of Yi-Lai since its incorporation are as follows:-

Date of Allotment	No. of Ordinary Shares	Par Value	Consideration	Total Issued and Paid-up Share Capital
		RM		RM
6 June 2000	2	1.00	Cash	2
13 September 2001	4	0.50	Share Split	2
13 September 2001	135,879,996	0.50	Issued as consideration for the acquisition of YLI, YLT and ATT	67,940,000

4. INFORMATION ON YI-LAI GROUP (CONT'D)

4.3 Restructuring

In conjunction with, and as an integral part of the listing and quotation for the entire enlarged issued and paid-up share capital of Yi-Lai on the Main Board of the KLSE, the Company undertook a restructuring scheme which involved the following:-

1) Acquisition of YLI

On 13 September 2001, Yi-Lai acquired the entire issued and paid-up share capital of YLI comprising 10,600,000 ordinary shares of RM1.00 each based on its NTA value as at 31 December 1999. The purchase consideration of RM78,135,754 was satisfied by an issuance of 132,100,618 new ordinary shares of RM0.50 each in Yi-Lai, credited as fully paid, at an issue price of approximately RM0.59 per ordinary share to the following parties:-

Shareholders	No. of Shares in Yi-Lai	%
Zabidi Bin Md Zain	44,988,984	34.06
Wang Jen-Ching	28,912,576	21.89
Lim Oon Kok	20,812,078	15.75
Chang Chiang-An	6,854,278	5.19
Chan Bon Chin @ Chan Siew Keow	6,231,174	4.72
Huan Chuan Sen @ Ah Loy	6,231,162	4.72
Leng Boon Thai	6,231,162	4.72
Yu Heng-Min	3,738,696	2.83
Syed Hood Bin Sa'ad Mohamed	3,115,580	2.35
Liao Feun Chu	3,115,580	2.35
Hsieh Yu-Tien	1,869,348	1.42
<i>Total</i>	132,100,618	100.00

2) Acquisition of YLT

On 13 September 2001, Yi-Lai acquired the entire issued and paid-up share capital of YLT comprising 500,000 ordinary shares of SGD1.00 each based on its NTA value as at 31 December 1999. The purchase consideration of RM1,987,331 was satisfied by an issuance of 3,359,890 new ordinary shares of RM0.50 each in Yi-Lai, credited as fully paid, at an issue price of approximately RM0.59 per ordinary share to the following parties:-

Shareholders	No. of Shares in Yi-Lai	%
Lim Oon Kok	2,015,934	60.00
Liao Feun Chu	1,343,956	40.00
<i>Total</i>	3,359,890	100.00

4. INFORMATION ON YI-LAI GROUP (CONT'D)

3) Acquisition of ATT

On 13 September 2001, Yi-Lai acquired the entire issued and paid-up share capital of ATT comprising 2 ordinary shares of RM1.00 each based on its NTA value as at 31 December 1999. The purchase consideration of RM248,122 was satisfied by an issuance of 419,488 new ordinary shares of RM0.50 each in Yi-Lai, credited as fully paid, at an issue price of approximately RM0.59 per ordinary share to the following parties:-

Shareholders	No. of Shares in Yi-Lai	%
Lim Oon Kok	209,744	50.00
Hsieh Yu-Tien	209,744	50.00
<i>Total</i>	419,488	100.00

4) Dividend

A final tax exempt dividend amounting to RM16,027,200 for the financial year ended 31 December 2000 has been paid to the existing shareholders of Yi-Lai by February 2002 prior to the Public Issue and Offer for Sale.

5) Public Issue and Offer For Sale

The final stage in the Restructuring Scheme involves a Public Issue of 24,120,000 Shares each in Yi-Lai at an issue price of RM1.10 per Share to the Malaysian public.

Meanwhile, the Offerors are offering 1,000,000 Shares of RM0.50 each in Yi-Lai representing 0.63% of the entire share capital at an offer price of RM1.10 per Share in order to meet the public spread requirements.

The total of 25,120,000 Shares pursuant to the Public Issue and Offer For Sale will be allocated to the following parties:

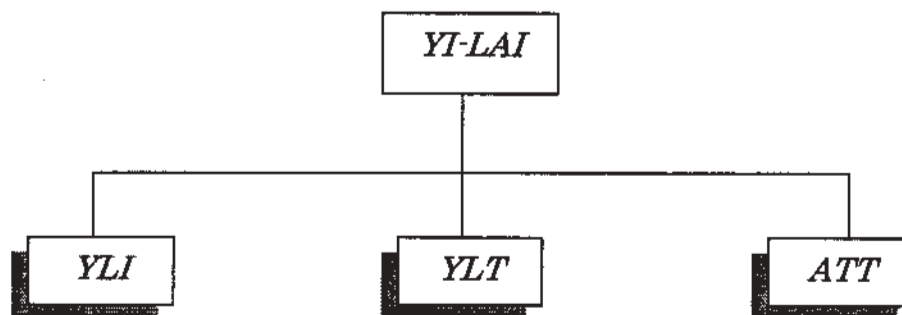
- i) 16,120,000 Shares representing 10.08% of the enlarged issued and paid-up share capital of Yi-Lai to the Malaysian Persons (which may include but not limited to customers, suppliers, distributors and employees of Yi-Lai Group) by the Private Placement of which at least 30% is set aside for bumiputra investors;
- ii) 5,000,000 Shares representing approximately 3.12% of the enlarged issued and paid-up share capital will be made for application to the Malaysian Public, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside for Bumiputra individuals, companies, societies, co-operatives and institutions; and
- iii) 4,000,000 Shares representing approximately 2.5% of the enlarged issued and paid-up share capital of Yi-Lai to eligible employees, directors, distributors and suppliers of Yi-Lai Group.

All the new ordinary shares issued pursuant to the Public Issue will rank *pari passu* in all respects with the existing ordinary shares of Yi-Lai including voting rights and the rights to dividends that may be declared subsequent to the completion of the Public Issue.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

4.4 Business Overview

Yi-Lai is principally an investment holding company. The Yi-Lai Group structure and the principal activities of its wholly-owned subsidiaries are as below:-



YLI was incorporated in Malaysia under the Companies Act, 1965, on 10 October 1987 as a private limited company under the name Macoca Sdn. Bhd. On 15 December 1988, it changed its name to Yi-Lai Industry Sdn. Bhd. The company was converted into a public company on 22 March 1997 and called "Yi-Lai Industry Berhad". YLI is principally involved in the manufacturing and sale of ceramic and homogeneous tiles.

YLT was incorporated in Singapore under the Singapore Companies Act, Cap.185, on 16 November 1982 as a private company under its present name. The company is principally involved in the trading and distribution of tiles.

ATT was incorporated in Malaysia under the Companies Act, 1965, on 17 March 1998 as a private limited company under its present name. The company is principally involved in the trading and distribution of tiles.

The Yi-Lai Group commenced business operations in 1990 with the setting up of YLI's first production line at the present factory located in Kulai, Johor. The Group's only product at the beginning of its operation was ceramic tiles, which were in high demand in the early 90s. The Group had only one production line with an annual capacity of approximately 1.4 million square meters. YLI was registered as the proprietor of the trademark "ALPHA TILES" as from 28 November 1991 and since then the brand has been introduced to local and overseas market.

In response to the changing needs in the market, the Group started its third production line for its new product range, namely homogeneous tiles, in 1994 and the response was encouraging. Up to date, the sale of homogeneous tiles accounts for approximately 42% of the Group's total turnover. The choice of tiles depends on the application and customers' preference. Quality is becoming an important consideration for most consumer products due to growing affluence and literacy rate of end-users.

Presently, the Company has six (6) production lines with a full capacity of approximately 8.9 million square meters per annum. The Group has two (2) wholly owned subsidiaries (namely YLT and ATT) to cater for the trading activities of the Group.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

Information on the Group's factories is set out below:-

Factory	Location	Approximately Land & Built- up Area (Hectares)	Optimum Production Capacity per annum (million square meters)	Actual Production as at 31 December 2001 (million square meters)	Average No. of Production Shifts Per Day (times)
Factory I	Lot 7020, Mukim of Senai- Kulai, District of Johor Bahru, Johor	4.0519	6.7	6.129	3.0
Factory II	Lot 7022, Mukim of Senai- Kulai, District of Johor Bahru, Johor	4.0468	2.2	0.949*	3.0

*The actual production was based on approximately five and a half months period as the new production line was only commissioned in August 2001.

The production procedures for ceramic and homogeneous tiles are relatively similar. The main difference being homogeneous tiles are fired at a higher temperature for a longer period compared to ceramic tiles. This variation in production procedure gives rise to a more compact body for the homogeneous tiles.

Principal products and market

The Group is principally involved in the manufacturing and sale of ceramic and homogeneous tiles under the brand name "ALPHA TILES". There is an inexhaustible range of tiles in the market, ranging from ceramic tiles, mosaic tiles, quarry tiles, carpet tiles to vinyl tiles. The Group specialises in the production of ceramic and homogeneous tiles.

The major products manufactured by YLI are as follows:-

Products	Production output ended 31 December 2001 (million square meters)	% of contribution to Group turnover ended 31 December 2001
Ceramic	4.830	68
Homogeneous	2.248	32
Total	7.078	100

With the installation of the proposed two new machines namely Dry Powder Mixer and Spot-Feeder Machine in 2001, the Group is expected to produce Multi-Effect Homogeneous Tiles which are tiles that bear the finishes equivalent to surface of natural stone.

The Group supplies to end-users such as contractors, developers, dealers and individual household users through its appointed local distributors and ATT.

The Group markets its products both in Malaysia and overseas market. As at 31 December 2001, the Group produces approximately 2.25 million square meters of homogeneous tiles and 4.83 million square meters of ceramic tiles, i.e. 32% and 68% respectively. Yi-Lai's directors believe that they have captured approximately 9.5% of the total market share in the ceramic tiles industry.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

The Group's product mix is set out below:-

Product	% Product mix of the Group turnover for the year ended 31 December 2001
<i>Ceramic</i>	
- Local	52.4
- Export	6.0
<i>Sub-total</i>	58.4
<i>Homogeneous</i>	
- Local	37.1
- Export	4.5
<i>Sub-total</i>	41.6
Total	100.0

As for export market, the products are being marketed mainly by YLT in Singapore. Singapore is the main country of export for the Group, 5% of the Group's total turnover for the year ended 31 December 2001 is to the Housing Development Board of Singapore (HDB). Since 1995, the Group has become one of the suppliers to the Singapore Housing Development Board (HDB). Another 5% of the export sales are mainly sold in Singapore through retailing and the remaining 0.5% of the Group's total sales is for export to other countries amongst others Brunei, Japan, Fiji and Philippines.

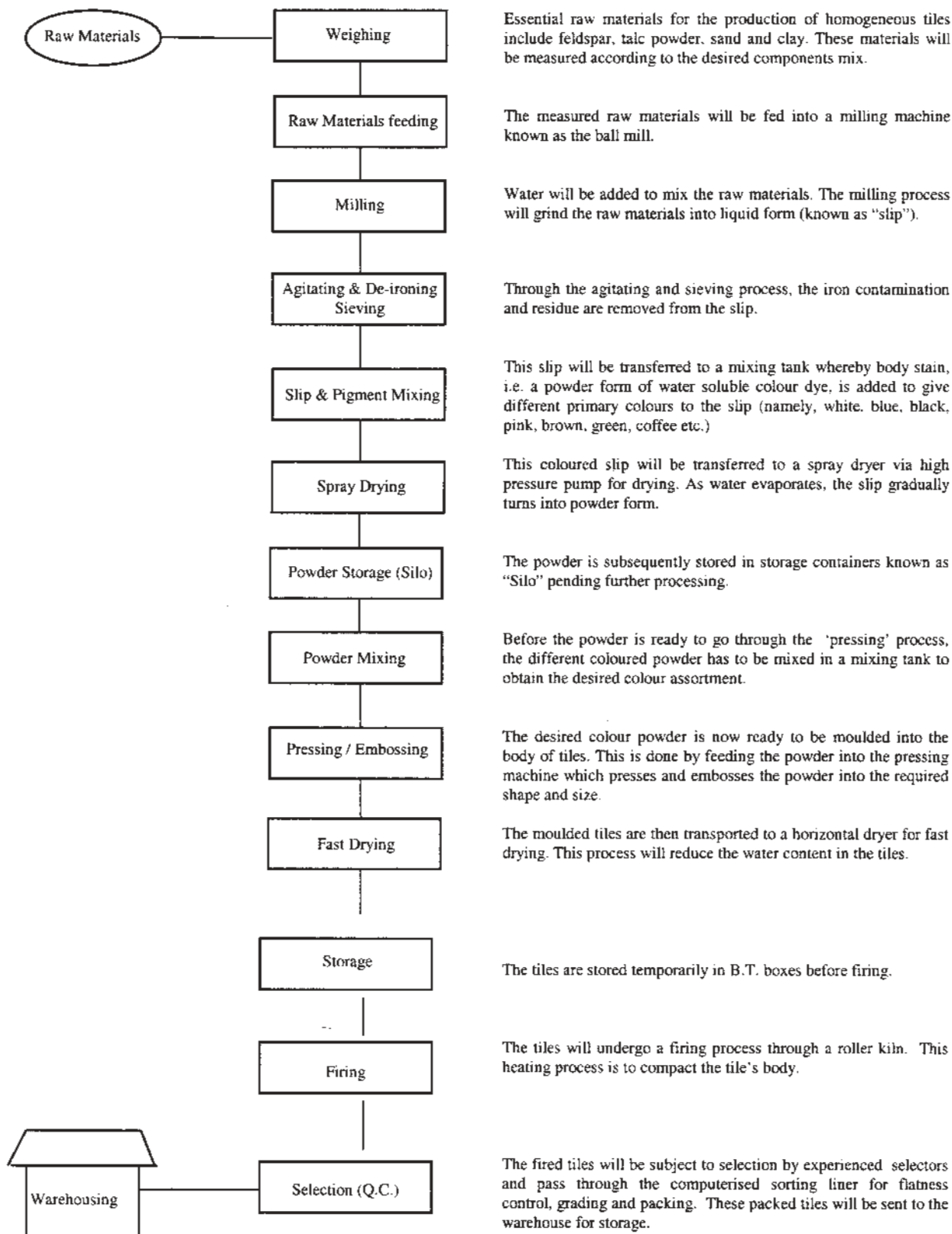
The Group's principal market is set out below:-

Principal Market	% of contribution to Group turnover ended 31 December 2001
<i>Local</i>	
- Malaysia	89.5
<i>Export</i>	
- Singapore	10.0
- Others	0.5
Total	100.0

4. INFORMATION ON YI-LAI GROUP (CONT'D)

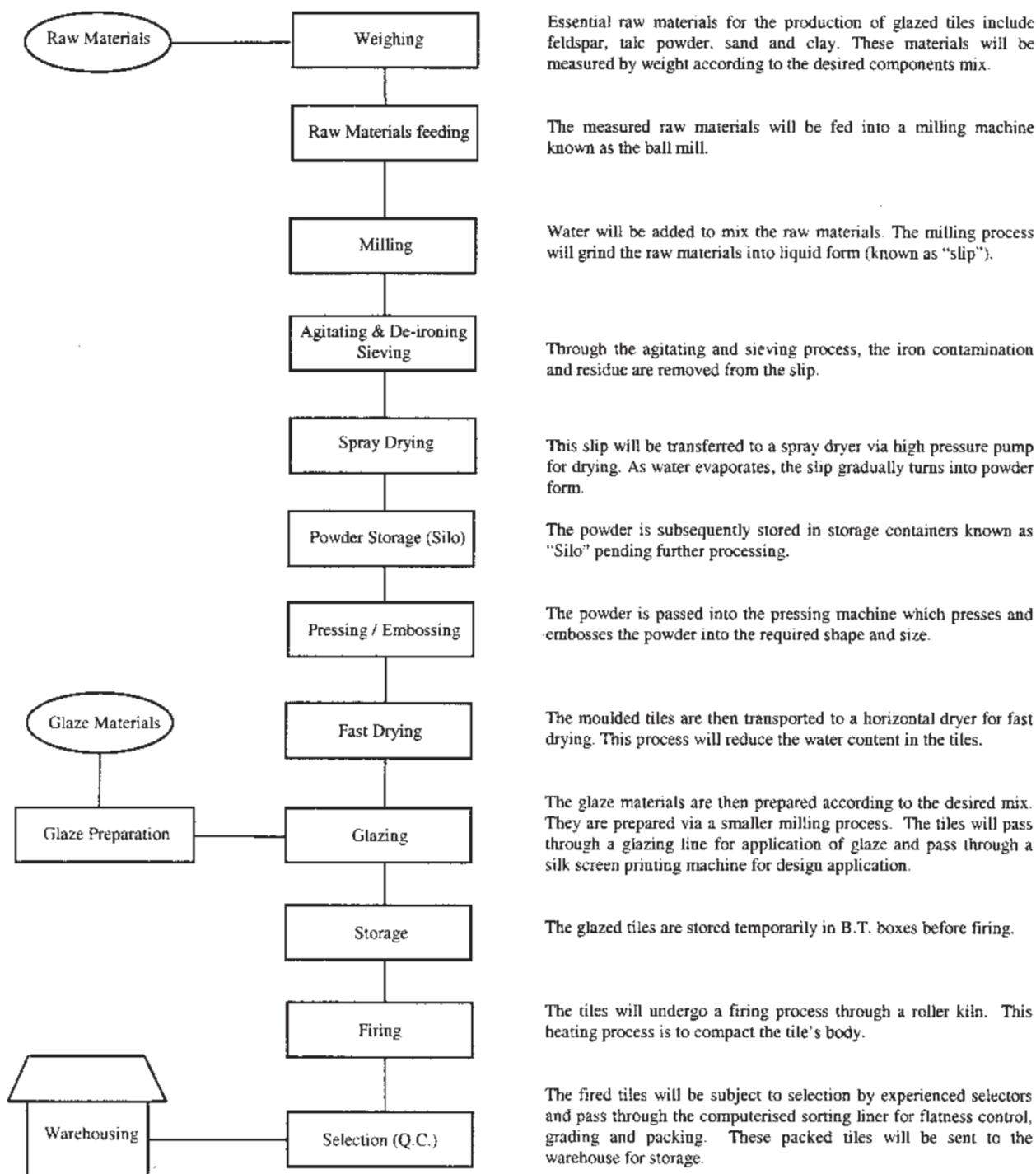
Production processes

A) Homogeneous Tiles Manufacturing Process



4. INFORMATION ON YI-LAI GROUP (CONT'D)

B) Ceramic Tiles Manufacturing Process



4. INFORMATION ON YI-LAI GROUP (CONT'D)

Marketing

The Group's products are mainly marketed and sold via its distributors. These distributors will in turn market and promote the Group's products through their own dealers and onward sales to developers, contractors, retailers and other end-users.

Yi-Lai's management believes that a strong marketing force is and will continue to be an essential factor for its success. Despite the intensifying competition in the tiles market, the Group's tiles are still very popular among customers.

A) *Local Market*

The local market accounts for 89.5% of the total Group's sales as at 31 December 2001. At present, the sales and marketing department of Yi-Lai Group has a staff strength of 19 to service its existing distributors. The full range of "ALPHA TILES" are displayed in the Group's showroom and marketing office located at No. 23, Jalan PJS 7/19, Bandar Sunway, 46150 Petaling Jaya, Selangor. Yi-Lai places more emphasis on the retail business than contract business as the profit margin is higher and the sources of income are more stable.

(i) *Retail Market*

Yi-Lai places strong emphasis on the local retail market. This market contributes approximately 53.7% of the Group's total sales as at 31 December 2001. Yi-Lai has appointed five (5) distributors to sell its products.

(ii) *Project Market*

Yi-Lai also caters for the project market via sales through its distributors. This market accounts for approximately 35.8% of the Group's total sales as at 31 December 2001. It mainly comprises of condominium and residential projects.

B) *Export Market*

YLT is the main distributor procuring sales for the Company in its export market. As at 31 December 2001, it contributed 10.5% of the Group's turnover. It is headed by Yi-Lai's Managing Director, Mr. Lim Oon Kok, with a staff strength of 8. YLT has been in the sales of buildings materials since inception. Its operating office is at 865, Mountbatten Road, #03-02, Katong Shopping Centre, Singapore 437844. As at 31 December 2001, YLT sells 95% of its tiles in Singapore. The remaining 5% are to other countries such as Brunei, Japan, Fiji, Philippines, etc. Majority of the sales in Singapore are to HDB, while the rest are to retailers. The Group is confident of increasing its export level.

Source and availability of raw materials

The basic raw materials used for the manufacture of ceramic and homogeneous tiles are clay, kaolin, feldspar, sand and talc powder. Clay, sand and kaolin are found in abundance in Malaysia. Feldspar is sourced from local suppliers who import the material from Thailand. Talc powder is directly imported from China.

The Group's main criteria in choosing raw materials for the manufacturing of ceramics and homogeneous tiles are quality, price and availability. Yi-Lai endeavours to source most of its raw materials locally to reduce its cost of production. The Group's practice for purchase is to place order with several suppliers who are able to provide similar quality product so that they can meet its demand from time to time.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

Due to the abundance of raw materials both in Malaysia and in other parts of the world, the Company believes that it is not likely to experience any shortage problem in its raw materials supply in the near future. Nevertheless, the R&D department is actively involved in sourcing new substitute for raw materials. They are entrusted with the task of finding ways to keep the production cost at minimum without compromising the quality of the products.

Research and Development

The success of a business is very much dependent on its ability to innovate and to maintain a competitive edge over its competitors. In view of this, and in a move to develop its manufacturing process to an extent where efficiencies are maximised, costs are being strictly controlled and kept at a minimum, and quality enhanced. Yi-Lai has committed its resources to undertake R&D activities since 1990. The Group has an in-house R&D centre and a working laboratory well-equipped with a full range of equipment.

At present, Yi-Lai's research team is led by Mr. Chang Chiang-An with Mr. Yu Heng-Min as the R&D Consultant. Mr Yu holds a diploma in Ceramic Engineering from Fushin Institute of Technology, Taiwan. He started his career as a factory manager (production) in Kuo-Bin Ceramic Ind. Co. Ltd. in 1978. He joined Hung Kuo Pottery Ltd. in 1982 as head of the technical quality control department. In 1986, he joined Shim Tsu Ceramic Co. Ltd. as a director/production manager. In 1987, he joined China Glaze Co. Ltd. as a glazing engineer. He was appointed to the board of directors of YLI on 25 July 1991 and was responsible for YLI's research and development. He had ceased to be the Research and Development Manager of YLI since 4 November 1999 and is now the Research & Development consultant for YLI. As at 13 March 2002, there are twenty-six (26) other staff in the department.

The R&D department's mission are as follows:

1. to be dynamic and innovative;
2. to enhance the quality of existing products; and
3. to reduce production cost through research in raw materials.

The Group is one of the first few tiles manufacturers in the world to attain a technology breakthrough by launching the RUSTICO EMBOSSED SLATE EFFECT TILE (RESET) in 1996. RESET combines the beauty and texture of natural slate with the versatility of vitrified heavy-duty homogeneous tiles, merging the best of both worlds. Thus, RESET is the perfect alternative to the conventional slate.

Other than being innovative, the R&D department also carries out studies to enhance the quality of its existing products. Yi-Lai has developed its tiles to be highly resistant to frost, heat, acid, alkaline and ultra-violet light. The R&D department continues to improve on its current tile quality to prepare the Company for the increasingly stringent requirements of the different standard bodies such as Singapore standard SS 301 : 1985 and SS 57 : 1989 and the Malaysia standard MS 1088 : 1987.

The R&D department is determined to keep the production cost at minimum without compromising on quality. It is constantly sourcing for new substitute for raw materials. The raw materials suppliers play an important role in updating the Company with alternate raw materials while the R&D department also liaise closely with its overseas counterparts to keep itself up to date with the latest in tile industry.

Currently, the R&D department is undertaking studies towards amongst others producing larger size tiles, reducing wastage, upgrading manufacturing techniques and innovations of new material mix formulae for raw materials.

4. INFORMATION ON YI-LAI GROUP (CONT'D)**Quality Control**

The quality of Yi-Lai's products is affirmed by quality assurance steps taken at each and every production process. The quality of Yi-Lai's products and service can be justified by the long relationship the Group has enjoyed with its customers. Yi-Lai has spent long hours and expended funds in setting up its quality control channels/points to inspect the products at the various stages of the manufacturing process. As at 13 March 2002, Yi-Lai has a team of twenty-eight (28) quality control inspectors.

The quality of Yi-Lai's tiles can be seen from the test results as confirmed by SETSCO Services Pte. Ltd. (SETSCO) and SIRIM Berhad (SIRIM). SETSCO is a laboratory accredited under the Singapore Laboratories Accreditation Scheme (SINGLAS). SETSCO is also a member of the European Networking of National Ceramic Laboratories (CERLAS). The Housing Development Board (HDB) of Singapore will only use tiles which have passed its stringent requirements to achieve the desired standard and quality. SIRIM Berhad is a government-owned company under the Minister of Finance. The Ceramics Technology Laboratory (CTL) in SIRIM Berhad is actively involved in industrial research and development in the clay-based and specialised high technology ceramics. The laboratory's mission is to help local Ceramics tiles industry enhance its global competitiveness through research and development, technology transfer and technical consultancy services.

Employees

As at 13 March 2002, the Group employs a total of 689 employees. The management of the Group is of the opinion that its dedicated and efficient employees are instrumental to its success. The management of the Group enjoys a good working relationship with the employees. The employees do not belong to any organised union.

The Group's employees are generally segregated into five (5) categories as follows:-

Category of Employee	Total number	Average no. of years of service (year)
1. Managerial and Professional	15	6
2. Technical and supervisory	73	8
3. Clerical staff and sales executive (including officers, sales co-ordinators, Administrative assistant, clerks, typist and designers)	38	5
4. General workers (including drivers, office boys, cleaner, gardener and foreign workers)	116	2
5. Skilled and Unskilled factory workers	447	2
Total	689	

Human Resources and Training

To keep abreast with the modernisation of technology and demand for quality products, the directors and senior management of the Group attend trade fairs and seminars relevant to the tiles industry so as to be aware of the latest machinery available as well as the latest developments and progress in the industry.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

In year 2000 and 2001, selected teams of senior supervisors were sent overseas for training on the operation of the latest model of machinery.

Selected Department Head and related operators are required to attend in-house training, discussion and meeting to ensure the efficient usage of machinery and minimal wastage of materials. Training session on new products from suppliers will also be arranged.

Interruption/Disruption in Business

There have been no major interruptions to the business of Yi-Lai Group for the past twelve (12) months preceding the date of the Prospectus.

4.5 Subsidiary Companies

YLI

(i) History and Business Overview

YLI was incorporated in Malaysia under the Companies Act, 1965, on 10 October 1987 as a private limited company under the name Macoca Sdn. Bhd. On 15 December 1988, it changed its name to Yi-Lai Industry Sdn. Bhd. The company was converted into a public company on 22 March 1997 and called "Yi-Lai Industry Berhad". YLI is principally involved in the manufacturing and sale of ceramic and homogeneous tiles.

It commenced operations in 1990 at the present factory in Kulai, Johor. YLI's only product at the beginning of the factory's operations was ceramic tiles which were in high demand in the early 90s. It had only one production line with an annual capacity of 1,400,000 square meters. YLI was registered as the proprietor of "ALPHA TILES" as from 28 November 1991. Today, the directors believe that YLI is one of the leading automated ceramic and homogeneous tile manufacturers in Malaysia.

In response to the changing market needs and demand, YLI started its third production line in 1994 for its new product range, namely homogeneous tiles. The response for the new range was encouraging. To date, the total homogeneous tiles turnover accounts for approximately 42% of the Group's total sales turnover.

Currently, YLI has six (6) production lines with a full capacity of approximately 8.9 million square meters per annum.

YLI is a wholly owned subsidiary of Yi-Lai and it does not have any subsidiary/associated company.

(ii) Share Capital

The present authorised share capital is RM25,000,000 comprising 25,000,000 shares of RM1.00 each of which RM10,600,000 have been issued and fully paid-up comprising 10,600,000 ordinary shares of RM1.00 each.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

The changes in the issued and paid-up share capital of YLI since its incorporation are as follows:-

Date of Allotment	No. of ordinary Shares	Par Value	Consideration	Total Issued and Paid-up Share Capital
		RM		RM
10.10.87	2	1.00	Subscribers' shares	2
14.09.90	8	1.00	Cash	10
19.11.90	9,999,990	1.00	Others*	10,000,000
31.03.95	300,000	1.00	Cash	10,300,000
01.11.95	300,000	1.00	Cash	10,600,000

* Consist of 2 parts :-

- (a) 6,693,050 shares were allotted as consideration for purchase of machinery
 (b) 3,306,940 shares were allotted through cash consideration

(iii) Major Shareholder

YLI is a wholly owned subsidiary of Yi-Lai.

(iv) Subsidiary and associated company

YLI does not have any subsidiary or associated company.

(v) Profit and Dividend

A summary of the audited accounts of YLI for the past five (5) financial years ended 31 December 2001 is as follows:

	←-----Financial years ended 31 December-----→				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Turnover	76,847	61,532	72,605	89,964	98,519
EBIDTA	31,899	24,653	26,017	30,007	33,078
Interest expense	(4)	(1)	(2)	(1)	(15)
Depreciation	(6,550)	(6,555)	(5,469)	(6,317)	(8,053)
Operating profit	25,345	18,097	20,546	23,689	25,010
Exceptional item	-	-	-	-	-
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	19,616	13,053	19,126	18,351	19,828
No. of ordinary shares of RM1.00 each in issue ('000)	10,600	10,600	10,600	10,600	10,600
Gross earnings per share (RM)	2.39	1.71	1.94	2.23	2.36
Net earnings per share (RM)	1.85	1.23	1.80	1.73	1.87
Gross dividend rate (%)	100.0	123.0	176.6	151.2	-

Notes:-

- a) 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.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

- b) *There were no extraordinary and exceptional items for the financial years under review.*
- c) *The effective tax rates 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.*

YLT**(i) History and Business**

YLT was incorporated in Singapore under the Singapore Companies Act, Cap.185, on 16 November 1982 as a private company under its present name. The company is principally involved in the trading and distribution of tiles.

It is formed by Mr. Lim Oon Kok, one of the promoters of YLI, as a trading company in Singapore. It was originally involved in the trading of hardware and building materials. Subsequently, it specialised in trading of ceramic and homogeneous tiles. YLT is responsible for the Group's export sales.

(ii) Share Capital

The present authorised share capital is SGD500,000 comprising 500,000 shares of SGD1.00 each of which SGD500,000 have been issued and fully paid-up comprising 500,000 ordinary shares of SGD1.00 each.

The changes in the issued and paid-up share capital of YLT since its incorporation are as follows:-

Date of Allotment	No. of ordinary Shares	Par Value	Consideration	Total Issued and Paid-up Share Capital
		SGD		SGD
16.11.82	2	1.00	Subscribers' share	2
08.03.83	499,998	1.00	Cash	500,000

(iii) Major Shareholder

YLT is a wholly owned subsidiary of Yi-Lai.

(iv) Subsidiary and associated company

YLT does not have any subsidiary or associated company.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

(v) Profit and Dividend

A summary of the audited accounts of YLT for the past five (5) financial years ended 31 December 1997 to 2001 which are translated using the exchange rate stated in note (a) is as follows:

	←-----Financial years ended 31 December-----→				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Turnover	21,339	19,379	19,555	12,080	10,607
EBIDTA	6,751	5,739	1,946	827	948
Interest expense	-	(1)	-	-	-
Depreciation	(27)	(37)	(33)	(33)	(10)
Operating profit	6,724	5,701	1,913	794	938
Exceptional item	-	-	-	-	-
Profit before taxation	6,724	5,701	1,913	794	938
Less: Taxation	(1,657)	(1,244)	(504)	(96)	(164)
Profit after taxation	5,067	4,457	1,409	698	774
No. of ordinary shares of RM1.00 each in issue ('000)	897	897	897	897	897
Gross earnings per share (RM)	7.50	6.36	2.13	0.89	1.05
Net earnings per share (RM)	5.65	4.97	1.57	0.78	0.86
Gross dividend rate (%)	286	717	539	-	-

Notes:-

- a) The results of YLT 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:-

Year	Average Exchange Rate
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 the number of shares in issue.
- c) There were no extraordinary and exceptional items 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.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

ATT

(i) History and Business

ATT was incorporated in Malaysia under the Companies Act, 1965, on 17 March 1998 as a private limited company under its present name. The company is principally involved in the trading and distribution of tiles.

(ii) Share Capital

The present authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each of which RM2 have been issued and fully paid-up comprising 2 ordinary shares of RM1.00 each.

The changes in the issued and paid-up share capital of ATT since its incorporation are as follows:-

Date of Allotment	No. of ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
17.03.98	2	1.00	Subscribers' shares	2

(iii) Major Shareholder

ATT is a wholly owned subsidiary of Yi-Lai.

(iv) Subsidiary and associated company

ATT does not have any subsidiary or associated company.

(v) Profit and Dividend

A summary of the audited accounts of ATT for the ten(10) months period ended 31 December 1998 and financial years ended 31 December 1999 to 2001 is as follows:

	10 months ended 31 December 1998 RM'000	Financial year ended 31 December 1999 RM'000	Financial year ended 31 December 2000 RM'000	Financial year ended 31 December 2001 RM'000
Turnover	2,095	14,944	31,677	36,751
EBIDTA	173	1,325	1,663	1,724
Interest expense	-	-	-	-
Depreciation	-	(1)	(1)	(6)
Operating profit	173	1,324	1,662	1,718
Exceptional item	-	-	-	-
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
Gross earnings per share (RM)	86,500	662,000	831,000	859,000
Net earnings per share (RM)	62,000	662,000	566,500	551,500
Gross dividend rate (%)	-	60,000,000	-	-

4. INFORMATION ON YI-LAI GROUP (CONT'D)*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 were no extraordinary and exceptional items 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.*

4.6 Industry Overview**Industry Structure**

The ceramic industry is broadly classified into two (2) segments :-

1. Structural clay	-	includes mainly ceramic and homogeneous tiles, bricks, roofing tiles and clay pipes
2. Non-structural clay	-	includes mainly sanitary ware, ceramic formers, tableware, decorative ware, flower pots and kaolin

The commonality in this industry is that the raw materials of all the products are made from clay materials. Clay materials are minerals which will transform chemically when fired at high temperature, hence, it will not revert to its original form on cooling, i.e. transformation from loose amorphous mixture into monolithic solid.

Structural clay products are estimated to account for approximately 50% of the total ceramic industry sales value (RM2.6 billion as at 2000).

(Source: Report by Dynaquest Sdn Bhd - Ceramic Tiles 2001)

Ceramic and homogeneous tiles are also classified as building materials which in turns fall under the broader category of construction sector. As such, the overall performance of the construction sector will play an important role on the demand for ceramic and homogeneous tiles.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

Industry Growth And Size

The growth in the construction sector is expected to improve by 4.9% (2000 :1%) with the expansion in fiscal spending providing the main stimulus. Sales in the residential property sector are also expected to pick up as purchasers take advantage of the stamp duty exemption on sales and purchase agreement and transfer and loan agreements for properties completed before the end of 2001.

With regard to the commercial property sector, while the take-up rate improved slightly from 73.7% at end December 2000 to 74.4% at end June 2001, the property overhang for shopping complexes remains large. The non-metallic mineral industry which includes cement, concrete and clay products had also benefited from the Government fiscal stimulus measures. Other types of building materials such as ceramic tiles, roofing tiles and earthen bricks recorded significant growth of 18.5% (January – July 2000 : 16.7%), 33.8% (January – July 2000 : 33%) and 21.8% (January – July 2000: 8.2%), respectively.

(Source: Economic Report 2001/2002)

The Malaysian economy, which was making an impressive progress after the severe economic crisis in 1997-1998, moderated in the face of a slowdown in the global economy. In the second quarter of 2001, the growth in gross domestic product ("GDP") was 0.5% against 3.1% registered in the preceding quarter.

Growth has slowed but remained in positive territory. Moderation in the expansion of Malaysia's exports was apparent in Jan-June 2001. However, the external trade balance continue to register a surplus of RM25.8 billion, as the level of exports exceeded imports.

The Malaysian property market entered the year 2001 equipped with specific measures to strengthen the industry as provided for in the Budget 2001 to cushion the weakening market dominated with high overhang in the residential, shops and industrial sector in addition to the high vacancy rates in the purpose built offices and shopping complexes. Among the measures were the lowering of the ceiling rate of ad-valorem stamp duty on property transfers from 4% to 3%. The Employee Provident Fund (EPF) has relaxed its policies to allow contributors to make withdrawals towards the purchase of a second house. The government introduced a similar measure by increasing the housing loan eligibility and permitted public sector employees to utilise the balance of their loan eligibility for a second house. The financial institutions, on the hand, continued to provide attractive housing loan packages.

The total industry sales of the ceramic tiles industry is likely to increase by about 10% in 2001 when compared with the previous year. On average, industry pretax profit will increase at a lower rate than sales growth at about 5%.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

The following is the production statistics of the Ceramic tiles industry:-

YEAR	CERAMIC AND HOMOGENEOUS TILES (million square meters)
1989	19.1
1990	23.4
1991	28.7
1992	33.7
1993	40.3
1994	46.6
1995	45.4
1996	47.3
1997	53.7
1998	42.2
1999	50.4
2000	58.4
*2001E	66.4

(Source: Report by Dynaquest Sdn Bhd – Ceramic Tiles 2001, Abstract of Table1)

Government Legislation, Policies And Incentives For The Industry

Of major concern for the ceramic tile players in Malaysia is AFTA or trade liberalisation. AFTA will result in the gradual reduction of trade barriers in the ASEAN countries by the year 2003. Traditional protection in the form of import tariffs will be virtually removed. This will result in local ceramic manufacturers having to compete with cheaper imports from our ASEAN neighbours. As a result, cheaper imports will enter the Malaysian market. As far as local ceramic tile manufacturers are concerned, AFTA will pose a threat to those ceramic tile manufacturers manufacturing lower end products. For the higher end tile manufacturers with easily recognisable brandnames, they will be less badly hit.

(Source: Report by Dynaquest Sdn Bhd - Ceramic Tiles 2001)

Summary Of Outlook And Areas Of Growth For The Industry

The production of the ceramic tiles is complementary to the growth of construction and property development industry. As such, the future prospects of the industry are intrinsically linked to the success and development of the following:

- (A) Malaysian economy;
- (B) Sectoral performance of the Malaysian economy

(A) Outlook of the Malaysian economy

The performance of the Malaysian economy in 2001 has been adversely affected by the greater-than-ever expected slowdown in the world economy, particularly in the United States as well as the continuing weak performance of the Japanese economy. The recent attack on the United States has led to greater uncertainties with respect to the severity and the duration of the recovery in the United States.

All major sectors are expected to be adversely affected by the slower growth in the economy, particularly manufacturing which is estimated to record a sharp deterioration in output growth. The steep decline in value added of the manufacturing sector has, however, to some extent been offset by the better performance from the agriculture, construction and services sectors.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

Growth in real GDP in 2001 has been adversely affected by the unfavourable external environment, precipitated by the slowdown in the US economy. Despite this, the Malaysian economy, supported by domestic demand, is expected to record GDP growth of 1-2%.

Prospects for an improved world economy performance remain uncertain with world recovery expected to be delayed to the later part of 2002. Although uncertainties regarding the US recovery and, hence, world growth have increased, the setback has been minimised through concerted actions taken by the major economies in enhancing liquidity as well as adopting continued monetary and fiscal easing. For the Malaysian economy, it is expected to recover from a slower growth in 2001 to register a higher real GDP growth of 4-5% in 2002.

(Source: Economic Report 2001/2002).

(B) Outlook on sectoral performance of the Malaysian economy

Sectoral outlook on the Malaysian economy:-

(i) Construction and property development industry

Growth in the construction sector is expected to improve by 4.9% (2000 : 1%) with the expansion in fiscal spending providing the main stimulus. Sales in the residential property are also expected to pick-up as purchasers take advantage of the stamp duty exemption on the sales and purchase agreement and transfer and loan agreements for properties completed before the end of 2001.

(Source: Economic Report 2001/2002).

Residential Sub-sector

Growth in the residential sub-sector was reflected in the marked increase in the number and value of residential property transactions. Growth of the residential sub-sector was supported by strong underlying demand, particularly for affordable housing, arising from low interest rates, rising income and improved sentiment. Reflecting developers' optimism on rising demand, more units were approved for construction by private developers in Peninsular Malaysia. In tandem with higher approvals, new sales and advertising permits as well as renewals of such permits increased in 2000. Loans taken by the banking system for residential properties also rose significantly by RM11.2 billion in 2000. Similarly, loans approved by most of the housing credit institutions increased during the year. During the course of 2000, however, a slow down in demand was evident. Sales performance of new launches of housing schemes showed a declining trend, with the take-up rate declining from 61% in the first quarter to 49% in the third quarter. Purchasers were becoming more cautious and discerning about buying property.

Nevertheless, reflecting the general improvement in demand and sentiment, house prices trended upwards during 2000. Latest data showed that the Malaysian House Price Index rose by 14.3% during the first half of 2000, although the index remained below the peak level in 1997. Prices of all types of houses recorded increases.

(Source: Bank Negara Malaysia Annual Report 2000)

4. INFORMATION ON YI-LAI GROUP (CONT'D)

(ii) Manufacturing sector

The manufacturing sector, which had recorded twenty-one consecutive months of double-digit growth, is operating in a challenging environment in 2001 with weakening exports and slowing domestic demand. Consequently, the sector recorded a lower output of 3.3% (January – July 2000 : 28.2%). The slowdown in a world economy and the sharper-than-expected decline in global demand for electronic products have severely affected the output of the manufacturing sector, especially the export-oriented industries, which contracted by 8.5% (January – July 2000 : 32.8%). The sharper deceleration largely reflects the impact of lower production and exports of electronics, which constituted 28% of total manufacturing production and close to half of total manufactured exports. This has adversely affected the overall performance of the export-oriented industries despite some sectors, such as wood and rubber products, continuing to register positive growth rates.

(Source: Economic Report 2001/2002).

(iii) Malaysian Ceramic tiles industry

For 2002, the Malaysian economy and the construction sector are envisaged to grow by 4.0%-5.0% and 3.5% respectively. Due to this, an increase in demand for ceramic tiles can be expected. In the domestic market, the increase in demand for ceramic tiles is likely to be derived from the completion of residential projects and the increase use of ceramic tiles as a result of its affordability and durability. However, demand for ceramic tiles from commercial properties is likely to be flat for 2002. As a result of excess supply and weak demand for office space, developers are discouraged from embarking on new construction starts for office space in view of high holding costs. As for the hotel industry, demand for ceramic tiles (for renovation purposes or new hotels) will probably be weak in 2002 due to poor business. Overall, the increase in demand for ceramic tiles from the residential properties segment will spur the overall growth in demand for ceramic tiles. Against this background, a 6% increase in demand (by quantity) for ceramic tiles for 2002 from the domestic market can be expected. Given the subdued recovery expected in the overseas economies, it is likely that ceramic tile exports will increase by a lower margin (by quantity) than that of the domestic market in 2002.

Owing to higher prices, total industry sales (by value) for the local ceramics industry for 2002 will probably increase by about 7% from the previous year. In terms of industry operating profit margins, there may be a moderate increase on the back of rising prices for ceramic tiles. Profit margins of premium ceramic tile prices (for example, rustic tiles and terracotta tiles) are substantially higher than that of the ordinary ceramic tiles due to rising popularity.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

Over the medium term, moderate growth is expected for the ceramic tiles industry. The bulk of the growth in the demand for ceramic tiles will probably still come from residential properties as commercial properties (office space and shopping complexes) will still be in excess supply until about 2004. Demand for ceramic tiles from the hotels will exist as the hotel industry do not suffer from excess supply as severe as the commercial properties. Hotels usually upgrade their rooms every five years, but there is a possibility that some may defer their upgrading exercise if the fear for travelling continues. Besides this, there is still surplus capacities in the local ceramic tiles market. While local tile manufacturers can turn to the export markets once regional economies recover, it is however to be noted that the export markets are very competitive and profit margins are small. Thus, local tile manufacturers will have to resort to new technologies to make their operations competitive. Otherwise, it is unlikely to ward off the stiff challenge posed by competitors in the medium term. Ceramic tile players with older plants will have to upgrade their plant to survive in a more competitive environment.

Of major concern for the ceramics tile players in Malaysia over the medium term is AFTA or trade liberalisation. AFTA will result in gradual reduction of trade barriers in the ASEAN countries by the year 2003. Traditional protection in the form of import tariffs will be virtually removed. This will result in local ceramic manufacturers having to compete with cheaper imports from our ASEAN neighbours. As a result, cheaper imports will enter the Malaysian market. As far as local ceramic tile manufacturers are concerned, AFTA will pose a threat to those ceramic tile manufacturers manufacturing lower end products. For the higher end tile manufacturers with easily recognisable brandnames, they will be less badly hit.

(Source: Report by Dynaquest Sdn Bhd – Update on Ceramic Tiles 2002)

4.7 Major Customers

As mentioned earlier of this Section, Yi-Lai's local sales accounts for approximately 89.5% of the Group's total sales. Yi-Lai Group's sales are retail-based and its products are principally distributed through the following distributors:-

Buyers	% to the Group's total sales as at 31 December 2001 (%)	Length of relationship (Years)
<i>Local</i>		
Lux Distributor Sdn Bhd	30	11
PM Ceramic Distributor Sdn Bhd	18	11
Campana Distributor Sdn Bhd	4	11
Buildzone Sdn Bhd	3	6
Stone Master (Malaysia) Sdn Bhd	1	1
<i>Export</i>		
Nam Huat Tiling & Panelling Co. Pte. Ltd.	5	9

Yi-Lai's remaining sales i.e. 10.5% is mainly exported by YLT. The largest customer of YLT is Nam Huat Tiling & Panelling Co. Pte. Ltd., one of the suppliers of building materials to the Singapore's Housing Development Board.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

4.8 Major Suppliers

In order to enjoy flexibility and competitive prices, Yi-Lai Group has not committed to any long term contracts with its suppliers. Purchases from overseas suppliers are mainly on cash basis or Letters of Credit, while local purchases are on 30 to 90 days credit term. It is Yi-Lai's practice not to commit to long term contracts so as to have the flexibility to reap benefits from competitive prices.

Yi-Lai has an extensive list of suppliers and hence does not depend on any single supplier for its purchases. Tabulated below the list of its top ten (10) suppliers:

Suppliers	% to the Group's cost of sales as at 31 December 2001	Length of relationship (Years)
Gas Malaysia Sdn Bhd	11.17	*
China Glaze Co Ltd	5.21	10
Shell Malaysia Trading Sdn Bhd – Fuel Oil	5.08	11
Zhangjiagang Usher Ceramic Co Ltd	3.96	2
Te Chang Industries Sdn Bhd	3.82	5
Unisil Mineral (M) Sdn Bhd	2.98	4
Minoco Sdn Bhd (formerly known as Syarikat Honda Industries)	2.32	11
Amcors Fibre Packaging (Malaysia) Sdn Bhd	2.08	7
Chin Jung Trading Co.Ltd	1.95	10
Itaca SA	1.87	7

* *less than a year*

4.9 Future Plans and Strategies

The Company's business strategies have been carefully formulated to ensure that the Company maintains its competitive advantage. In this context, it is the aim of the Company to be in the forefront of the industry by responding to the changing needs of the market conditions and strives to be a cost efficient tile manufacturer. The Group has implemented the following to ensure a sustainable growth for the Group:-

Expansion plan of Production Facility and Capacity

The Company expansion plans increased its existing production facility and capacity as set out below:-

- (i) The construction of a new warehouse.

This new warehouse was completed in the second (2) quarter of 2001 and this has enabled the Group to increase its storage capacity from 12,000 pallets to 20,000 pallets.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

(ii) Upgrading of Ball Mills

The Company upgraded the existing ball mills to increase its production efficiency rate. The upgrading involves replacing pebbles which are currently used as grinding stones in the ball mills with high alumina grinding balls. These high alumina grinding balls are much heavier in weight than the grinding stones. As such, it reduces the required grinding time from approximately 20 hours per run to approximately 11 hours per run. The upgrading exercise has been completed in the first quarter of 2002.

(iii) Purchase of new machinery

YLI purchased two (2) machines to manufacture new varieties of tiles. The two machines are Dry Powder Mixer and Spot-Feeder Machine which are used to produce the Multi-Effect Homogeneous Tiles. Multi-Effect Homogeneous Tiles differ from the usual homogeneous tiles in terms of pattern and style. It bears finishing which is similar to the surfaces of natural stone. These two machines were installed in the last quarter of year 2001.

Furthermore, the Company has added another kiln to its existing five (5) kilns. The expansion of this new production line is expected to increase its production volume by approximately 2.2 million square meters per annum thereby increasing its total production capacity from the existing 6.7 to 8.9 million square meters per annum. This new production line has enabled the Company to produce more creative and larger sizes tiles at 60x60 cm compared to the existing of 20x20 cm, 30x30 cm and 40x40 cm. This new production line was completed and commissioned in August 2001.

Product Diversity and Quality

The longstanding partnership and co-operation with its distributors has enabled the Company to be market sensitive and continuously improve and innovate to better achieve customer satisfaction. Its technical strength and experienced engineers in R&D is another strong factor which contribute to the Group's capability to introduce new products to meet the needs of changing market trends. With this effort, Yi-Lai plans to introduce its own Multi-Effect Homogeneous Tiles to the market by 2002.

It is the Group's plan to:

- (i) improve product qualities via concerted R&D efforts;
- (ii) innovate new products that bear valued-added features in terms of aesthetic perfection, texture and colour; and
- (iii) train selected technical staff to improve on product knowledge and machinery technology to better meet the customers' needs and expectations.

Wider Market Coverage

The Group intends to make further inroads into the export markets in order to reduce the Group's dependency on the local market. To further expand its coverage of the export market, the Group plans to leverage on its new products, like the Multi-Effect Homogeneous Tiles, to explore new overseas market. Notwithstanding that, the Group will continue to strengthen its local sales capability with the existing distributors to enhance its market share within the domestic tiles industry.

4. INFORMATION ON YI-LAI GROUP (CONT'D)

Research & Development

The Group places emphasis on the R&D activities in improving the production process and developing new product designs to meet the changing customer taste. Hence, the R&D activities have formed an integral and important function in the Group's tiles production.

The R&D department plans to actively seek for new products by constantly updating itself with the latest market research, technology and customer preference. Furthermore, the R&D department will continue to strive for innovation in raw material mixture formulas so as to keep the production cost at a minimal without compromising on quality. The Group also aims to strengthen its R&D team by increasing participation in machinery exhibition overseas so as to support its future growth.