

4.0 INFORMATION ON THE YCB GROUP**4.1 Incorporation and Principal Activities**

YCB was incorporated in Malaysia under the Companies Act, 1965 on 26 September 2000 as a private company limited by shares under the name of Yikon Corporation Sdn Bhd. It was subsequently converted to a public limited company and assumed its present name on 16 October 2000. The Company's principal role is to function as an investment holding company.

YCB is an investment holding company whilst the principal activities of its subsidiary companies are as follows:-

Subsidiary Companies	Date and Place of Incorporation	Effective Equity Interest (%)	Principal Activities
YJI	28.09.1991/ Malaysia	100.00	Manufacturer and exporter of gold jewellery and ornaments
YG	17.04.1997/ Malaysia	100.00	Trading of gold jewellery and ornaments
YHK	28.02.1996/ Hong Kong	100.00	Jewellery distributor

As at the date of this Prospectus, YCB does not have any associated company.

4.2 History

The history of YJI started with the involvement of the Chin family in the gold jewellery business in the 1940s, with the partnership business known as Yik On Goldsmith.

In the 1980s, the partnership led by Mr Chin Kok On and Mr Chin Poh On, expanded its business to export to the overseas market. Yikon Jewellery Sdn Bhd was incorporated in 1991 to take over the partnership business of Yik On Goldsmith and changed its name to YJI in 1992.

In February 1996, YHK, a wholly-owned subsidiary company of YJI was incorporated in Hong Kong as a marketing arm for YJI in Hong Kong. In April 1997, YG, a wholly-owned subsidiary company of YJI was incorporated as a marketing arm for the products of YJI.

After more than five decades of involvement in the gold jewellery industry, the Chin family business has grown from a small scale goldsmith to become gold jewellery manufacturer and exporter in Malaysia.

4.3 Changes in Share Capital of YCB

The authorised share capital of YCB is RM50,000,000 comprising of 50,000,000 shares. The present issued and paid-up share capital of YCB is RM34,000,000 comprising of 34,000,000 shares.

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

Date of Allotment	No. of shares	Par Value RM	Type of Issue	Resultant Issued and Paid-up Share Capital RM
26.09.2000	2	1.00	Subscribers' shares	2
01.03.2002	22,398,620	1.00	Issued at RM1.00 per share for the acquisition of 100% equity interest in YJI	22,398,622
27.03.2002	11,601,378	1.00	Renounceable rights issue at an issue price of RM1.12 per share on the basis of approximately 51.80 new shares for every 100 existing shares held	34,000,000

4.4 The Restructuring and Listing Scheme

In conjunction with, and as part of the listing of and quotation for the entire issued and paid-up share capital of YCB on the Second Board of the KLSE, the Company undertook a restructuring and listing scheme as approved by the FIC, MITI and SC on 19 February 2001, 16 April 2001 and 2 July 2001 respectively.

The Company has subsequently submitted a revised restructuring and listing scheme to the SC, FIC and MITI based on the revised SC Guidelines issued on 3 September 2001. The revised restructuring and listing scheme has been subsequently been approved by MITI, SC and FIC on the 13 December 2001, 14 December 2001 and 26 February 2002 respectively.

4.4.1 Acquisitions

Acquisitions by YCB of the entire issued and paid up share capital of YJI, YG and YHK, the details of which are summarised below:-

Name of Company	No. of Shares Acquired	% Equity Interest Acquired	Audited Consolidated NTA as at 31.10.2000 RM	Purchase Consideration RM	←--Mode of Satisfaction-->	
					No. of New YCB Shares Issued	Cash RM
YJI	1,000,000	100.0	22,398,620	22,398,620	22,398,620	-
YG	2	100.0	-	2 ⁽ⁱⁱ⁾	-	2
YHK	2 ⁽ⁱ⁾	100.0	-	1 ⁽ⁱⁱ⁾	-	1
			<u>22,398,620</u>	<u>22,398,623</u>	<u>22,398,620</u>	<u>3</u>

Notes:-

⁽ⁱ⁾ Comprising of 2 shares of HK\$1.00 each whilst HK\$1 is equivalent to RM0.48 as at 31 October 2000.

⁽ⁱⁱ⁾ Based on cost of investment.

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The total 22,398,620 new shares allotted and issued pursuant to the Acquisition of YJI ranked pari passu in all respects with the existing issued and paid-up shares of YCB.

(a) Acquisition of YJI

YCB acquired the entire issued and paid-up share capital of YJI comprising of 1,000,000 shares for a total consideration of RM22,398,620 which was fully satisfied by the issuance of 22,398,620 new shares in YCB at an issue price of RM1.00 per share. The Acquisition of YJI was completed on 1 March 2002.

The purchase consideration of RM22,398,620 was based on the audited consolidated NTA of YJI as at 31 October 2000 of RM22,398,620.

The total purchase consideration of RM22,398,620 was fully satisfied by the allotment and issue of 22,398,620 new shares in YCB in the following manner:-

Vendor	<-Shareholding in YJI->		New YCB <--- Shares Issued --->	
	No. of Shares	%	No. of Shares	%
PESB	500,000	50.00	11,199,309	50.00
Chin Kok On	200,000	20.00	4,479,724	20.00
Chin Poh On	200,000	20.00	4,479,724	20.00
Wan Mohd. Ismail Bin Wan Hussain	40,000	4.00	895,945	4.00
Abdol Rahaman Bin Mahmud	30,000	3.00	671,959	3.00
Ramlah Bte Jamaludin	30,000	3.00	671,959	3.00
	<u>1,000,000</u>	<u>100.00</u>	<u>22,398,620</u>	<u>100.00</u>

(b) Acquisitions of YG and YHK

YCB acquired the entire issued and paid-up share capital of YG and YHK from YJI for cash consideration based on YJI's cost of investment, as follows:-

Company	YJI's Cost of Investment RM
YG	2
YHK	1
	<u>-----</u> 3

4.4.2 Rights Issue

YCB implemented a renounceable rights issue of 11,601,378 new shares at an issue price RM1.12 per share proportionately to all its existing shareholders on the basis of approximately 51.80 new shares for every 100 existing shares held in YCB based on the issued and paid-up share capital of 22,398,622 shares, after the Acquisition of YJI.

The Rights Issue was completed on 27 March 2002 and resulted in the issued and paid-up share capital of YCB being enlarged from 22,398,622 after the Acquisition of YJI to 34,000,000 shares after the Rights Issue.

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4.4.3 Public Issue and Offer for Sale

In conjunction with the listing of YCB, YCB will undertake a Public Issue of 6,000,000 new shares and the Offerors will undertake an Offer for Sale of 4,020,000 shares at the Public Issue/Offer for Sale price of RM1.80 per share, to be allocated in the following manner:-

	Public Issue No. of Shares	Offer for Sale No. of Shares	Total No. of Shares	% of Enlarged Share Capital
Bumiputera investors nominated and approved by MITI	-	4,000,000	4,000,000	10.00
Directors, eligible employees and persons who have contributed to the success of the YCB Group	1,980,000	20,000	2,000,000	5.00
Malaysian investing public	4,020,000	-	4,020,000	10.05
Total	6,000,000	4,020,000	10,020,000	25.05

4.5 Business Overview on the YCB Group**4.5.1 Group Structure and Principal Activities**

The structure and principal activities of the YCB Group are summarised in Section 1.1 and 1.2 of this Prospectus.

4.5.2 Principal Products

The Group has a wide range of gold jewellery products manufactured according to in-house designs and specification. Besides that, the Group is also able to meet customers' specific requirements or orders. The Directors believe that the Group has over the years established itself as a reputable gold jewellery manufacturer and exporter with a track record of having manufactured more than 20,000 designs of various gold jewellery products.

Generally, products manufactured and sold by the Group can be categorised as follows:-

(a) Cubic zirconia gold jewellery products

The cubic zirconia gold jewellery products mainly comprises cubic zirconia sets which include setting of precious or semi-precious stones, cubic zirconia, sapphire, jade and others set in yellow gold, white gold or original three colours gold with purity ranges from 14 carat ("K") to 22K.

(b) Plain gold jewellery products

This is the main category of the Group's product.

The Group manufactures a wide range of plain gold jewellery and ornament products such as rings, earrings, pendants, necklaces, bracelets, chains, broaches, belts, bangles, etc. from 14K to 24K fine yellow gold and white gold.

The plain gold jewellery and ornament products manufactured include contemporary and innovative designs that are worn as fashion accessories as well as traditional designs commonly used for the purpose of religion, status or custom.

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(c) Others

This includes mainly customised gold plaques, medals, momentous cards, decorative items of different shapes and other miscellaneous items.

Through years of experience in the industry, the Group has accumulated valuable knowledge and expertise required in acquiring the right type of machinery or redesigning the machinery as well as technical know-how to manufacture a wide spectrum of gold jewellery products.

The Directors believe that the Group’s strength lies in its flexibility to meet demand with the latest innovative designs, availability of multiplicity of designs and high quality of its gold jewellery products.

4.5.3 Manufacturing Process

The production cycle for gold jewellery products takes approximately 3 to 14 days to complete for an order, depending on the complexity of products design, specific requirements of the product and production volume.

Generally, there are 3 methods of gold jewellery manufacturing methods:-

- (a) casting;
- (b) stamping; and
- (c) chain.

(a) Casting

Set out below is a stage-by-stage explanation of the casting production process :-

Stage I Design	Stage II Fabrication	Stage III Mould-making	Stage IV Waxing and Tree Mounting	Stage V Pre-casting Preparation
Stage VI De-waxing	Stage VII Casting	Stage VIII Post-casting	Stage IX Buffing/ Polishing	Stage X Final Inspection

Stage I : Design

The starting point of all jewellery production process begins with design drawing. Designs/ideas are conceptualised using computer software. The designer would specify the size of the jewellery item, the required cubic zirconia stones, the appropriate type of settings and finishing. Any unique feature is also clearly indicated for the craftsman to create a prototype.

A selection committee comprising members from the Research and Development Department, Sales and Marketing Department and Production Department, headed by the Managing Director, would approve the drawings for new designs first before fabrication.

Stage II : Fabrication

An experienced skilful craftsman would create the prototype based on the product design specifications and the prototype would be made from silver called “Silver Masters”. Computer aided engineering process is also employed for designs targeted at the high-end market. A prototype is cast out and then followed by fine touch-up in order to attain the high level of quality. The final Silver Master is then stamped according to the design model number for easy identification.

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Stage III : Mould-making

The final Silver Master is then converted into a rubber mould by means of mechanical presses. Specially imported premium quality rubber is used to make durable rubber moulds. Once the vulcanised rubber mould has been created, the Silver Master is removed and kept securely in a central store to be use again if the need arises.

The rubber mould created is properly identified in accordance to the design number and will be used for mass production as and when sales orders are received. When rubber moulds are worn out through constant usage, they are replaced with new rubber mould made from the Silver Master.

Stage IV : Waxing and Tree Mounting

Wax models of the jewellery are created from the rubber mould by means of wax injection using advanced vacuum injector. Premium grade wax specifically for jewellery manufacturing is used. The wax pieces are systematically sorted and then soldered onto "trees". The 'trees' are weighed according to the purity percentage ordered by customers. The "tree" is then put into a metal flask with other crucial information such as jewellery type, customer code being labelled on a metal flask.

Stage V : Pre-casting Preparation

At this stage, the correct amount of thoroughly blended jewellery grade casting powder and water is poured into the flask and at the same time, the flasks is vacuumed to remove any air bumbles. The flask is then allowed sometime for settling and drying.

Stage VI : De-waxing

De-waxing is done by means of a heated water bath with temperature control. The flasks are then baked and hardened for few hours in ovens built in with precise temperature and timer controls. The optimum settings are determined after many years of research and experience.

The wax tree has to be completely burnt out, as any wax residue will affect the shape and texture of each piece of cast jewellery. After the wax has been completely evaporated, what remains is the negative imprint of the wax tree.

Stage VII : Casting

During the casting process, gold is placed and melted in the crucible inside the casting machine. At the same time, the completely burnt out wax tree in the flask is removed from the furnace and placed in the casting machine. The resultant mould is then filled with the molten gold through combination of pressure exerted from of casting machine.

The casting machines used are fully computerised for precise temperature, pressure and timer setting. Different settings are programmed for different purity and product mix.

The golden trees are cooled off and then washed thoroughly with jet water to remove any remnant of casting powder, before they are soaked in cleansing solution to improve the glossy appearance. The jewellery pieces are pruned off and sorted according to design and customers' orders.

Stage VIII : Post-casting

Further processing in the production flow is then divided into two lines, namely plain gold jewellery and cubic zirconia gold jewellery.

(aa) Plain gold jewellery products

After casting, the jewellery components are pruned off the trees and sent for assembly. Buffing of burs, joining pieces together, soldering and crimping are the common activities carried out in the assembly station. Sandblasting by means of regulated compressor air pressure completes the assembly stage in the production flow.

The next process involves faceting, commonly known as “diamond cutting”. Finally the jewellery is chemically treated to enhance the finishing. Polishing may be required to further improve the quality of the products.

(bb) Cubic zirconia gold jewellery products

The assembly process is similar to that of plain gold jewellery as described above.

The major difference lies in the cubic zirconia setting process. Magnetic and polishing are mandatory steps in the process flow in order to achieve high glossy finishing. In addition, rhodium and sandblasting are usually required to add variety to finishing.

Very often the products ordered are necklaces and full sets. They would require chain in the assembly. The chains are made in-house by means of sophisticated automatic machines.

Stage IX : Buffing/Polishing

Buffing is also commonly known as polishing. At this stage, items are sent to the buffing machine for polishing. The item is buffed until it is smooth and shiny. A burnish machine is then used to reach any difficult corners to complete the polishing process.

Stage X : Final Inspection

Quality checks are conducted at every stage of the production cycle before proceeding to the next stage to ensure that a high quality is maintained. At the end of the production cycle, a team of quality control operators check all the finished products again. The checking includes the setting of cubic zirconia stones to ensure all cubic zirconia stones are secure, examining the condition of the cubic zirconia stones and inspecting all joints to ensure that they are well soldered. Thereafter, all the finished products are packed for delivery.

(b) Stamping

These are gold jewellery made from stamping machines, quite different from casting products. The stamping parts are punched out or pressed from hydraulic presses. The moulds and dies for the stamping are fabricated internally. YJI is equipped with its own machines to make the high quality moulds and dies.

The gold components produced by the stamping machines operated by experience machinist are subsequently assembled into products as per the customers' orders. The assembly process is similar to the post casting process of plain gold jewellery products mentioned above.

(c) Chain

Sophisticated advanced machines installed in the Chain Department is capable of producing wide range of chains to cater for different markets, such as curb chain, hollow curb chain, cable chain, ficaro chain and so on. Advanced technology such as automatic laser welding of chains is employed to produce some of the chains fabricated by YJI.

Chains are either sold directly as end products or used in-house during the assembly process to produce necklaces and other products.

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The chain making process begins with melting of gold and alloy. They are placed in specially made crucible, which is heated to the required temperature by means of induction melting furnace. The induction melting furnace is completed with accurate temperature controller. Different level of purity requires different set of operation parameters. A series of rolling and drawing are carried out to obtain round and flat wires of the specified dimension. In the case of hollow curb chain, forming process is carried out by a specific machine.

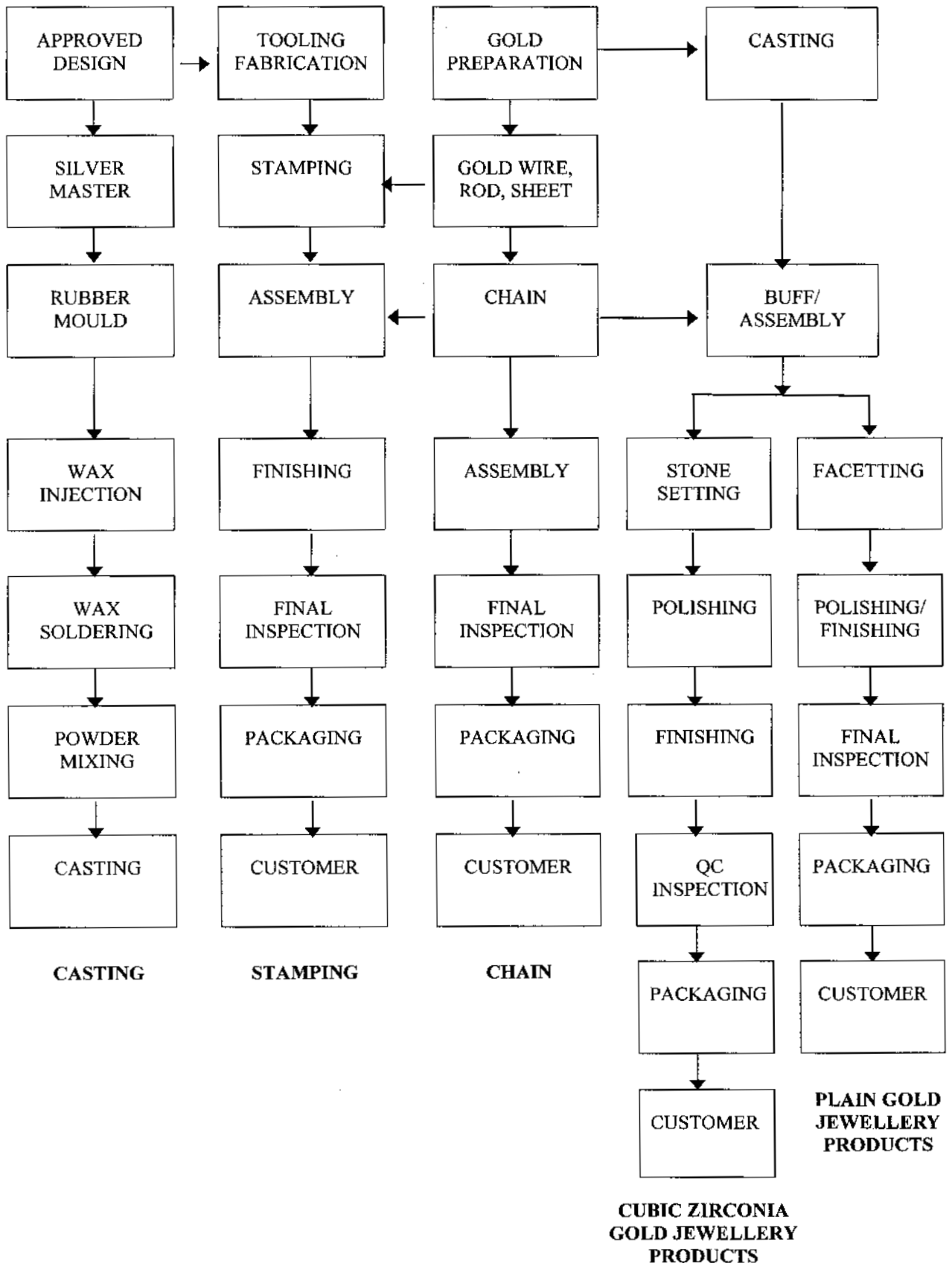
Annealing by advanced ammonia annealing machine is used to ensure high quality finishing. After the chain making machines have been properly set up by qualified technician and loaded with the requisite materials, the chain making machines will continue to run on their own by auto mode. Soldering, hammering and diamond cutting are then carried out by the technicians to the chain.

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A flowchart of the summary of the major production processes is as follows:-

MAJOR PRODUCTION PROCESSES FLOW CHART



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4.5.4 Ranking

MIDF Sisma Securities Sdn Bhd in its Independent Expert Opinion Report dated 15 April 2002 in Section 14.0 is of the opinion that YJI *"is a leading fabricator of gold jewellery, particularly for the export market. With over 20,000 designs, it currently captures 13.5% of Malaysia's exports of gold jewellery products."*

4.5.5 Principal Markets for YCB's Group Products

The YCB Group is an export-oriented group. Its gold jewellery products are exported to world-wide countries.

Since the 1980s, the Group via YJI's success in the domestic jewellery business had spurred the Group to penetrate into overseas markets. Recognising the huge potential of the gold jewellery business in the world markets, the Group reorganised its marketing and production operations strategy with emphasis placed on product quality, multiplicity product designs, timely delivery and mass production to meet the international demand. These competitive advantages have enabled the Group to gain a stronger foothold in the international gold jewellery markets. The Group has managed to make significant inroads to overseas markets such as Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, Indonesia, Libya, Jordan, Philippine, Singapore, United States of America and others.

The principal markets that the Group have exported to for the financial year ended 31 October 2001 are listed below:-

Principal Export Countries	Total Workmanship Charges %
Saudi Arabia	45.38
United Arab Emirates	26.03
Indonesia	12.64
Bahrain	4.37
Philippines	3.79
Libya	2.92
Singapore	1.99
Kuwait	1.63
Oman	0.60
Jordan	0.38
Qatar	0.15
India	0.07
Total	99.95

4.5.6 Raw Materials

Since the principal product produced by the Group is gold jewellery products, its primary raw material is gold bullion. For the financial year ended 31 October 2001, the cost of gold bullion accounted for approximately 94.83% of the Group's total purchases.

There are 3 main broad categories of raw materials used, namely the following:-

- | | | | |
|-----|---------------------------------------|---|---|
| (a) | principal raw materials | - | gold bullion; and
cubic zirconia stones; |
| (b) | supplementary raw materials | - | |
| | (i) alloys | - | copper and silver; and |
| | (ii) chemicals | - | stripping solution; |
| (c) | others, i.e. packaging materials etc. | - | plastic bag/container |

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The Group is not dependent on any single supplier as it obtains its raw materials from various suppliers. Raw materials are carefully chosen and selected based on their quality and these raw materials are purchased from various suppliers locally and overseas.

Generally, there are numerous alternative sources of gold bullion such as:-

- (a) gold bullion banks;
- (b) gold bullion traders/dealers; and
- (c) customers provide the Group with the gold bullion used for manufacturing.

Generally, the Group is able to obtain a steady supply of gold bullion from its suppliers and has over the years established a close relationship with its suppliers. The length of working relationships between the Group and its major suppliers varies from a few years to at least 3 years.

4.5.7 Quality Control Procedures

According to the Directors, the Group's corporate mission is to provide high quality gold jewellery products to its customers. Therefore, the Directors have placed emphasis on assuring high standards of the Group's products.

A stringent in-house quality control system has been developed and implemented to check on every stage of production. Checks begin from the initial stage of the purchase of raw materials, the conceptualisation of ideas and designs, and end with a final quality check before the products are packed and delivered to the customers. This quality control system helps the Group to maintain its high quality standards to ensure that every customers' specification and expectation are met.

This stringent quality control system helps the Group to efficiently and effectively identify problem areas and implement remedial actions where necessary in order to maintain its high quality standards.

In addition to the internal quality control procedures implemented by the Group, the Group also randomly sends its finished products to independent testing laboratory for Assay process. The Assay process is a process carried out by independent laboratories to verify the purity of the gold products.

The Group is committed to achieve a high level of quality control in order to ensure that its products are able to compete in the world markets.

The Directors believe that the Group has the proven record of producing high quality gold jewellery products as evidenced by the almost zero rejection rates from its customers.

4.5.8 Research and Development

The Group places great emphasis on research and development as the Group aims to gain a stronger foothold in the international gold jewellery markets through enhancing its efforts in research, design and development. The strength on its research and development has enabled the Group to keep abreast with the current market trend and the changing consumer preferences especially on product designs.

The principal roles of the Group's research and development are to:-

- (a) develop new product designs in order to maintain its competitiveness in the gold products market. The research and development and the design teams conceptualise ideas into detail designing. The team continuously conducts market research to monitor the latest market trends and customer preferences through magazines and journals for up to date market information and feedback from customers. The team also conducts survey on customers' requirements as well as attend seminars, trade fairs and exhibitions;
- (b) continuously seek to improve and modify the production processes and facilities with new production technology in order to achieve better product quality, lower the cost of production and hence, to achieve higher profit margin. Its activities cover all aspects of production such as improvement in workflow and refining manufacturing processes, enhancing product quality and defining material specifications in addition to product development.

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The research and development facilities owned by the Group comprise amongst others, a computer aided design solutions, a CNC engraving machine and a rapid phototyping machine. Based on the Directors' representation, the Group allocates approximately RM250,000 per annum to conduct research and development on new designs which entails the discovery and development of new production methods including identification of suitable machinery for this purposes. The research and development activities also involve studying and importing the latest techniques and technology employed in the production and fabrication of gold jewellery overseas and transferring them to the YCB Group.

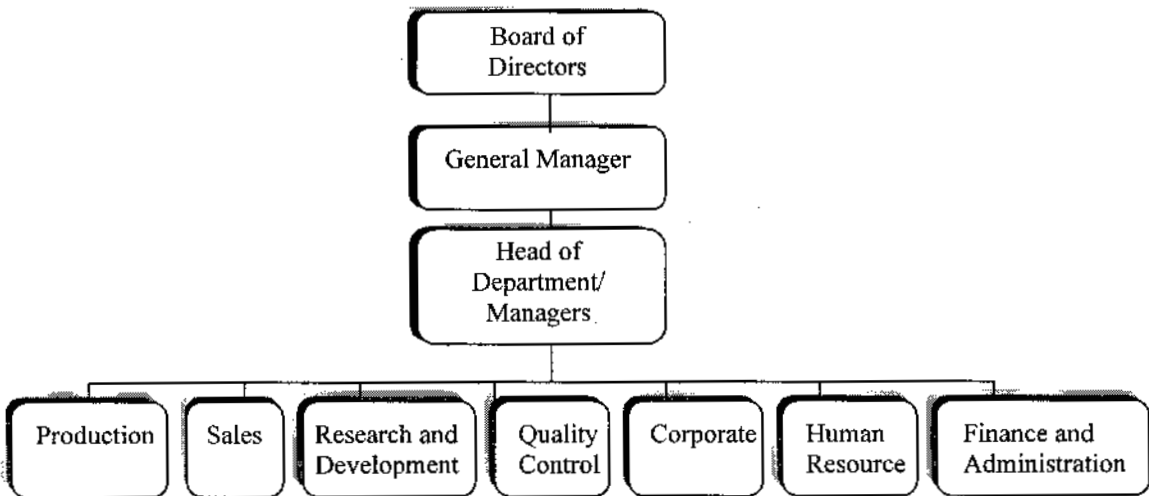
Currently, the research and development team consists of Mr Lee Chong Keat, the Head of Design Department and Ms Wong Lai Leng, the Designer, both with approximately 10 years and 4 years of experience in designing industry respectively. Mr Lee Chong Keat obtained a Bachelor of Graphic Design from Central Saint Martin Academy of Arts, United Kingdom in 1994 whilst Ms Wong Lai Leng obtained a Certificate in Counter Sketching from the Gemological Institute of America Distance Education Graduate Design Programme in 2000 and a Diploma in Graphic Design from the Art Technology Education Centre in 1997. They are assisted by 2 Assistant Designers. The Group targets to develop approximately 150 new designs of gold jewellery products every month.

The research and development efforts have enabled the Group to respond quickly to customers' special and specific demands and deliver the products on time.

Over the years, the innovation and creativity of the research and development team have enabled the Group to produce more than 20,000 designs with the number of designs increasing continuously.

4.5.9 Management Succession Plan

The management team of the Group is structured as follows:



The history of the Group started with the involvement of the Chin family. Currently Mr Chin Kok On and Mr Chin Poh On on the Board of YCB as the Managing Director and Executive Director respectively.

The rest of the Board of Directors of YCB and the management team of the Group comprises competent professionals and qualified personnel who possess relevant qualifications and experience outside the Chin family members who are employed to head each department comprising of Production, Sales, Research and Development, Quality Control, Corporate, Human Resource, Finance and Administration.

The management understands the importance of a well structured management team to reflect the corporate entity of the Group and to ensure the smooth running of its business operations.

Professional and experienced staff are recruited to support and manage the Group. Management staff have been allocated with clearly defined job functions and responsibilities in order to facilitate Managers/Head of Departments to discharge their duties according to their scope of responsibilities within the Group.

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In the absence of the Directors, the Group can still function effectively in the presence of the General Manager with the assistance of the various Heads of Department or Managers in order to ensure smooth running of the Group operations and management continuity.

The Group has gradually transformed itself from a traditional organisation using centralised management practices into a defined organisation structure with clearly defined functions which encourage the active participation of the professional staff in the day-to-day operations of the Group. This forward looking management approach will enable the Group to ensure that management succession, in the future to be smooth and non-disruptive.

4.5.10 Interruption/Disruption in Business

The Group did not experience any disruption in business having significant effect on its operations for the past twelve (12) months prior to the date of this Prospectus.

4.5.11 Methods of Distribution

The YCB Group's customers are mainly overseas wholesale distributors and retail chain operators that have their own distribution network in their respective countries and markets. As such, the YCB Group is in the position to indirectly utilise the distribution network of its wholesale and retail customers, to enable the YCB Group to reach a wider spectrum of customers.

4.5.12 Production Capacities and Output of the YCB Group

Based on the Directors' estimate, the YCB Group currently produces approximately 560 kg of gold jewellery per month, which is equivalent to approximately 93.33% of its current total production capacity of 600 kg of gold per month or 7,200 kg of gold per annum based on an 8-hour shift per day.

The construction of a new factory building adjacent to its existing production plant of YJI at Plot 36, Bayan Lepas Industrial Estate, Phase 4, 11900 Penang which is expected to be completed by end-2002 will enable the Group to have additional floor space to accommodate its future expansion plan.

The acquisition of the new plant and machinery from the proceeds from the Public Listing is expected to increase the production capacity of the YCB Group by approximately 50% or equivalent to an additional 300 kg per month or 3,600 kg per annum based on an 8-hour shift per day.

4.5.13 Production Facilities

The YCB Group location of principal assets, production facilities, place of businesses and marketing and distribution network are as follows:-

Location		Company	Description of Use by the YCB Group
Plot 36	(a)	YCB	Head office/holding company
Bayan Lepas Industrial Estate Phase 4	(b)	YJI	Factory cum office
11900 Penang	(c)	YG	Office

4.0 INFORMATION ON THE YCB GROUP**4.6 Information on Subsidiary Companies**

Details of the subsidiary companies of YCB are set out below:-

Name of Subsidiary Companies	Date/ Place of Incorporation	Authorised Share Capital	Issued and Paid-up Share Capital	Effective Equity Interest %	Principal Activities
YJI	28.09.1991/ Malaysia	RM1,000,000	RM1,000,000	100.00	Manufacturer and exporter of gold jewellery and ornaments
YG	17.04.1997/ Malaysia	RM100,000	RM2	100.00	Trading of gold jewellery and ornaments
YHK	28.02.1996/ Hong Kong	HK\$10,000	HK\$2	100.00	Jewellery distributor

As at the date of this Prospectus, YCB does not have any associated company. Further details of the subsidiary companies of YCB are set out in the ensuing Sections of this Prospectus.

4.6.1 YJI**(a) History and Business**

YJI was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 28 September 1991 under the name of Yikon Jewellery Sdn Bhd. The company changed to its present name on 23 March 1992.

The principal activities of YJI are manufacture and export of gold jewellery and ornaments.

YJI's manufacturing activities are carried out at Plot 36, Bayan Lepas Industrial Estate, Phase 4, 11900 Penang.

As at 16 April 2002 (being the latest practicable date prior to the registration of this Prospectus), YJI has a staff strength of 215 employees.

(b) Share Capital

The authorised share capital of YJI is RM1,000,000 comprising of 1,000,000 shares. The present issued and paid-up share capital of YJI is RM1,000,000 comprising of 1,000,000 shares.

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4.0 INFORMATION ON THE YCB GROUP

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

Date of Allotment	No. of Shares	Par Value RM	Type of Issue	Resultant Issued and Paid-up Share Capital RM
18.10.1991	2	1.00	Subscribers' shares	2
27.11.1991	200,000	1.00	Otherwise than cash ⁽ⁱ⁾	200,002
07.09.1993	120,000	1.00	Cash	320,002
07.09.1993	196,000	1.00	Otherwise than cash ⁽ⁱⁱ⁾	516,002
22.08.1994	415,998	1.00	Cash	932,000
22.08.1994	68,000	1.00	Otherwise than cash ⁽ⁱⁱ⁾	1,000,000

Notes:-

⁽ⁱ⁾ In exchange for the plants and machinery acquired.

⁽ⁱⁱ⁾ In exchange for the motor vehicles acquired.

(c) **Substantial Shareholders**

The major shareholder of YJI is YCB, which holds 100% of YJI's shares.

(d) **Subsidiary and Associated Companies**

As at the date of this Prospectus, YJI does not have any subsidiary company or associated company.

4.6.2 **YG**

(a) **History and Business**

YG was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 17 April 1997 under its present name.

The principal activities of YG are trading of gold jewellery and ornaments.

As at 16 April 2002 (being the latest practicable date prior to the registration of this Prospectus), YG has no employee. The activities of YG are supported by the employees of YJI.

(b) **Share Capital**

The authorised share capital of YG is RM100,000 comprising of 100,000 shares. The present issued and paid-up share capital of YG is RM2 comprising of 2 shares.

The issued and paid-up share capital of YG since its incorporation are as follows:-

Date of Allotment	No. of Shares	Par Value RM	Type of Issue	Resultant Issued and Paid-up Share Capital RM
17.04.1997	2	1.00	Subscribers' shares	2

4.0 INFORMATION ON THE YCB GROUP

(c) **Substantial Shareholders**

The major shareholder of YG is YCB, which holds 100% of YG's shares.

(d) **Subsidiary and Associated Companies**

As at the date of this Prospectus, YG does not have any subsidiary company or associated company.

4.6.3 YHK

(a) **History and Business**

YHK was incorporated in Hong Kong under the Companies Ordinance (Chapter 32) as a private limited company on 28 February 1996 under the name of Eminent Win International Limited. The company changed to its present name on 28 July 1997.

The principal activity of YHK is the distribution of jewellery.

As at 16 April 2002 (being the latest practicable date prior to the registration of this Prospectus), YHK has no employee. The activities of YHK are supported by the employees of YJI.

(b) **Share Capital**

The authorised share capital of YHK is HK\$10,000 comprising of 10,000 shares. The present issued and paid-up share capital of YHK is HK\$2 comprising of 2 shares.

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

Date of Allotment	No. of Shares	Par Value HK\$	Type of Issue	Resultant Issued and Paid-up Share Capital HK\$
03.09.1996	2	1.00	Subscribers' share	2

(c) **Substantial Shareholders**

The major shareholder of YHK is YCB, which holds 100% of YHK's shares.

(d) **Subsidiary and Associated Companies**

As at the date of this Prospectus, YHK does not have any subsidiary company or associated company.

4.7 Industry Overview

Overview of the General Jewellery Industry in Malaysia

According to the Industry Brief, May 2000 by Malaysian Industrial Development Authority "Jewellery production in Malaysia started on a small scale basis run by individual or family business. The industry started with small scale production mainly on jewellery of gold and silver to supply for local market. Later, the industry grew and diversified into manufacture of gold, platinum and costume jewellery".

There are about 400 goldsmiths in Malaysia. Currently, 42 jewellery companies are issued manufacturing licences and 24 companies are approved with Investment Incentives such as Pioneer Status or Investment Tax Allowance.

4.0 INFORMATION ON THE YCB GROUP

The approved products in the jewellery industry could be grouped into the following categories:-

Types of Activities	Number of Companies
Jewelleries and ornaments	32
Synthetic/Industrial diamond	5
Costume jewellery	4
Watch bracelet	1
Total	42

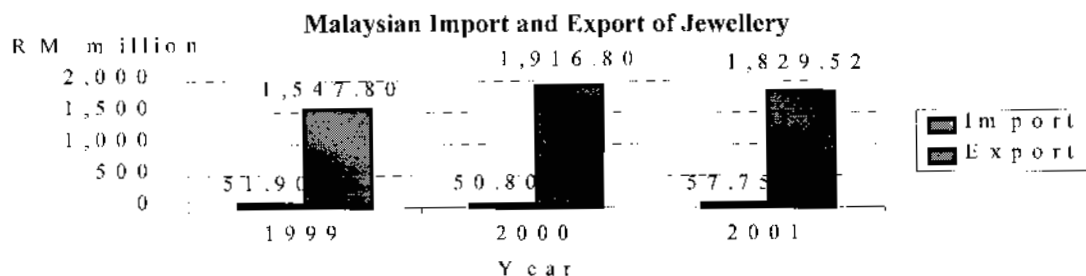
(Source: Industry Brief, May 2000, Malaysian Industrial Development Authority)

“According to Gold Survey 2001, carried out by Gold Fields Mineral Services Ltd, an independent consultancy in the research and analysis of global precious metals and based in the United Kingdom, Malaysia, for the year 2000, ranked 5th in Asia in the fabrication of gold jewellery after India, China, Indonesia and Thailand.”

(Source: www.miti.gov.my – Speech by YB Dato’ Seri Rafidah Aziz, Minister of International Trade and Industry on 10 June 2001)

The jewellery industry in Malaysia “has grown into an export oriented industry with 70% of output being exported and it is also an industry that is moving from the low end to high end product manufacturing, producing items ranging from items of fine-gold to high quality gem-sets of international standard.”

(Source: www.miti.gov.my - Speech by YB Dato’ Seri Rafidah Aziz, Minister of International Trade and Industry on 30 October 2001)



The Malaysia annual import and export value of jewellery can be illustrated as follows:-

	1999 RM Million	2000 RM Million	2001 RM Million
Imports	51.90	50.80	57.75 [#]
Exports	1,547.80	1,916.80	1,829.52 [*]

Notes:

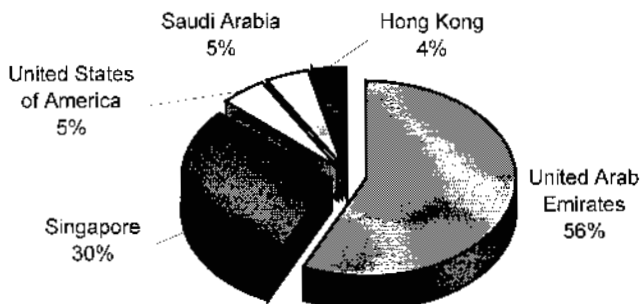
[#] Annualised based on actual 8 months imports of RM38.50 million from January to August 2001.

^{*} Annualised based on actual 10 months exports of RM1,524.60 million from January to October 2001.

(Source: www.miti.gov.my - Speech by YB Dato’ Seri Rafidah Aziz, Minister of International Trade and Industry on 30 October 2001 and 17 January 2002)

4.0 INFORMATION ON THE YCB GROUP

Malaysia's major export destination of jewellery are set out in the chart below:-



Composition of Malaysian Jewellery Exports by Country 2001

(Source: www.miti.gov.my - Speech by YB Dato' Seri Rafidah Aziz, Minister of International Trade and Industry on 17 January 2002)

As extracted from an article in the New Straits Times on 10 December 2001 "The Gold Demand Trends report issued by the World Gold Council said in Malaysia to date, total demand for the metal rose seven percent to 14.4 tonnes this year from the 13.4 tonnes recorded in 2000. The demand for investment gold in the quarter more than doubled from previous levels of 1.5 tonnes".

4.7.1 Industry Players and Competition

There are many local players in the gold jewellery industry comprising of large, medium and small-sized companies including sub-contractors to large factories or retailer including artisans. These players compete among themselves through competitive pricing, brand labelling, quality, jewellery designs and after-sale service both at the retail and wholesale level.

MIDF Sisma Securities Sdn Bhd in its Independent Expert Opinion Report dated 15 April 2002 states that:-

"Of the 71 tonnes of gold jewellery fabricated in Malaysia in 2000, only about 30% are consumed locally because of the small market for them in the country in tandem with the population size. This simply shows that there is a thriving market for gold jewellery overseas and companies that position themselves for the export markets virtually have the world's market to conquer.

Generally, Malaysian consumers are unwilling to pay for workmanship, although local fabricators have the ability to create jewellery with artistic designs. This partly explains why local designs, in the past, took a back seat to the contemporary designs found overseas, except for those fabricated by established companies eyeing the export market.

However, this trend is fast changing as the younger generation keeps abreast with the latest fashion and designs, rather than buying gold for just its value. For players that had made inroads into the overseas markets, keeping up with the latest fashion is part and parcel of the fabrication business as they are able to charge their customers for both the workmanship and the intricate designs of the jewellery, enabling them to enjoy better margins."

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The key players within the similar jewellery industry as that of the Yikon Group are tabulated as follows:-

Company Name	Principal Activities of the Group	Financial Year Ended	Turnover RM'000	PAT RM'000
(a) Habib Corporation Bhd	- Jewellers (primarily retailing/ wholesale in jewelleries) dealers in gold, bullion and gemstones; - Manufacturing of jewelleries; - Jewels franchising; and - Jewels retailing primarily in the state of Johor Darul Takzim.	31 December 2000	120,624	9,918
(b) Degem Berhad	- Investment holding and property holding company; - Manufacturing and trading in gold and jewellery; - Trading in diamonds; and - Property investment.	31 December 2000	88,039	9,529

(Source: (i) Respective companies' prospectus; and
(ii) Latest audited reports and financial statements of the respective companies available at www.klse.com.my as at 16 April 2002 (being the latest practicable date prior to the registration of this Prospectus).

4.7.2 Laws and Regulations Governing the Industry

In order to promote further investment in the jewellery manufacturing industry, the Malaysian Government has listed jewellery and its related products as a promoted industry. This industry was subsequently gazetted under the Promotion Investment Act, 1986. The following are the major incentives for companies involved in the jewellery manufacturing industry:-

- (i) Pioneer Status; or
- (ii) Investment Tax Allowance; or
- (iii) Reinvestment Allowance.

The Malaysian Government in its effort to ensure uniformity of gold jewellery produced, had on August 1995, gazetted the Trade Description Act (Articles Made of Precious Metal), which requires a standard of fineness stamp for every gold, silver and platinum item that is sold to ensure that the industry conform to the international recognised standards of fineness.

The eight internationally recognised standards of gold fineness are as follows:-

Type	Standard
999	24K
950	22.8K
916.6	22K
875	21K
835	20K
750	18K
585	14K
375	9K

Under the internationally recognised standards, the approved standards of fineness must be stamped onto the jewellery which are defined as gold in its fine form or in alloy. The fineness is denoted in the form of parts per thousand based on the weight of the item. If an item weighs 1,000 gm and 999 gm of it is gold and the balance is made up of other metal, then the fineness of gold in the item is 999 or 99.9%.

4.0 INFORMATION ON THE YCB GROUP

According to an article in The Star Newspaper on 8 November 2001, *“In the last 20 years, the Government has taken a series of market liberalisation measures to help develop the industry with the main objective of making Malaysia a major regional gold trading and financial hub.the Government’s decision to waive import duty on gold gave the local gold and jewellery fabrication business the stimulant it needed to flourish”*.

4.7.3 Demand and Supply Conditions

The demand and supply conditions on the gold jewellery market are influenced by the following factors:-

(a) *Gold Price*

The lower gold price has a mixed impact on the gold jewellery market. Depressed gold prices reduce the production costs of gold jewellery, which in turn underpinned a growth in demand, whilst on the other hand, the weakness in gold prices cast doubts on the role of gold as a reserve asset. The loss of confidence in gold as a reserve asset reduced the incentive to purchase gold jewellery for investment in the short term. In the long-term, gold is still perceived to have a history of maintaining its real price, unlike other currency-based asset, its intrinsic value is unlikely to be cast off.

Generally, the demand for gold jewellery tends to increase with the decline in gold prices and will provide a boost to the gold jewellery market.

(b) *Economic, Political and Geographical Factors*

Economic and political factors affect gold demand but the importance of each factor varied from country to country.

The level of disposal income also affects the demand of gold. The change to the world economic outlook and consumer confidence such as fears of economic slowdown and rising unemployment resulting in reduced consumer purchasing power will affect gold demand. On the other hand, economic recovery and lower local currency gold prices will result in growth in demand for gold jewellery.

According to the Gold Demand Trends, Issue No. 37, November 2001 by World Gold Council, *“The role of gold as a safe haven in times of uncertainty prompted increased investment buying (and to a certain extent jewellery purchases were also boosted in countries where jewellery is bought as an investment as well as a means of adornment), although this reaction was much stronger in some countries than others”*.

(c) *Seasonality*

Market demand for gold jewellery products always exists throughout the year. Sales of gold jewellery are generally higher during the festive seasons such as Hari Raya, Chinese New Year and Christmas. The demand for the Group’s products varies according to the seasonal festivals in overseas countries and occasions celebrated internationally (e.g. Valentine’s Day and Mother’s Day) as the Group cater mostly for the export market. Occasions such as weddings, engagements, anniversaries and births will also spur the demand in gold jewellery.

4.7.4 Substitute Products

Gold jewellery products face competition from costume jewellery and other precious metal jewellery products such as platinum. According to the Independent Expert Opinion Report by MIDF Sisma Securities Sdn Bhd dated 15 April 2002, *“It is obvious that costume jewellery cannot replace gold as a decorative item and as an asset, but it does not mean that the commodity has no competitor at all.”*

Costume jewellery, which is also used as a decorative item will not be able to substitute or replace gold jewellery as they cater to a different market segment and susceptible to changes in consumer tastes and fashion trends. Furthermore, costume jewellery has limited useful life and does not have any investment value.

4.0 INFORMATION ON THE YCB GROUP

The Group will mitigate this risk by continuously placing emphasis on the product designs and quality production by responding promptly to market changes due to consumer tastes and fashion trends in order to provide customers with the wide selection of high quality and fashionable gold jewellery products.

4.7.5 Prospects and Outlook of the Industry

According to the Press Release by the World Gold Council on 13 November 2001 *“Gold demand for jewellery and personal investment responded to global events in Q3, both before and after September 11. The slowdown in global economic activity during the period and the volatile gold price after September 11 caused jewellery demand to fall 10% from year-earlier levels to 649 tonnes. Meanwhile the increased global uncertainty following the terrorist attacks caused a rise in safe-haven buying of investment gold in a number of countries. This was particularly noticeable in countries such as Japan, Korea, Vietnam, Thailand and USA with lesser effects in a number of other countries.*

Both the global slowdown and the aftermath of September 11 affected demand in most countries but the manner and extent of the effects varied widely. Additional factors also played a role in some cases. Some of the more noticeable trends were as follows:-

- *The removal of state control over retail jewellery prices helped gold demand in China to rise 9% from year-earlier levels.*
- *Demand surged in Japan rising 37% on the back of a 91% increase in investment purchases. This trend to higher investment was already evident before September 11 but was reinforced by the global crisis. The weak economy resulted in a 7% fall in jewellery demand but this was tempered by a continuing shift towards yellow gold jewellery away from platinum.*
- *Despite the effect of the global slowdown on many economies in East Asia, demand for gold rose strongly, for a combination of reasons, in Vietnam, Indonesia, Malaysia and South Korea. However demand fell in Thailand and Taiwan.*
- *The economic slowdown and the sharp reduction in consumer spending after the terrorist attacks resulted in a 2% fall in jewellery demand in the USA. The reduction was more than offset by a surge in purchases of gold coin after September 11. Coin sales in the quarter were five times the level attained in Q3'00.*
- *Jewellery demand in Eurozone countries remained stable although demand in the UK was 7% higher than a year earlier. In Germany there was strong demand for the Deutsche Mark Commemorative coin issued in July.”*

According to the Independent Expert Opinion Report by MIDF Sisma Securities Sdn Bhd dated 15 April 2002, *“The future outlook of gold will always remain bright. In spite of efforts to demonetize gold, the commodity has managed to retain its universal economic value and many countries still hold gold in their external reserves. In fact, gold is still the second largest reserve asset after the US dollar.....Based on this, the future of the fabrication industry is expected to be as bright as gold, provided that manufacturers are up-to-date with the latest designs and manufacturing techniques”.*

According to the Gold Demand Trends, Issue No. 38, February 2002 by World Gold Council, the gold demand in key markets worldwide (tonnes) from 1995 to 2001 are as follows :-

Year	Gold Price (USD)	World Gold Council Market Total (tonnes)
1995	384.1	2,864.5
1996	387.9	2,779.5
1997	331.3	3,053.6
1998	294.1	2,712.1
1999	278.6	3,282.3
2000	279.1	3,287.9
2001	271.1	3,235.1

4.0 INFORMATION ON THE YCB GROUP**4.7.6 Industry Reliance and Vulnerability to Imports**

The Group does not rely heavily on the performance of other industry since gold bullion, which form the majority of the Group's total purchases, can be purchased readily from the commodity market.

4.8 Major Customers

All the gold jewellery products manufactured by the Group is exported to overseas countries. The Group is not dependent on any single customer.

Based on the Directors' representation, set out below is the major customers who individually contribute more than 10% of the YCB Group's total turnover for the financial year ended 31 October 2001 and the YCB Group's length of relationship with the respective customers: -

Customers	Countries	Particulars	Years of Relationship	Total Workmanship Charges for the Year Ended	
				<---- 31 October 2001 ---->	
				RM	%
Johara Jewellers	Saudi Arabia	Wholesaler/ Retailer	3	3,488,778	16.50
Al-Harmalia Jewellery	Saudi Arabia	Wholesaler	8	2,774,421	13.13
Melati Jewellery	Indonesia	Wholesaler/ Retailer	3	2,608,931	12.34
Total				8,872,131	41.97

4.9 Major Suppliers

A substantial portion representing approximately 94.83% of the Group's raw materials consumption is gold bullion. Depending on the arrangement with its customers, the Group will either purchase gold bullion or consign gold bullion from its suppliers. The Group is not dependent on any single supplier for its gold bullion despite the gold bullion accounting for over 94.83% of the Group's total purchase as the commodity is easily available in the open market.

Based on the Directors' representation, set out below is the major gold bullion suppliers who individually contribute more than 10% of the Group total gold bullion purchases for the financial year ended 31 October 2001 and the YCB Group's length of relationship with the respective suppliers: -

Gold Bullion Suppliers	State Countries/	Years of Relationship	Total Gold Bullion Purchased for the Year Ended	
			<---- 31 October 2001 ---->	
			RM	%
MKS Precious Metals Sdn Bhd	Kuala Lumpur, Malaysia	5	33,391,003	86.41
Total			33,391,003	86.41

4.0 INFORMATION ON THE YCB GROUP

4.10 Future Plans, Strategies and Prospects**4.10.1 Business Development and Future Plans of the YCB Group**

The Directors have identified the Group's core strengths and believe that in order to strengthen and enhance the Group's competitive edge in the gold jewellery market, the strategy to be adopted by the Group for future growth is to focus on consolidating and expanding its existing core business. Hence, the Directors intends to implement the following plans:-

(a) *Enhancement of Production Capacity and Efficiency*

In order to increase the Group's world gold jewellery market share and in view of the expected increase in demand for the Group's gold jewellery products, the Group plans to upgrade and expand its production capacity by purchasing additional plant and machinery.

The Group plans to utilise approximately RM3.20 million of the proceeds from the Public Listing to invest in plant and machinery to increase its production capacity. The investment in plant and machinery will also improve efficiency through fine-tuning of the existing management systems and controls as well as to tighten cost control.

The Group proposed to utilise approximately RM5.60 million of the proceeds from the Public Listing to construct a 5-storey factory building with a built-up area of approximately 63,000 sq. ft. adjacent to its existing manufacturing plant located at Plot 36, Bayan Lepas Industrial Estate, Phase 4, 11900 Penang. The construction of the factory building is expected to commence on 3rd quarter of 2002 and is expected to be completed by 1st quarter of 2003.

The abovementioned expansion and upgrading of the Group's production facilities will enable the Group to increase its production capacity to meet the expected increase in customers' demand, achieving production economies of scale and to further improve the Group's quality standard. This is to support the Group's plan to increase its sales and to capture a greater share in the global gold jewellery market.

(b) *Product Range Expansion*

The Directors of the Group recognise that customer requirements are of paramount importance contributing to the success of the Group. As such, the Group will continue to expand its product range in order to provide its customers with a wide variety of product choices and to meet the ever-changing customer taste and preference.

As at to date, based on the estimates of the Directors of the Group, the Group has produced more than 20,000 different designs of gold jewellery products. The Directors believe that the Group has a competitive edge, which lies in its ability to produce a wide range of products to meet the varied requirements and demand of its existing and potential customers. As such, the management will continue to maintain its product development strategy in order to maintain this competitive edge.

In view of the above, the Group will further strengthen its research and development activities in all facets of product design and innovation in the manufacturing process. This will enable the Group to move towards producing more value-added product to cater for the higher end market segment in the future. The Directors believe that the Group's ability to produce a variety of product designs has given the Group a competitive advantage over its competitors.

The Directors of the Group believe that the Group will be able to cultivate long-term customer loyalty by producing a wide range of products to meet the varied demand of its existing and potential customers. This approach will also enable the Group to secure more orders from its existing and potential customers and to increase the Group's market share in the gold jewellery industry.

(c) *Market Expansion*

Almost all the Group's gold jewellery products are exported to overseas countries.

4.0 **INFORMATION ON THE YCB GROUP**

With the planned increased production capacity, the Group intends to further strengthen its market presence in the countries in which it has already established business relationships and at the same time, to further diversify its geographical markets. For the Group's immediate future plans, the Directors of the Group intend to expand its production capacity and products diversification to increase its sales and strengthen its export markets. The Directors of the Group believe that the Group will be poised to capture a larger share in the global market and will ultimately achieve its vision to become a leading gold jewellery fabricator and exporter in the region.

4.10.2 **Prospects for the YCB Group in the Light of Industry Conditions and Competition**

In the Directors' opinion, traditionally, gold jewellery manufacturing companies in Malaysia comprised mainly of a number of small scale goldsmiths which produce high volume, low mark-up jewellery which is normally in the form of chain and machine cast item.

However, the pace of change is accelerating and consumers today demand for plethora of innovative gold jewellery products. The YCB Group has always kept itself abreast with the latest development in the industry. The YCB Group strengthens its competitiveness by emphasising on the multiplicity of innovative design and high quality at competitive price.

The YCB Group has competitive advantages such as certain Directors' in-depth industry knowledge, international networking, experienced craftsmen, professional research and development team and integrated manufacturing facilities to evolve itself to become one of the prominent gold jewellery manufacturers and exporters in the region, with further development in higher added value activities and operations along the manufacturing value chain.

Every year, Malaysia exports substantial quantity of jewellery world-wide. The deregulation and free trade movements have accelerated the competition in the gold jewellery fabrication industry.

The Directors of YCB expect the YCB Group to continue to retain its niche in the Middle East market while exploring new potential markets and to sustain its growth as one of the market leader of gold jewellery manufacturer and exporter in Malaysia.

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